

## **Informal Summary**

### **ECOSOC Operational Activities Segment Inter-active Plenary on “Funding of UN operational activities for development: challenges and best practices at the country level” 12 July 2010 (3:00 pm – 5:00 pm)**

The panel discussed the current funding issues facing donor countries and UN agencies in a changing environment. Each panellist offered a detailed explanation of the characteristics and implications attached to the various type of funding channels including core, non-core, and pooled or thematic funding.

#### **Presentations of panelists**

Mr. Ahmed Shide, State Minister of Finance and Economic Development, Ethiopia presented an overview of the funding system in Ethiopia and described in detail the advantages and disadvantages of each funding category.

It was stressed that core funding is predictable, amenable to planning and aligned to the strategic priorities of UN organizations and programme countries, involving lower transaction costs. However, it is overstretched across multiple interventions and lacks flexibility, with country offices having little influence over its use. Delays in disbursements are frequently seen, which underscores the need to address the inefficiencies in business practices.

Non-core funding can supplement existing limited resources and is concentrated, which provides better visibility of outcomes. Among other widely recognized disadvantages, its overlaps with existing interventions were highlighted.

Pooled funding mechanisms can overcome some of the constraints of non-core funding, for example, avoiding piecemeal interventions and mobilizing the expertise of the whole UN system, which contributes to high impact on development results. But, usually procedures are adopted from those of the lead agency, which carries risks for implementation if the lead agency has a bad relationship with the country or if its procedures are cumbersome.

Dr Servacius B. Likwelile, Deputy Permanent Secretary, Ministry of Finance and Economic Affairs of Tanzania shared experience of Tanzania with pooled funding mechanisms (also called basket funds), which have played an important role in promoting sector-wide approaches and enhancing the envelope for development resources. The basket funds allow the participation of the government in the process of deciding resource allocation and also allows a joint periodic review of the performance. These arrangements have led to substantial reductions in transaction costs and have allowed more time for the UN to focus on upstream interventions. However basket funds have created unnecessary parallel implementation management systems which need harmonization. In the case of One Fund, there is still a challenge of donor preferences where donors want programmes that lie outside the agreed funding approach. Then parallel funding occurs. In addition, Dr Likwelile suggested creating a framework that will

simplify the fiduciary risks assessment (or provide a waiver for it) to allow MDTFs to fund emergency responses. The growing risk of humanitarian crises from climate change makes this salient.

Drawing from his experience working with the UN and from a recent country-led evaluation of the pilot UN reforms, Mr. Willie Samute, Principal Secretary, Public Sector Reform, Office of the President and Cabinet, Malawi stressed that UN's resource allocation has not been fully in line with the government and UNDAF priorities (most funding is going to social issues, while the national/UNDAF priorities are sustainable growth and food security). UN funding is spread thinly across 12 sectors which limits the effectiveness of funding whilst increasing operational costs. The One fund has generally been perceived to offer the best opportunity for more collaboration by the UN agencies, because of the requirement of multisector planning for access to the fund. Mr. Samute suggested that the UN should consider funding arrangements that facilitate faster implementation of projects at the decentralized level. For example, in Malawi some UN agencies have used the government system for direct funding in districts.

Mr. Nicholas Alipui, Director, Programme Division of UNICEF presented an assessment of the current funding mix of program countries, looking first at the current funding mix, and then at the development of new funding designs.

At the country level, a mix between core and non-core funding can be used in a synergistic and complementary manner. Core resources are the bedrock for operational activities for the United Nations System Organizations. Core resources are often used for addressing emerging issues and for trialing innovations, which can then subsequently be scaled-up using non-core funding from donors. For those areas where UN organizations have a comparative advantage, and which are within priority areas, non-core funding can be used, thus freeing up core funding to support other areas. In UNICEF, core funding plays a vital role in filling funding gaps and is often used as catalytic funding to leverage larger investments from global funds.

In recent years, many organizations have been successful in increasing the amount of flexible funding received by creating internal multi-year pooled funds against their strategic plans, notably thematic funds. This type of funding is second best after core funding because it supports the goals and objectives of strategic plans and allow for longer-term planning and stability with reduced transaction costs. Non-core inter-organizational partnership arrangements, including MDTFs, joint programs and bilateral UN arrangements are growing in importance as a source of funding to UNICEF and other UN organizations. One of the main advantages is that multi-donor trust funds (MDTFs) reduce transaction costs for the donors, for whom processes are more streamlined.

Although pooling mechanisms may reduce transaction costs for donor and partner governments, these transaction costs are shifted to the UN agencies which have now taken on the whole "proposal process" that donors used to manage; very complex allocation processes; monitoring and evaluation, and in some cases increased reporting requirements.

## **Interactive discussion**

Several delegations stressed that under current financial situations, the way forward is to reduce the administrative and overhead costs and make effective use of resources available. Shifting non-core funding to core budgets may lead to reduction of funding available at country level. There were calls for the broadening of the donor base, tapping into the potential of South-South cooperation. Delegates also revealed that there is growing pressure for closer monitoring of government spending, leading to a dire need for the UN system to better demonstrate and communicate results to donors. A number of delegations stressed the importance of innovative financing models. There was a suggestion that the UN should, as a priority, review multidonor trust funds and check that member states have adequate governing structures to deal with them.

In response, panelists acknowledged the importance of building an evidence base to inform and support policy-making processes and allocation decisions. The performance-based assessments of joint programmes in Tanzania were mentioned as a motivating device to improve communication of results.

## **Conclusion**

In general, there was agreement on the important characteristics of different types of funding, in particular,

- Core funding was seen as fundamental to sustaining development efforts. Furthermore it is flexible and responsive to national and sectoral needs. It is presently overstretched.
- Non-core funding can supplement existing funding and provide support where core funding is overstretched. However non-core funding can be inflexible, especially when accompanied by conditionalities. It is also unpredictable and involves higher transaction costs.
- Pooled funding allows harmonisation of donor requirements and procedures. It reduces fragmentation, encourages coordination and improves efficiency. However it also involves transaction costs and rigidities.

The discussion led to the conclusion that the salient issue is the design and quality of funding and the mixture of funding offered, rather than a simplistic either/or choice. It was suggested that some of the weaknesses of non-core funding can be corrected by properly designed funding systems which should seek to exploit complementarities between the different funding mechanisms available.