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9 March 2010

All Permanent Representatives  
and Permanent Observers  
to the United Nations

Excellency,

In conformity with the program of work sent to all Member States on 8 February 2010\*, the co-facilitators will have the first of the more detailed discussions on Cluster 2 “**Improving the funding system of operational activities for the development of the UN system for enhanced system-wide coherence**”, by holding a plenary session on funding on Monday, 15 March 2010, at 3.00 pm in the Trusteeship Council Chamber. The basis for discussion is the Secretary-General’s report A/64/589, as well as the informal note “Funding of operational activities for development of UN system” attached to this letter. The note, prepared by UNDESA, presents some of the preliminary findings of the analysis being conducted for the 2010 Statistical Compendium of the Secretary-General to be issued in May for the substantive session of ECOSOC.

The purpose of this first plenary meeting on funding is to engage Member States in a dialogue on the following issues:

1. What are the positive and negative effects of the key trends in quantity and quality of the funding for operational activities for development?
2. What could be done to address the problems caused by negative trends in funding?

This plenary session will be followed by a series of informal-informals, where we expect to be able to explore these issues in greater depth, in addition to any other issues raised by Member States.

The first of these informal-informals will be held on Wednesday, 17 March 2010, at 3.00 pm in Conference Room 2 (TNLB). It will focus on the **growth of non-core funding**. We would like to invite both traditional and non-traditional donors to share their

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\* The updated version of the work plan alongside with other relevant documents is available on the website of the President of the General Assembly - <http://www.un.org/ga/president/64/issues/swc.shtml>

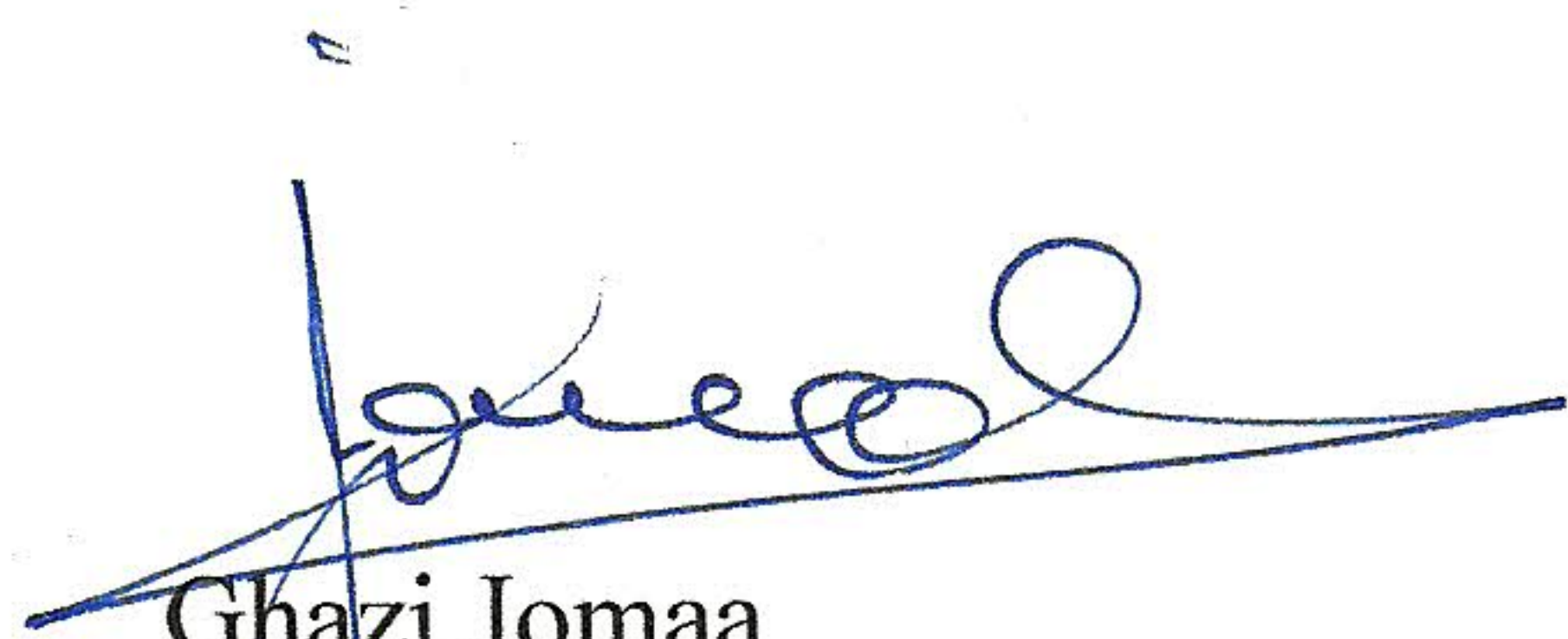
experiences in the provision of core and non-core funding, focusing on the questions below:

1. What is the basis of decision to channel funds via the UN, rather than using bilateral or other multilateral channels?
2. What flexibility do donors have in making decisions concerning different channels and different types of funding?
3. When opting for non-core funding, is there scope for making it multi-year and /or predictable?
4. What are some of the reasons donors provide non-core rather than core funding for development activities of the UN system?


The second informal-informal meeting on funding will be held on Thursday, 25 March 2010, at 3.00 pm in Conference Room 2 (TNLB). It will focus on **managing changing sources of funding for development**. We would like Member States to discuss the implications of the emerging trends in funding for development.

1. What are the sources of the rapid growth in non-core funding? Who are emerging donors, and why are they choosing the UN rather than other channels of funding development activities?
2. What governance mechanisms shape the application of non-core funding? Is there a scope to shift programme and project specific funding to pooled-funding mechanisms such as thematic funds linked to strategic plans of agencies and multi-donor trust funds?
3. What is the scope for greater predictability of non-core funding?
4. Could a "code of conduct" be considered for development funding to promote greater predictability?
5. Do we have sufficient dialogue between OECD Development Assistance Committee and the UN on issues such as those raised here above?

Please accept, Excellency, the assurances of our highest consideration.



Ghazi Jomaa  
Permanent Representative of Tunisia  
To the United Nations



Tiina Intelmann  
Permanent Representative of Estonia  
To the United Nations

Enclosed: Informal note "Funding of operational activities for development of UN system"

***Informal Note***

**Funding of operational activities for  
development of the United Nations system**

United Nations Secretariat  
New York

8 March 2010

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# 1. Introduction

## General Assembly resolution 63/311

“Requests the Secretary-General to include in his comprehensive statistical analysis of the financing of operational activities for development further analysis and actionable proposals on the current situation and perspectives in respect of core and non-core funding for the United Nations development system, notably the implications of various forms of non-core funding, in terms of predictability, country ownership and the implementation of intergovernmental mandates” (paragraph 15).

This informal note has been prepared in the context of the consultations of the General Assembly on system-wide coherence (SWC). The note presents some of the preliminary findings of the analysis being conducted for the 2010 Statistical Compendium of the Secretary-General to be issued in May for the substantive session of ECOSOC.<sup>1</sup> That report will also outline possible “actionable proposals”, requested in GA resolution 63/311.

Operational activities for development represent some 60 per cent of all UN system-wide activities (see Figure 1). Operational activities for development, notably, include activities with a humanitarian focus.<sup>2</sup>

The first part of this note provides analysis of incoming resources flows to the UN development system, with the second one reviewing the use of those resources in programme countries. Figure 2 shows the main UN system entities involved in operational activities for development (based on 2008 expenditures).

Annex I provides additional information on the comparability of information contained in the current note with information from other sources such as the OECD/DAC and individual UN entities.

A wide array of terms is used by UN system entities to classify types of funding for operational activities for development. For purposes of the current note, the main types are classified as “core” and “non-core” resources. Core resources are those that are co-mingled without restrictions and their use and application is directly linked to strategic

Figure 1 – UN system-wide activities

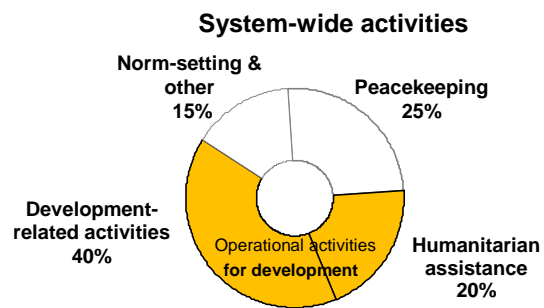
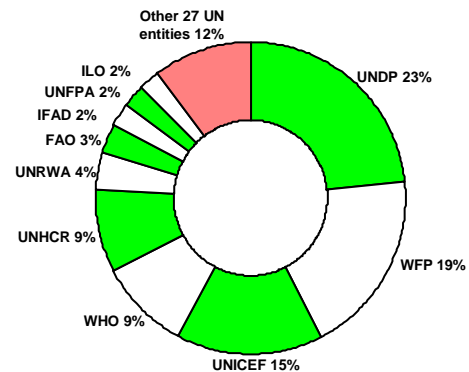


Figure 2 – Main entities of UN development system



<sup>1</sup> The data, analysis and findings contained in this informal note will be further validated in the preparation of the 2010 Statistical Compendium.

