

***ECOSOC Dialogue on the longer-term positioning of the UN
Development system in the context of the post-2015
development agenda***

***Supplementary Note following the
8 May 2015 Workshop***

***The Funding and related practices of the UN
Development system***

Romesh Muttukumaru*

May 2015

***The paper expresses solely the views of the author**

The purpose of this supplementary note is to highlight specific points from the main paper in addition to providing some further perspectives on them, following the discussion and views expressed by delegates on the subject at the 8 May 2015 Workshop. The note focuses on the way forward, providing some suggested ways for addressing the funding challenges facing the UNDS and its entities, in preparing for and going into the post-2015 era.

With UNDS clearly being the foremost globally representative multilateral development body, the system should be prepared and positioned to play a pivotal role in the post-2015 era. Funding in the post-2015 era for international development cooperation will increasingly come from diverse sources, with a growing number of development actors competing for these resources. The UNDS has the legitimacy and wherewithal to act as an honest broker in helping align demand and supply, working together with the broadest range of development partners.

In the post-2015 era earmarking or non-core resources are expected to further increase as the major funding category for UNDS and its entities. However without a critical level of core resources, UNDS and its entities will not be able to carry out the basic mandated normative and operational functions entrusted by the global community, without compromising their multilateral character. Such core funding will also be essential to the ability of the system in leveraging non-core resources from diverse sources, towards further advancing the normative and operational roles as per relevant mandates, including in responding to requests for additional assistance. Building collaborative partnerships with the broadest range of development actors will be essential.

Furthermore, 3 donors currently provide 41 per cent of the total funding for UN Operational activities for development (UNOAD), and when you include the next 10 donors, they together provide a total of 72 per cent of the total funding. Broadening the donor base as called for in a number of UN General Assembly (UNGA) resolutions is urgently needed, in both core and non-core resources respectively. With 193 member countries of the UN, in all fairness more countries that do have the wherewithal to increase their funding for UNOAD should begin do so.

The system will need to recognize and adapt to the changing face of international development cooperation in the post-2015 era, while keeping to the spirit of the UN Charter. While ODA especially from OECD/DAC member countries will continue to be a critical and significant funding source for UNDS and its entities, the system will need to diversify its funding sources. Funding for the multilateral UNDS will also need to be approached in a far more integrated manner as a system. The system will no doubt need some rationalization and streamlining with clarity of responsibilities between entities, and at the same time continue to strengthen its responsiveness, speed, performance, accountability and transparency. Its business processes including its delivery and reporting systems will need to be effective and efficient.

Let us now address some specific areas.

I. Towards determining a critical level of core funding

The UNGA in its Resolution 64/289 in operational paragraph 30 states:

“Recognizes the potential positive impact of determining the level of “critical mass” of core funding for United Nations development agencies, and notes, in that regard, that the concept of critical mass may include the level of resources adequate to respond to the needs of the programme countries and to

produce the results expected in strategic plans, including administrative, management and programme costs”.

The GA did request UNDS entities to explore “the most appropriate definition of, and a process towards arriving at, a critical mass of core funding, according to their individual mandates”. There have been subsequent discussions on the subject in the Governing Boards as well as at the level of ECOSOC. Unfortunately no agreement has yet been reached on the subject, and it is perhaps due to various factors, that include today the prospective role of UNDS in the rather radically changing international development cooperation environment leading into and in the post-2015 era. As it seems any movement on this subject will require the following be addressed and agreement reached, ensuring the multilateral character of UNDS and its entities:

- The existing functions and related activities of UNDS and its entities as per relevant over-arching mandates, that remain applicable for the post-2015 era, and those that need to be dropped.
- The new functions and related activities that UNDS and its entities as per relevant over-arching mandates, that need to be undertaken in the post-2015 era.
- Based on the above, the post-2015 normative and associated operational functions and related activities that UNDS and its entities as per relevant overarching mandates will need to lead on, including the associated business models that would require a predictable and sustainable level of core funding.
- Based on the above, the operational functions and related activities that UNDS and its entities as per relevant overarching mandates, including the associated business models, that would require catalytic core funding, with non-core resources through diverse sources providing the additional funding for the work of the system and its entities.

II. Addressing the challenges facing non-core resource mobilization from diverse sources

As noted earlier UNDS funding will increasingly need to come from diverse sources in the post-2015 era, with non-core resources being the major funding category. We have seen especially during the MDG era, the UNDS and its entities did adapt to the changing development funding environment of an increasing and significant role of earmarking or non-core resources, towards meeting their financing needs. It did however come at a price, where entities within the system were at times competing for the same resources from donors, in addition to competition from the increasing number of other development actors.

