



Secretary-General's High-level Panel on UN System-wide Coherence
in the Areas of Development, Humanitarian Assistance, and the Environment

**Funding for results:
Funding the UN system on development, environment and humanitarian relief**

ISSUES NOTE

I. Background

Current practices for providing voluntary funding for the UN are fragmented, can be unpredictable and constrain UN agencies individually, and the UN collectively from taking strategic choices over the use of funds, in line with intergovernmental decisions. This constrains the UN to, in consultation with the partner government, take a genuinely country-based approach to providing development assistance, with a single UN budget, within which overall priorities can be set.

This paper presents an analysis of the issues and options for consideration by the Panel during the Panel's consultation "funding for results" in London, June 29 2006. It reflects points raised so far during panel consultations and meetings, and from various papers and statements on the subject.

The attached note by UNDP gives the picture of overall Official Development Assistance (*ODA*) as well as funding of the UN. While there are different ways of calculating total flows, the total figure for ODA channelled through the UN in 2004 was approximately \$10bn.

The starting point of this paper is that at country level, the role of the UN in development is not that of a major financial resource provider. Its principal role is to be a convener, policy advisor, commodity provider and capacity builder. There are exceptions, for example, in post-conflict situations where the UN plays a major role, often with Trust Fund resources. In the coming years these roles will continue to be crucial. In particular, as both the quantity and quality of ODA increases and partner countries will need high quality advice to enable them to build their own capacity and make the best use of these resources.. They will also need high quality advice on how to manage and make the most of the opportunities provided by the increasing pace of globalization, in particular to step up their capacity to trade.

In addition to supporting programmes to eliminate poverty and achieve the MDGs at a country level, the UN also plays a crucial role in setting global norms and standards and in the delivery of global public goods which in their turn are relevant to the achievement of the MDGs. At present most of this global work of the UN is funded by assessed contributions or subscriptions to the Specialised Agencies. The traditional reason the UN specialised agencies have this form of funding, which is analogous to a tax on the Member States of the Agency, is that all member states have an equal interest in the

delivery of these global public goods and setting the global norms and standards associated with them; and furthermore, the organisations that deliver them need to be funded in perpetuity. Most of these Specialised Agencies also receive additional funds in the form of voluntary or extra-budgetary contributions, in addition to the subscriptions they receive from their Member States. These funds are often for particular activities of the Specialised Agency related to development, for example, the global work of WHO on polio eradication. For sometime now, the assessed funding base of the Specialised Agencies has been frozen under the Zero Nominal Growth agreement (ZNG). As a result some of the Specialized Agencies are using the additional voluntary funds they receive to fulfil their global responsibilities.

In contrast, the country-based and other development work of the United Nations has always been funded on a voluntary basis. Alongside the work of the Specialised Agencies on global norms and standards, and global public goods, some of the Funds and Programmes, whose funding base is voluntary, have also evolved to fulfil a global role. For example, UNICEF contributes to promoting awareness of standards in and advocates for children's rights, in addition to the regional and country programmes it supports in pursuit of these aims.

Reform of the funding of the UN will need to include consideration of the best way to provide funding to the UN so that it can fulfil its global responsibilities, as mandated by its Member States for global issues management and the provision of global public goods.

II. Key issues

1. Unpredictability of funding

There is no agreed system to provide predictable multi-year contributions for the development work of the UN. The assessed contributions or subscriptions to the specialized agencies, peace keeping operations and the UN secretariat are by their nature predictable. The Funding of the Development work of the UN has always been on a voluntary basis, since it has traditionally been viewed as a time-bound investment, the need for which will diminish as countries grow out of poverty.

The tendency has been for voluntary funding to be a less predictable and reliable source of funding than assessed contributions or subscriptions. Donors have tended, particularly in recent years, to provide more and more funding in the form of support for particular programmes or projects rather than as un-earmarked contributions to the central budget of the Funds and Programmes.

However, voluntary funding does not need to be unpredictable. Some donors are making multi-year pledges of voluntary core funding to some Funds and Programmes and as voluntary additional contributions to the Specialised Agencies. But the bulk and a growing share of funds for development from donors are provided as earmarked project

or country specific contributions. Donors have been becoming increasingly aware of the problems that can be created by the growing share of funding that is earmarked or tied. However, many of the agencies still rely on earmarked non-core contributions for a substantial share of their expenditure. The reasons for this are complex and include the fragmentation of responsibility within donors for providing funding to the UN, and the willingness of UN funds and programmes to exploit additional sources of funding from the same donor, even if they come with sectoral or geographical strings attached.