<sup>2</sup> The ratios for development-related activities and humanitarian assistance in Figure 1 are based on 3-year averages, but for peacekeeping operations on the 2008 figure.

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

## **2. Summary of findings**

### **A. Available resources**

#### **(a) Volume, trends, core and non-core contributions**

- In 2008, total contributions to UN operational activities for development amounted to US\$22 billion, the highest level ever. Some 61 per cent of contributions were directed towards development activities and 39 per cent to those with a humanitarian focus (see Table 1 for breakdown of core and non-core resources flows in 2008).<sup>3</sup>
- In the 1993 to 2008 period, contributions to the UN development system grew at a faster pace than overall OECD/DAC flows, excluding debt relief (see Table 2). This indicates that the UN development system remains relevant and seems to have gained in importance.
- Between 1993 and 2008, the growth in non-core funding has been exponential compared to only very modest increase in core contributions (see Table 2). Non-core funding almost tripled in real-terms in this fifteen-year period while core contributions only grew by 10 per cent. The relevance of the UN system referred to earlier seems thus to extend to non-core resources in particular.
- Of total contributions in 2008 for development-related activities, 27 per cent was in the form of core/un-earmarked funding, with the remaining 73 per cent thus characterized by varying degrees of earmarking (see Table 2). For OECD/DAC donors, 47 per cent of 2008 contributions for development-related activities consisted of un-earmarked core resources compared to 65 per cent in 1993 (see Figure 3).<sup>4</sup>
- Only about 11 per cent of contributions to development-related activities in 2008 were programmed through pooled funding mechanisms such as multi-donor trust funds (MDTFs) and thematic funds (see Table 1). Accordingly, 89 per cent of non-core development-related funding remains programme and project specific, contributing to overall fragmentation of resources with consequent impact on transaction costs. In 2008, OECD/DAC countries contributed US\$4.1 billion or 64 per cent of such programme and project specific resources.

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<sup>3</sup> It should be noted that the contribution level to humanitarian assistance was unusually high in 2008.

<sup>4</sup> Other multilateral organizations such as the World Bank have also experienced declining core ratio in the past two decades (see Figure 4).

## **(b) Sources of funding, funding quality, volatility, burden-sharing and prospects**

- The funding base for operational activities for development has broadened over time with the share of OECD/DAC donors declining from 80 per cent in 1993 to 63 per cent in 2008. During the same period, the share of overall funding from non-DAC countries increased from 7 to 12 per cent and from intergovernmental (excluding the European Commission) and non-governmental sources (i.e. global funds, foundations and private sector), from 7 to 18 per cent. The share of the European Commission increased slightly from 6 to 7 per cent (see Figures 5 and 6).<sup>5</sup>
- The UN system accounted for 31 per cent of total ODA flows delivered directly from OECD/DAC countries to the multilateral system in 2006 and was the single largest actor (see Figure 4 and Annex I).
- Almost all increases in contributions by non-OECD/DAC countries have been in the form of non-core and earmarked resources. By far most of such resources have been in the form of self-supporting contributions of programme countries themselves, often as “pass-through” mechanism for funding from other external sources. Such self-supporting contributions amounted to US\$1.7 billion in 2008 or 75 per cent of total funding by non-OECD/DAC countries (see Table 1). Apart from local, self-supporting contributions, non-OECD/DAC countries (both developed and programme countries) contributed about US\$300 million to development-related activities of the UN system in 2008.
- A preliminary review of actual programme expenditures at regional and programme country-level compared to overall contributions seems to confirm that core resources continue to cover a higher share of UN institutional costs.<sup>6</sup>
- The unpredictability of resources flows is seen to affect the overall effectiveness of the UN development system. A preliminary review of key entities of the UN development system such as UNDP and UNICEF suggests that annual fluctuations in core contributions (as an indicator of predictability) did not have a negative impact on the overall steady growth in available core resources in the 2000 to 2008 period. In this connection and during the same period the very significant fluctuations in the US\$ exchange rate compared to major donor currencies, are noteworthy (see Graph 5). Some of the fluctuations in exchange rates had orders of magnitude similar to fluctuations in US\$ denominated contributions. This suggests that exchange rates can be an important source of unpredictability.
- Multi-year financing frameworks (MYFFs) represent a key instrument to promote predictability, stability and policy coherence in the work of UN entities. The extent to which MYFFs can serve to advance the predictability of core funding depends on the

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<sup>5</sup> The cost and benefits of this diversification of the funding base of the UN development system, needs to be further examined.