It is understood that competition is necessary in the market place for reasons known. However in this regard, it would be important to clarify as to when UNDS and its entities as a multilateral public sector system, does act as a “partner of choice”, and when and if it is considered to be a “competitor in the market place”. In this regard UNDS and its entities as a multilateral public sector system based on existing regulations and rules established by its governance bodies, do currently face legislative, structural and systematic constraints/barriers towards engaging more actively with a range of non-state actors, such as the private sector, foundations, non-governmental organizations, etc., as potential funding partners, as well as in employing innovative funding mechanisms. Whether UNDS and its entities are deemed to be either a “partner of choice” or “competitor in the market place” for a specific

set of functions/activities in the post-2015 era, the current impediments towards having access to diverse funding sources will need to be addressed and resolved.

Competition however for funding should not exist within the UNDS family, but rather having each UNDS entity bring to bear its expertise in addressing relevant development needs and related solutions, and together obtaining the necessary funding. As such UNDS and its entities as noted earlier, do need to approach their funding requirements in a far more integrated manner as a system. Having the critical level of core resources to carry out their basic mandated normative and operational functions as well as the related catalytic funding towards mobilizing non-core resources in response to additional demands for assistance, would be critical in eliminating such internal competition too.

III. Towards determining appropriate funding mechanisms and modalities

As noted in the main paper, there are various funding mechanisms and modalities employed by UNDS and its entities. It is suggested that going forward into the post-2015 era, that a streamlined approach be adopted in the funding mechanisms and modalities employed.

A. Core funding:

The funding mechanisms currently employed for core funding has been through legislatively agreed assessed contributions for specialized agencies, and voluntary core contributions mainly for Funds and Programmes. While most such funding comes in the form of grant contributions from member states, a few entities such as UNICEF do receive a reasonable share of its core funds from private sources. Some UNDS entities such as UNEP receive a small core supplement budget from the UN's regular budget towards the cost of its Secretariat, which is then supplemented by a voluntary indicative scale of contributions (VISCI) for contributions to its Environment Fund, which is its main source of funding for carrying out its operations. WIPO on the other hand gets over 90 per cent of its core funding through fees derived from its extensively used international registration and filing systems, etc., and IFAD through a process of negotiated replenishments. Due to inadequacy of core funding WHO adopted a system of voluntary negotiated non-core pledges, as sort of "as if core", with UNDP utilizing thematic non-core funds similarly, leveraging its flexibility for any activity and in any programme country, as long as the activity is within the thematic area of the fund.

While UNDS and its entities have been innovative in finding ways to respond to the inadequacy of core funding, the workload and associated transaction costs of adopting some of the approaches have been also rather high. Providing a critical level of core funding as discussed earlier through either assessed contributions or other streamlined approaches for reasonably assured levels of voluntary contributions in connection with the Strategic Plans of the entities, would be a way forward. It would no doubt be important to take into account the workload entailed and related transaction costs, when deciding on the approach to be employed for this funding. Above the critical level of core funding provided, UNDS and its entities would have to identify how additional financing requirements are to be mobilized through diverse non-core funding sources, and the support it needs in that regard from its governance bodies.

B. Non-core funding:

(i) The funding mechanism currently employed for non-core funding has been mainly through voluntary grant contributions, and increasingly earmarked for specific purposes. Some entities such as UNICEF and

WHO have obtained such funding through private sources, which have included foundations, private corporations, as well as innovative financing mechanisms (refer below). These sources as well as other emerging ones will need to be accessed further by UNDS entities in the post-2015 era. But as noted above certain challenges facing non-core resource mobilization from such diverse sources will need to be addressed and solutions identified.

(ii) *Receipt and management of non-core funding require specific modalities to be employed*: With a view to streamlining and reducing the related high transaction costs of the different modalities utilized currently, as noted in the main paper the following non-core funding modality framework is suggested:

- UNDS Entity specific: This would be towards providing a reasonably flexible category of non-core resources for a UNDS entity to utilize within a specific area of its mandated functions/activities. This could include, a system of negotiated pledges/replenishments and/or thematic funds. Thematic funds could be established at the global or country level.
- UNDS System-wide funding: *Pooled funding* has shown to be one of the most suitable for UNDS system wide non-core funding purposes. They are in principle open-ended funds and operate as pass-through mechanisms, are flexible and enable participating entities to implement in line with their relevant systems, rules, etc. Such funds could be established at the global or country level. Consideration could perhaps be given to the possibility of other development partners having access to such funding based on specific criteria.
- Cost sharing: *Cost sharing at the programme country level* appears to be presently most suitable to local government contributions towards the funding needs of their own development programmes. It is also used rather extensively today by OECD/DAC donors to financing specific projects. For reasons mentioned in the main paper, it is suggested that OECD/DAC donors consider directing such contributions to either global or country level UNDS entity specific thematic or UNDS system-wide pooled funding.