Following the Monterrey Consensus (2002) and the commitments that followed from it, including those made at the Gleneagles Summit, the total volume of ODA flowing through the UN has risen steadily. From 2003 to 2004, total contributions for development cooperation activities rose by 17.1% in nominal terms, and 7.6% in real terms taking into account inflation and exchange rate fluctuations. From 1994 to 2004 development funding has nearly double in real terms. From 2003 to 2004, development flows to other multilaterals increased by 28.3% in real terms. Opinions vary on the rate at which and how ODA will need to grow in order to help countries achieve the MDGs, in addition to domestic resource mobilization, gains from trade and investment as well as ongoing debt relief efforts. Some Member States are studying innovative financing mechanisms as a means to mobilise additional resources. This paper does not reopen that discussion. It does assume that Member States will deliver on the commitments made, and that globally ODA will grow by an additional US\$50bn from 2004 to 2010. The UN can in principle fulfil two roles regarding new ODA: it can help countries, through capacity enhancement, spend resources effectively, and UN organisations can be a channel for ODA resources as well. To ensure these resources have the greatest impact the UN will need to become more efficient when providing policy and operational services.

2. Lack of coherence in funding because of reliance on voluntary, extra-budgetary and earmarked contributions, leading to management, governance and strategic concerns

A decline in the share of core funding and a growth in non-core funding has led to a UN system that is difficult to manage, has an unclear division of labour, multiple and confused lines of accountability and weak overall governance. There are also constraints on the extent to which the UN itself can make strategic decisions at the country and the global level about the best place to allocate scarce resources. Overall, only 40% of funding for development is provided as core un-earmarked contributions.

Funding for the major UN funds and programmes has risen over the past few years, after an overall fall in the 1990s. However, the rise in non-core funding is more dramatic. While some of the non-core resources consist of local resources for UN programmes, (*around US\$1.3bn in 2004, the so-called Latin America cost sharing model*), most consist of donor resources. In many UN country programmes core funding from the core un-earmarked budget of the agency is not the main source of the UN country team's resources. A panel secretariat review with the help of 10 UN country teams found an average of 40 % of country team resources being mobilised through core resources.

The funding base of the UN Specialized Agencies has changed considerably over the past decades as well. In the recent past assessed contributions to agency budgets have become relatively less important and voluntary contributions more important. Earmarked voluntary contributions almost equal assessed contributions in the case of FAO and UNESCO and are more than double the assessed contributions in the case of WHO. System-wide, 67% of funding represents earmarked voluntary contributions and 13% is un-earmarked voluntary, excluding assessed UN peacekeeping costs, while the remaining 20% represents assessed contributions to the Regular budget.

Funding sources for the UN	Relevant to funds and programmes	Relevant to Secretariat, specialised agencies and peace keeping operations
Assessed contribution or subscription		Resources supplied in line with the scale of contributions of the UN to the UN secretariat, the UN Specialised Agencies and peace keeping operations. Member States of the UN and the Specialised Agency are obliged to pay this contribution.
Voluntary funding	All funding provided to the Funds and Programmes is known as voluntary funding	Resources supplied to organisations that are receiving assessed funds in addition to these funds are commonly referred to as voluntary. It can be either earmarked or not.
Core resources	Resources that can be used as core budget resources by the UN funds and programmes. In the case of funds and programmes they are voluntary. They are not earmarked for particular purposes, and can be used by the organisation in line with the objectives set out in their Medium Term Plan.	Sometimes use to refer to the assessed contribution to the Specialised Agencies.
Extra-budgetary contributions		A term sometimes used to describe the funds provided to Specialised Agencies over and above their income from assessed contributions. They are sometimes earmarked for particular purposes or themes, or, occasionally, provided without being tied to a particular purpose. These funds are voluntary in nature, i.e. Member States are not obliged to provide them. They have largely been used to support the development work of the specialised agencies.
Earmarked funding	Earmarked funding is the term used for funding to funds and programmes that has earmarking on a thematic, regional or project basis. It can be provided at head quarters or country level.	Sometimes used to refer to Voluntary funding for Specialised Agencies that is earmarked.

a. Management concerns and division of labour issues

Separate trust funds combined with a relatively low core budget make managing an institution very difficult. Earmarked contributions from donors can potentially conflict with the direction provided by the original mandate of the organisation.

