Preparations for the General Assembly’s 2012 quadrennial comprehensive policy review of UN operational activities for development

Three-part seminar series

Seminar 2: Funding of UN operational activities for development: 
*What is meant by “critical mass” of core resources?*

**SUMMARY**

“Member States have an opportunity to consider whether the major mismatch in the growth rates of core and non-core funding flows is undermining the principle of multilateralism and the role of the UN development system.”

H.E. Mr. Nassir Abdulaziz Al-Nasser
President of the sixty-sixth session of the UN General Assembly

As part of the substantive preparations for the General Assembly’s 2012 quadrennial comprehensive policy review (QCPR) of UN operational activities for development, the Office of the President of the General Assembly and the Friedrich-Ebert-Stiftung New York Office, supported by the Department of Economic and Social Affairs, are partnering in the organization of two seminars and a retreat aimed at promoting informal exchange of views among Member States and other stakeholders on the challenges and opportunities facing the UN development system.

The second seminar in this series was held on 29 March 2012 and hosted by the Permanent Mission of Indonesia to the United Nations. The topic for discussion was “funding of UN operational activities for development: what is meant by “critical mass” of core resources?”

Participants included Permanent Representatives and other senior officials from some forty Member States and a number of senior representatives and development experts from United Nations entities.

**Opening session**

The opening session featured statements by H.E. Nassir Abdulaziz Al-Nasser, President of the sixty-sixth session of the General Assembly; H.E. Desra Percaya, Vice-President of the Economic and Social Council and Ambassador and Permanent Representative of Indonesia to the United Nations; Michelle Bachelet, Executive Director of UN Women; and Rebeca Grynspan, Associate Administrator of UNDP.

In his opening remarks, **H.E. Nassir Abdulaziz Al-Nasser, President of the General Assembly**, highlighted the long-term decline in the share of core funding of overall resources flows to the UN development system. In the 1995 to 2010 period, non-core development-related funding for operational activities for development of the United
Nations system grew by some 350 per cent in real terms, compared to 9 per cent for core funding, also in real terms. There are inbuilt incentives for donors to prioritize non-core funding over core due to the low programme support cost rate applied by some of the funds and programmes. If the objective is to increase core funding for development, particularly at the country level, one option for Member States could be to revisit the current cost recovery policies of the funds and programmes.

The President of the General Assembly also posed two questions that framed much of the ensuing dialogue: firstly, whether it is possible for the funds and programmes to define the critical mass of core resources below which their ability to deliver on core mandates would be significantly compromised, and, secondly, what kind of activities should be funded by the “critical mass” of core resources?

H.E. Desra Percaya, Vice-President of ECOSOC, noted that overall funding flows for operational activities for development of the United Nations system in the past 15 years have experienced a high growth rate but almost all the increase has been in the form of non-core contributions which are mostly single donor, programme and project specific. Only about 10 per cent of non-core development-related resources flows to the UN development system are in the form of pooled funding. This large mismatch in the growth rate of core and non-core funding flows could seriously undermine the ability of UN entities to exercise substantive leadership and innovation in their respective areas.

The Vice-President of ECOSOC also raised two additional questions for further deliberations among the participants, firstly, should core funding primarily serve as seed money to leverage non-core contributions, and, secondly, what should be the proper balance between core and non-core resources in the funding architecture of the funds and programmes?

Michelle Bachelet, Executive Director of UN-Women, emphasized that within the context of momentous change - characterized by continuing global financial and economic stress, food and energy crises, the growing influence of middle-income countries (where 75 per cent of the world’s poor currently live) and an increasing number of new development actors - the upcoming QCPR provides an opportunity to re-examine the funding architecture of UN operational activities for development. It is important that funding be adequate, stable and predictable to enable UN entities to carry out their core mandates effectively. At the same time, it should be recognized that achieving critical mass of core resources is directly related to the ability of the funds and programmes to credibly measure, demonstrate and communicate tangible results and impact of operational activities for development at the country level.