IV. Towards increasing the footprint of southern development providers in the multilateral work of UNDS, including its funding

In the private sector world today, business relationships have crossed the so called north-south divide, where foreign direct investments (FDI) primarily flowed from the north to the south. Today as can be clearly seen, FDI is also flowing at increasing levels from southern countries, especially the emerging economies, to the north or developed countries, along with their increasing investments in developing countries. At the same time development solutions are coming from all corners of the globe, with south-south development cooperation increasingly playing an instrumental role in international development cooperation.

UNDS and its entities will need the active involvement of southern providers both as development partners and funders going forward into the post-2015 era. While strides have been made in partnering with southern providers in the context of south-south and triangular cooperation, the active participation of southern development assistance providers in the multilateral work and as funders to UNDS and its entities remains low. As noted in the main paper the Busan outcome following the 4th high level forum on aid effectiveness recognized that “the nature, modalities and responsibilities that apply to South-South co-operation differ from those that apply to North-South co-operation”. At the same

time, it did recognize that “we are all part of a development agenda in which we participate on the basis of common goals and shared principles”.

There is an ongoing dialogue at different levels to identify common ground between the two forms of development cooperation, and in striving to bridge the differences. With UNDS playing a critical in this dialogue, it is hoped that southern providers do increase their footprint in the multilateral work of UNDS and its entities, including as funding partners.

V. Funding from non-state actors

Non-state actors encompassing the private sector, foundations, non-governmental organization, etc., have become increasingly critical partners in international development cooperation, from both programmatic and funding perspectives. Currently there is limited collaboration between UNDS and its entities and these non-state actors. UNDS and its entities will need to step-up its collaborative partnerships with this group of development actors, seeking their active involvement both as development partners and funders going forward into the post-2015 era.

As noted earlier, the significant impediments that have hampered the system in moving forward more actively in building collaborative relationships with this group of potential partners, have been the legislative, structural and systematic constraints/barriers. They do need to be addressed and resolved, without jeopardizing the principles of the UN Charter. Obtaining the increasing involvement of this group, would also require some level of their involvement in certain aspects of the governance of UNDS. This could possibly be a subsidiary level of governance through for example steering groups for specific thematic or pooled activities based on agreed upon criteria.

VI. Innovative financing mechanisms

The potential exists for considerable development funding through these sources. In their publication¹ on Innovative financing for development, the Dalberg Group identifies some different types of innovative financing instruments, based on examples of their successful use in mobilizing resources for development. The figure below from the publication provides an overview of these instruments, including as to why they are considered innovative, and how they support development. UNDS would need to explore in detail each of these mechanisms going forward.

As discussed in the main paper, WHO has been involved in some of these innovative financing mechanisms. Similar to the collaboration with non-state actors, there are legislative, structural and systematic constraints/barriers that need to be addressed and resolved towards enabling the UNDS and its entities to employ such innovative mechanisms, without jeopardizing the principles of the UN Charter. In navigating through and employing such innovative financing mechanisms, partnerships with other development actors are expected to be the norm.

¹ Innovative Financing for Development: Scalable Business Models that Produce Economic, Social, and Environmental Outcomes - Innovative Financing Initiative - An initiative of the Global Development Incubator - www.globaldevincubator.org

Some different types of innovative financing instruments

	What is innovative?			How does it support development?		
	New Product	New Market	New Participants	Mobilize Resources	Financial Intermediations	Deliver Resources
Securities and Derivatives						
Bonds and Notes			X	X	X	
Guarantees		X	X		X	
Loans	X			X		
Microfinance Investment Funds		X	X		X	
Other Investment Funds		X		X	X	
Other Derivative Products	X	X		X	X	
Results-based Financing						
Advanced market commitments	X	X			X	
Awards and Prizes	X				X	
Development Impact Bonds	X					X
Performance-based contracts			X			X
Debt-swaps and buy-downs	X			X		
Voluntary contributions						
Carbon Auctions (voluntary)	X	X	X	X		
Consumer Donations			X	X		
Compulsory charges						
Taxes	X			X		

VII. Towards an integrated UNDS approach to Funding

While considerable strides have been made in enhancing the coherence of UNDS and its entities, especially at the developing country level, the system does currently function in a rather fragmented manner, which has been mainly attributed to related funding challenges. With the increasing number of development actors as well as the complex diverse sources of development funding in the post-2015 era, UNDS and its entities will need to function far more collaboratively as a system than it is today, in terms of both its work and funding.

As noted in the main paper an initial approach could be, following approval of the Strategic Plans of UNDS entities by their respective governing boards, consideration be given to having an aggregated and concise document that contains the key deliverables, related results and funding requirements of all UNDS entities over the QCPR period be shared with ECOSOC for information and discussion. This could possibly lead to enhanced political commitments and related guidance in the funding requirements of UNDS and its entities over the QCPR period and related Strategic Plans. This could then be followed up by an increasingly integrated approach to seeking funding from member states, and other diverse funding sources. A biennial exercise could also be considered to take stock, with relevant follow-up actions determined to address issues raised, including system wide funding shortfalls.