The growth in non core contributions has led to competition for resources between agencies, mission creep and a lack of clarity in the division of labour.

Funding for post conflict situations has in recent years comprised an important share of the non-core funding provided by donors. It is unlikely that the specific and often unpredictable needs in post conflict cases could have been covered by the core budget.

The trust funds also raise the issue of costs. The UN charges for the management of trust funds and the question is whether these costs are realistic, in view of the competition for resources. UN organizations have often tried to harvest donor resources through thematic trust funds that are aligned with the main mission of the organizations. Donors for their part have supported thematic trust funds, and earmarked contributions for particular countries, programmes or projects as a way of increasing accountability, performance and ensuring there is a sufficiently strong link between their funding and particular outcomes. This produces the perverse outcome that the Funds and Programmes are more likely to use their core un-earmarked funding for activities that are of lower priority for donors, and perhaps also for developing countries.

b. Governance and accountability concerns

The existing funding arrangements undermine the overall governance and accountability of the UN. The earmarked supplementary funding provided by donors for global thematic work and for project and programme in-country is not subject to the same degree of scrutiny from board members as are the core and assessed budgets of the Funds, Programmes and Specialised Agencies.

Under the current arrangements, accountability is fragmented, with no overall accountability for the UN at country level. Individual projects and programmes are accounted for to their donors. Accountability in-country to the partner government is constrained because of the multiple lines of individual accountability to donors. Country ownership is weakened.

The multiplication of systems of accountability also increases the overall transaction costs to the Funds, Programmes, Agencies and Donors. Separate boards meetings for each agency often discuss similar issues. The reporting and accountability expectation of donors for their earmarked funding also imposes an additional cost on the Funds, Programmes and Agencies. There is scope to rationalise and consolidate these streams of accountability, with a consequent reduction in transaction costs, a stronger voice for the partner country in governance and accountability, particularly at country level and a redirection of effort and resources into programmes.

c. Concern over basis for a country-based approach and strategic decision making at country level

The current system for funding UN operations produces multiple streams of funding for UN operations at country level. Because there is no overall consolidation of funding at country level, with genuine fungibility across the entire budget it is not possible for the UN Resident Coordinator and his team to make strategic choices between the different

demands for the money, as so much of it comes earmarked. Government involvement tends to be at the level of the individual agency rather than the plan as a whole.

d. Concern over strategic decision making at a global level

The current system of funding is also an obstacle to strategic decision making at a global level. The amount of funding available for global issues management, particularly for those issues, such as Gender equality and Children, that are in part covered by the voluntary funding for the Funds and Programmes and the specialised agencies, is the result of many different donor decisions, rather than a strategic choice made on the basis of the total funds available for global issues management.

An issue that will also need to be addressed is funding sources for global public goods and additionality of resources, since some in their nature are not funded from ODA. Innovative sources of finance have been suggested for global public goods. It is hoped that the Global Public Goods task force will in the course of 2006 present recommendations on this issues.

3. Unclear procedures for burden sharing among UN members states

For development, environment and humanitarian action, the only assessed contributions relate to core secretariat functions and (*part of*) the budget of the specialized agencies. The rest of the budget of the UN specialised agencies, and the whole budget of the UN funds and programmes, are funded from voluntary contributions. These are not made according to a systematised burden sharing model such as IDA, but are based on the willingness and interest of individual Member States to pay.

The issue of what should be funded through assessed contributions and what should be voluntary funded is not always straightforward, such as in the case of the Resident Coordinator function. However, as indicated earlier, the general principle is that voluntary funding is used for development expenditure. The system of assessed funding was designed to support activities of the UN in which all Member States have an interest, principally the setting of global norms and standards and ensuring the provision of global public goods.

Several member states are currently exploring the feasibility of innovative ways to mobilize resources for development (*e.g., International Finance Facility, taxes on flight tickets etc.*). How this could potentially link to predictable funding for the UN or global public goods is being explored separately by several Member States.