Rebeca Grynspan, Associate Administrator of UNDP, emphasized the urgency of addressing the core/non-core imbalance in the funding architecture of UN operational activities for development. Between 1990 and 2011, for example, the core/non-core ratio for UNDP had been almost reversed. In 1990, the core/non-core ratio was 5:1, whereas in 2011 this ratio was 1:4. Given UNDP’s heavy reliance on a fairly small number of donor countries for non-core resources, the organization is highly vulnerable to reductions in funding from even 1 or 2 of its key contributors. For most UN entities, improving the predictability of funding flows from individual donors has therefore become critically important.
Session 1

Funding of UN operational activities for development

“Critical mass” of core funding: what does it mean and for what?

This session began with a presentation by Ad de Raad, former Executive Coordinator of UNV and former Director of the UNDP Budget Office on some of the unique characteristics of the funding architecture of UN operational activities for development. A copy of his power point presentation is attached as Annex 2.

Below are some of the key messages of the presentation:

- **A strong long-term growth in contributions for UN operational activities for development:**
  - Contributions to UN operational activities for development have increased by 123 per cent in the 1995 to 2010 period in real terms;
  - Funding for UN operational activities for development grew at a faster rate than total ODA flows in this 15-year period;
  - These aggregate funding trends attest to the relevance and importance attached to the UN development system by Member States.

- **Growing imbalance between core and non-core funding:**
  - While overall funding trends have been positive for activities with both a development and a humanitarian assistance focus, the potential impact of the large imbalance in the growth rate of core/non-core funding should be of concern to Member States;
  - A critical mass of core funding is vital for the funds and programmes if they are to be able to maintain and continuously develop capacities to deliver on mandates, provide substantive leadership and innovation in their respective areas and ensure their independence, neutrality and role as a trusted partner to governments in programme countries.

- **Core resources are subsidizing support costs of non-core funding:**
  - 7 per cent programme support cost rate used by some of the funds and programmes is not high enough to allow for equal distribution of programme support and management costs between core and non-core funded activities.

- **Non-core funding is highly fragmented:**
  - Some 90 per cent of non-core development-related funding is single donor and programme and project-specific;
  - The remaining 10 per cent is programmed through pooled funding mechanisms (e.g. thematic funds, multi-partner trust funds including One UN funds);
  - Fragmentation of non-core funding negatively impacts overall programme coherence, efficiencies and transaction costs.

The dialogue among participants drew heavily on the factual information provided by the presenter. One participant pointed out that the main reason the concept of critical mass was included in GA resolution 64/289 was precisely to tackle the core/non-core imbalance.
particularly with a view to ensuring that the funds and programmes are able to deliver on their core mandates effectively.

Thus, the concept of critical mass must be anchored in a definition of minimum resources required for the funds and programmes to remain relevant in a changing development environment and with office presence in programme countries where ever needed. The funds and programmes should have sufficient core resources to be able to respond to programme country needs and priorities in an effective and efficient manner.

Some participants also noted that improving the core/non-core balance did not necessarily imply reducing current levels of non-core resources. Several participants, however, emphasized the need to re-examine current cost recovery policies of some of the funds and programmes for non-core funding flows.

UNDESA was commended for its work to improve statistics, analysis and reporting on funding for UN operational activities for development. It is important for Member States to have access to disaggregated information on the composition and breakdown of core and non-core resources in order to be able to engage in a focused dialogue on funding at the intergovernmental level.

It was recommended that DESA undertake further analysis on the structural impediments to reversing the core/non-core funding imbalance. Part of this analysis could include unpacking the issue of incentives, particularly in different programme country contexts. The reason why some UN entities have higher core/non-core ratio than others also needs to be better understood, as well as the different cost recovery policies applied by the agencies. The purpose of such analysis could be to better understand the reasons that trigger shifts in donor policies from core to non-core funding, and whether a harmonized cost-recovery rate is viable in light of the different operational models of the individual UN entities. Another issue that needs further analysis is the transaction costs associated with non-core funding.