4. Unpredictability and under-funding of Humanitarian and transition cases

While over the longer term, the average of UN ODA devoted to humanitarian assistance is close to 25 %, some 40 % (*US\$5.2bn*) of UN ODA was devoted to humanitarian assistance in 2004, compared to 10 % for global ODA. In recent years crises such as the Tsunami, the Pakistan earthquake, Afghanistan and Iraq have led to increased needs. The current approach to humanitarian financing has led to a system of Consolidated Appeals

(CAPs) that overall suffers from unpredictability and divergences between funding for different country situations. Appeals tend to receive around 64% of funding requested, but within country-specific appeals, certain sectors are under funded.

The Good Humanitarian Donorship initiative has had an impact on some aspects of donor practice, but has not yet had an impact on the flow of assistance towards under funded crises or gaps in funding by sector. The new Central Emergency Response Fund (CERF) will help speed up the responses to the early stages of the smaller scale natural disasters. However, it may not prove sufficient to address the fundamental funding problems for the larger but under-funded humanitarian crises.

Further changes have been suggested to the appeals process so that the assessment of needs is better prioritised and clearer. The new Central Emergency Response Fund (CERF) may however prove to be an invaluable tool in helping to speed up and initiate a rapid response and will help to rationalise and ensure an effective response in smaller scale natural disasters.

In the funding of post-conflict transition and early recovery, the challenge is to make funding and assets available at an early stage, and ensuring that there is government capacity to receive budget support and deliver services. This requires good cooperation between the UN, the World Bank and IMF, donors and local authorities.

Recommendations on these issues were discussed in a specific consultation on humanitarian reform and post conflict transition in Rome, 19 May 2006.

5. The costs and rewards of diversity

The existing constellation of UN Funds, Programmes and Agencies has evolved over many years. The diversity of issues by the different parts of the UN reflects the evolution of the development agenda and diverse demands of recipient countries and their funding the varying interests of donors in funding particular issues. Some of the diversity and fragmentation has enabled donors to support issues of particular political or domestic importance, or to avoid providing funding for other issues that are contentious.

The result has been the creation of organisations that have different rationales. Some are based on particular client groups: UNICEF for children, UNIFEM for women. Others are sectoral (*UNESCO, FAO*). Others are more defined by the instrument they use (*WFP being the clearest example*). Others are issue based (*UNFPA*). UNDP began life as the “integrator” of the system, but has now taken on governance as an issue that it particularly champions. With this diversity in origins some overlap and duplication is inevitable.

There have also been initiatives to “mainstream” issues within the UN. For example, gender equality, combating HIV-AIDS and human rights based approaches to development. These have met with varying success. In some cases they may have provoked competition between the different agencies for the same funding and diluted the

funding across all of the agencies. If a donor wants to support rights-based approaches to development for example, they face multiple choices in where they could put their money. They could provide it to UNICEF, which has been a strong advocate for this issue in UNDG. They could provide it to the Action 2 Initiative, or they could provide it in supplementary un-earmarked funding to OHCHR. But it is difficult to get from the UN collectively, a view on where donors should provide their support, except in the humanitarian sphere.

However, some of the “brand diversity” and distinctive identity of the different parts of the UN has enabled significant additional funds to be raised and particular issues to be given a high public profile. An example of this is the success of UNICEF in advocating for and raising funds for children’s development. Any changes to the funding to the UN will need to ensure that these sources of funding are not threatened.

6. Funding basis: needs and performance

The resource allocation mechanisms used by the existing funds, programmes and agencies are based predominantly on need and are linked to the mandates of the institutions. Donors tend to approach funding decisions based on an assessment of effectiveness, and allocate more money towards activities and countries where they think their funds will be used most effectively.

Any change to the funding of the UN will need to preserve the principles of UN multilateral funding being on the basis of need, and not subject to conditionality imposed by donors. However, it will need to incorporate a framework for results and benchmarks for measuring the effectiveness of the organisations concerned, in order to enable accountability to recipients, donors and the membership as a whole. This includes measures such as results based budgeting, results based management and an independent evaluation function.

III. Options for the future

The Panel could consider the following families of practical options. These are not exclusive options, and the Panel may wish to consider blending them, with one option in the short term, building to another option over the longer term.

Option A: Improve the status quo and optimize existing instruments

The proposal would be to use the Multi-Year Funding Frameworks (*MYFF*) for the individual agencies as the basis for a replenishment funding mechanism for the development work of the Funds and Programmes and Agencies. The assessed funding base of those parts of the system that rely on it could be re-examined. The thematic trust funds that already exist could be developed further.

- The models for MYFFs are the World Bank’s system of IDA replenishments or similar systems at the European Development Fund (*EDF*) and African

Development Fund (*ADF*). Even though replenishments do not lead to legal obligations, they are taken very seriously in annual national budget cycles.

- For assessed funding the Panel could consider reviewing the assessed funding of the Specialised Agencies to support their work on global norms and standards. This review could investigate whether there is an unacceptably high degree of subsidy from the voluntary extra-budgetary funding provided to Specialised Agencies, and that the current policy of zero real growth policies needs to be reviewed. This review would also need to consider the justification for the voluntary extra-budgetary funding of activities by the specialised agencies and whether these activities should be supported through some other funding route.
- If trust funds are to continue, then an option would be to build on the evolving practice of grouping them thematically, in order to make earmarked funding more manageable.

The options for better funding and funding modalities will have to be seen in combination with options for the structure of the UN and the options reflected here are only some of the possibilities. They can be implemented gradually and sometimes in combination or as a pilot. Overall a clearer division of labour between agencies would make competition less likely. But many subjects the UN addresses are overarching and involve many agencies.

Issues to be considered under this option:

- The reasons why MYFFs have not so far delivered reliable and predictable funding for the Development Work of the UN need to be examined. Donors will want reassurances about performance in return for multi-year commitments of un-earmarked funds.
- Tensions could arise between donors agreeing replenishments to the Funds and Programmes, and the overall multilateral governance of the system through intergovernmental bodies. All categories of countries would need to be involved.
- Addressing zero real growth and assessed contributions to the Specialised Agencies is contentious. The EU proposed a fundamental review of the Specialized Agencies, including their funding base in 1997. This could be revisited.
- Thematic trust funds can be better linked to top organizational priorities, and help eliminate smaller trust funds. But they still do not constitute core budget resources.

Option B: Consolidated Funding of UN Country Teams at country level

- Bilateral donors could make all extra-budgetary contributions at country-level within the framework of the RC System, to provide funding for the implementation of UNDAFs. This could be seen as an implementation of ideas commonly referred to as the '4 x 1' approach.
- The approach could consist initially of a programme fund existing alongside current funding arrangements. It could in due course replace existing, separate funding structures that would in first instance still fund support and to some extent programme budgets.

- Experience in post-conflict situations could provide the model, such as the UNDG Iraq Trust Fund.

It would be used to fund activities agreed within the UNDAF framework. It would therefore be important to make sure that countries had high quality and properly costed UNDAFs, and also that some countries are not left behind if fundraising is done for specific countries.

Issues to be considered under this option:

- What would the implications be for governance? The UNDAF would basically be the instrument for accountability.
- This sort of funding would be available in countries that have an abundance of bilateral donors. How to ensure that countries are not left behind if fundraising is done for specific countries?
- Need to ensure funding of core and central functions, including the RC functions.

Option C. Central Development Fund at headquarters level

- A central fund could be attached to either the agency managing the Resident Coordinator System (now UNDP) or to the Secretary-General's office.
- It could be a programme fund that would exist next to the existing core, support budgets of funds and programmes, but it could increasingly become the one and only programme funding for funds, programmes and specialised agencies
- It could fund the UN country team's programme and thus strengthen the Resident Coordinator and the coherence of the UN country team, based on ownership and an enhanced UNDAF.
- The central fund could also provide funds for the global issues of a developmental nature currently undertaken with voluntary funding by the Funds and Programmes.

Issues to be considered under this option:

- If the fund were increasingly exclusive and thus intended to become the main source of funding for the funds and programmes, how could a loss of resources through a loss of brand identity be avoided?
- If the fund would co-exist with current funding structures, how could competition be avoided and critical mass be built, so that it would not become just another trust fund? Should allocation be linked to joint efforts?
- How would the governance of the system be arranged? Would it be linked to a joint board in order to avoid duplication of governance mechanisms? How to ensure accountability (role of Fund vs. participating agencies)?
- Would donors and recipients see the advantages of a bigger fund over a diverse UN System with a menu of options for contributions?