One participant felt that the dichotomy between core and non-core funding is outdated, obscuring the primary objective of focusing on the attainment of more and better development results at the country level. It is a dichotomy infused with connotations that there is good and bad funding, rather than focusing on the positive and complementary aspects of more resources flows for operational activities for development. For example, only 1 per cent of total non-core resources flows go to the One UN Funds at the country level despite the many positive attributes of this modality. The upcoming QCPR could provide an important opportunity for Member States to discuss the potential of such flexible pooled funding mechanisms, e.g. to enhance system-wide coherence at the country level.

In order to advance the dialogue on critical mass of core resources, there is need for the funds and programmes to provide more disaggregated analysis of the purposes, results, and impact that is achieved through the use and application of both core and non-core resources. At the same, it is important to recognize that the capacity to undertake such complex analysis, combined with other related challenges such as the availability of information and the degree to which data is comparable across UN entities, is often limited within the UN development system.
Additional perspectives on the issue of “critical mass” for core funding

During the second part of the session, Douglas Lindores, former Chief Operating Officer of the Canadian International Development Agency and former Chair of the UNDP Executive Board, provided an additional perspective on the issue of critical mass of core resources, highlighting first the three main roles of core resources in the overall funding architecture of the funds and programmes:

1. **Allow strategic organizational positioning**
   Core resources enable the funds and programme to develop and implement key strategic programmes in support of intergovernmental mandates. This allows the organization to programme its activities based on the strategic priorities as defined by the respective Executive Board. The UNDAF provides another example. Upon approval, the UNDAF can have as little as 30 per cent of funding secured with the balance to be mobilized as non-core resources during the implementation phase. Thus, the question is how low can the secured funding percentage become and still attract sufficient resources to implement a full UNDAF?

2. **Fund the base structure of the organization**
   Core resources fund and maintain the base structure of an organization. Fixed indirect costs are critical to long-term sustainability of the organization, providing the professional competence to enable it to programme and function effectively. Without the core resources to finance fixed indirect costs, an organization loses its capacity, relevance and competitiveness. In this case, the key question is how close is the UN system at present to falling below a critical stress point?

3. **Cover shortfalls in cost recovery of non-core funded activities**
   Core resources are used to cover shortfalls in cost recovery of non-core funded activities. This is a technical issue, but many UN agencies do not fully recover the fixed indirect costs of non-core funded activities. These shortfalls can only be covered by core resources. In practice, in some agencies, core funding heavily subsidizes the programme support and management costs of non-core funded activities. As the below table shows some 58 per cent of core resources to the UN development system in 2009 were available for programming versus 91 per cent of non-core resources.

So what accounts for the substantial difference between core and non-core resources available for programming? The main explanation is that core resources cover the cost of the base structure of the organization, but non-core funding does not. This policy is based on a context when funding for the funds and programmes was predominantly in the form of core resources. However, today, most of the funding is in the form of non-core resources, but the cost recovery policies have not been adapted to this new reality.
In the dialogue that followed, some participants felt that it would be a major challenge for the UN development system at this juncture, particularly when many donor countries are under significant economic and financial stress, to build sufficient political support for more core resources.

As a result, it has become a practical necessity to pursue a complementary strategy of freeing-up core resources by revisiting current cost recovery policies for non-core funded activities.

In addition, Member States should use the upcoming QCPR process to discuss how to improve the quality of non-core funding flows. Greater flexibility in the use of non-core resources, for example, is one such option while not taking away from other legitimate constraints that touch upon legislative and domestic political limitations in donor countries.

The sophistication of international development cooperation policies has grown in leaps and bounds over the past few years. Development budgets that got sliced within minimal bandwidths only a decade or two ago now seem to get sliced into hundreds of segments. It is now very difficult to move funds across such segments, which is why it will require high-level initiatives and political support for governments to rethink the complex grid of funding segments that currently operates in international development cooperation. The upcoming QCPR discussions provide an important opportunity for Member States to further discuss these important issues.

### Table 21

**High-level breakdown of use of resources**  
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>Programme activities</th>
<th>Programme support and management activities</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core resources</strong></td>
<td>2 334</td>
<td>1 454</td>
<td>219</td>
<td>4 007</td>
</tr>
<tr>
<td><strong>Share</strong></td>
<td>58%</td>
<td>36%</td>
<td>5%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Non-core resources</strong></td>
<td>8 557</td>
<td>656</td>
<td>214</td>
<td>9 427</td>
</tr>
<tr>
<td><strong>Share</strong></td>
<td>91%</td>
<td>7%</td>
<td>2%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total resources</strong></td>
<td>10 891</td>
<td>2 110</td>
<td>433</td>
<td>13 434</td>
</tr>
<tr>
<td><strong>Share</strong></td>
<td>81%</td>
<td>16%</td>
<td>3%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Annex 1 - Key terms

Core resources
Core resources are those that are comingled without restrictions and whose use and application are directly linked to the strategic mandates, guidelines, priorities and goals as established by the respective intergovernmental bodies.

Non-core resources
Non-core resources are resources that are generally restricted with regard to their use and application as determined by the contributor. The degree to which the use and application of non-core resources are subject to and aligned with the mandates, guidelines, priorities and goals established by intergovernmental governing bodies is at best indirect.

Core versus non-core
Core, or unrestricted, aid, is generally seen as a more efficient way of building effective partnerships with programme countries in the delivery of operational activities for development. Restricted aid in the form of non-core resources, on the other hand, is often seen as distorting programme priorities by limiting the degree to which governing bodies and programme countries themselves are involved in priority-setting through selection, design and implementation of projects and programmes.
United Nations system-wide activities 2009
$34.3 billion

- Global norms, standards, policy and advocacy: 16%
- Operational activities for development: 63%
- Peacekeeping: 21%

Development focus: 65%
Humanitarian assistance focus: 35%
Channels of multilateral aid - 2009
Total $57.3 billion

- United Nations development system 33%
  (18% of total ODA)
- European Commission 25%
- Regional Development Banks 5%
- World Bank Group 23%
- Other 14%
Operational activities for development - 2009
Type of activities

- Africa: 33%
- Asia/Pacific: 18%
- Americas: 8%
- Western Asia: 8%
- Europe: 2%
- Regional/global: 11%
- Other: 20%

Programme activities - Country level: 69%
Programme support and management: 13%
Not attributed: 7%
Operational activities for development - 2009
Programme expenditures - Top 50 programme countries

Countries (ranked largest > smallest total)

- Development
- Humanitarian
- % of total (cumulative)
United Nations operational activities for development - 2009
Country-level programme expenditures - share of total ODA

Share of total ODA at country level

- Number of countries
- Cumulative share of total UN country level expenditures

- > 40%: 12 (3%)
- 30-40%: 4 (3%)
- 20-30%: 21 (14%)
- 10-20%: 46 (31%)
- < 10%: 65 (44%)

% Share (cum)
United Nations operational activities for development 1995-2010

Real change over time
(constant 2008 $ billion, percentage change relative to 1995)

- Humanitarian focus + 108%
- Development focus + 131%
- Total + 123%

Constant 2008 $ billion
Operational activities for development - 2009
Largest United Nations entities
Contributions: comparison core, non-core and total

Core resources

Non-core resources

UNICEF
UNDP
WFP
UNHCR
WHO
FAO
UNEP
IFAD
UNRWA

non-core > core
core > non-core
Development related operational activities - 2009
Major contributors: comparison core, non-core and total
Development related activities 2009
Non-core funding types $9.4 billion

- Bi-multilateral 77%
- Pooled 12%
- Local 11%

- Thematic Trust Funds (Entities) 5%
- Multi Partner Trust Funds (UN) 6%
- One-Funds (UN) 1%
Development related operational activities - 2009
Programme expenditures (excluding local resources) - Top 120 countries

Countries (ranked largest > smallest total)

Core       Non-core       % of total programme expenditure (cumulative)