Option D – Panel may wish to consider combinations of the above options.

The above options and the extent to which they address the issues under discussion are summarized in the following matrix.

How do the three proposed options help resolve the issues identified?

	Option A: Use existing systems but make them more predictable	Option B: Consolidated Funding of the UN at country level	Option C: Central Funding Mechanism
Key Features	Greater Share of Core Funding to existing agencies through longer-term funding commitments from donors	Single UN Budget at country level, with medium term commitments from donors to country programme, in first instance in parallel to agency budgets	Single pool for all development (and eventually humanitarian) work, in first instance or as an option: parallel to individual agency support budgets.
1. Predictability	Multi-year replenishment funding of individual agencies would improve predictability of aid, if emergency contingencies were built in.	Multi-year replenishment funding of UNDAFs/UN Country Programmes would increase predictability.	Multi-year replenishment funding potentially in due course of the UN as a whole, including contingencies, provides a good basis for increased predictability.
2. Over-reliance on voluntary particularly earmarked funding	Better funded MYFFs would reduce the share of voluntary funding without necessarily eliminating it – which is fine because some voluntary funding is useful.	Funding of UNDAFs could provide the opportunity for donors to fund incremental expenditures, but preferably of the UNDAF as a whole and not of favoured elements.	Funds for a central funding mechanism would be voluntary, following the principle of funds for development not being assessed, but the commitments would be medium-term, not volatile and not earmarked.
a. Management concerns & unclarity, division of labour	Management concerns would decrease as earmarked trust funds decrease, but competition for resources would remain.	Concern would be the funding over support budgets individual agencies.	Concern would be degree of additionality of funding and whether support budgets of individual agencies would be funded, pending greater integration.

	Option A: Use existing systems but make them more predictable	Option B: Consolidated Funding of the UN at country level	Option C: Central Funding Mechanism
b. Governance and accountability	Governance and accountability would be as at present, with present advantages and disadvantages.	Not clear who would govern UNDAFs. Individual country programmes could be approved by existing boards, after UNDAFs are discussed (not approved) in a joint board. Accountability to the partner government at country level would be strengthened.	A governance structure would be needed, which could be a current board (e.g. UNDP) or a new one. Accountability to the partner government at country level would be strengthened
c. Strategic resource allocation at a global level?	To some degree. Move to more core funding of agencies would reduce some of the perverse outcomes of bilateral non-core funding, but lack of a single country based allocation mechanism for all UN development funding would undermine overall effectiveness.	To some degree, but country allocations still liable subject to interest of donors in providing funding,	Yes
d. Strategic resource allocation at country level?	No. Resource allocation would still be driven by agencies and there would be no freedom to move funds across the entire UN programme.	Yes, depending on the degree of integration. Within a single UN budget, completely. Within a programme fund, at least for those resources.	Yes, if the fund is exclusive. If the fund would co-exist with agency (support) budgets, it would create a part of resources that could be allocated by the UN Country Team as a whole.
3. Unclear procedures for burden-sharing	Reform along these lines might or might not include burden-sharing rules.	Reform along these lines might or might not include burden-sharing rules.	Reform along these lines might or might not include burden-sharing rules, it would depend on the basis of the replenishment of the fund.

	Option A: Use existing systems but make them more predictable	Option B: Consolidated Funding of the UN at country level	Option C: Central Funding Mechanism
4. Unpredictability and under-funding of humanitarian and transition cases	This would be tackled by investing more in the CERF or similar Common Fund initiatives or strengthening of the Consolidated Appeals Process.	CAPs could provide a vehicle for resourcing humanitarian and transition funding, with careful budgeting for contingencies.	Integrated funding would provide the basis for better and more equitably managed funding of humanitarian and transition programmes, especially if the CERF and other common pools could be merged into a new system.
5. Diversity	No change from the present situation, i.e. great diversity (and also competition)	Would impose some order at country level, while allowing limited diversity.	At first sight, would curb diversity, depending on the degree of integration
6. Needs and performance	The MYFF could be the framework for accountability, including clear benchmarks.	The UNDAF results matrix would provide the benchmarks – but beware the problem of rewarding successful countries and penalising those which most need help.	In principle this mechanism would be the fairest and most able to make up for perverse outcomes of funding patterns of individual donors.