<sup>6</sup> This follows the approach whereby non-core cost recovery principles are based on the recovery of direct costs and variable indirect costs and not the so-called fixed indirect costs needed to finance the base structures of UN entities.

willingness of donors to shift from single-year pledges to committing resources over an extended period of time.<sup>7</sup>

- Of total core contributions from governments to UN operational activities for development in the 2007 to 2008 biennium, 10 donor countries accounted for approximately 79 per cent (See Table 4). The core ratio also differs significantly among donor countries (see Figure 3), which negatively affects the “critical mass” of resources required for the UN system to deliver on its universal operational and normative mandates.
- There is concern that the growth seen in contributions to the UN system over the past five years could stagnate, or possibly reverse, in 2010, due to the negative impact of the global economic crisis.

## **B. Use of resources**

### **(a) Volume, geography and agency**

- Total expenditures in 2008 were US\$18.3 billion, with 62 per cent development-related and 38 per cent with a humanitarian focus (see Table 5).
- The targeting of UN operational activities for development has changed in the past few years, with more than 50 per cent of expenditures in 2008 in least-developed countries (LDCs) compared to 39 per cent in 2003.
- The distribution of the use of core resources is concentrated, in that 81 per cent was spent in low-income countries in 2008 while 14 per cent of expenditures were in low-middle income countries and 3 per cent in upper-middle income countries (see Table 7).<sup>8</sup>
- Non-core contributions are not as well targeted in low-income countries, although this aspect seems to be improving (see Table 6). In 2008, 63 per cent of non-core funding was spent in low-income countries with 24 per cent of expenditures in low-middle income countries and 10 per cent in upper-middle income countries (see Table 7). The difference between the destination of core and non-core resources seems to confirm the varying degree to which the use and application of core and non-core funding is subject to and aligned with the mandates, guidelines, priorities and goals established by the respective intergovernmental governing bodies.
- Operational activities for development are highly concentrated in a small number of UN entities, but fragmentation remains an issue. Funds and programmes accounted for 78 per cent of expenditures in 2008 and specialized agencies and others for 22 per cent (see Table 5). Five UN entities accounted for 75 per cent of expenditures in 2008 and ten for 88 per cent, with twenty-seven organizations spending the remaining 12 per cent (see Figure 2).

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<sup>7</sup> For many donors, providing multi-year pledges may require resolving important legal and budgetary constraints.

<sup>8</sup> Income groups are based on the World Bank's *World Development Indicators 2009* publication which groups countries according to 2008 GNI per capita.

### 3. Addendum to summary of findings

#### A. Available resources

##### (a) Volume and trends

Table 1 Overview of contributions to the UN development system in 2008

This table provides an overview of total, core and non-core resources flows to UN operational activities for development in 2008; breakdown between development-related funding and humanitarian assistance; and the share of OECD/DAC donors of core and non-core resources flows. Furthermore, the table shows the different funding modalities used to deliver non-core contributions to the UN development system. For example, of the US\$15.7 billion in non-core funding in 2008, US\$12.7 was development-related and programme and project specific, with OECD/DAC donors contributing US\$4.1 billion.

Types of funding	Total	Development-related activities				Humanitarian focus			
		All donors		OECD/DAC		All donors		OECD/DAC	
		US\$	%	US\$	%	US\$	%	US\$	%
<b>Total contributions</b>	22.0	13.3	61	7.7	58	8.7	39	6.1	70
<b>Core</b>	6.3	4.5	72	3.6	79	1.8	28	1.0	60
<b>Non-core (of which):</b>	15.7	9.0	57	4.9	54	6.7	43	5.0	74
(a) MDTFs	0.9	0.7	82	0.6	91	0.2	18	0.2	100
(b) Thematic funds	0.4	0.3	72	0.3	91	0.1	28	0.1	91
(c) Self-supporting contributions	1.7	1.6	91	0.0	0	0.1	9	0.0	0
(d) Programme and project specific	12.7	6.4	51	4.1	64	6.3	49	4.7	75

Table 2 Overview of key trends in operational activities for development between 1993 and 2008

This table presents long-term trends in funding of UN operational activities for development. It shows that core, non-core and total contributions grew, in real-terms, cumulatively by 10, 190 and 104 per cent respectively in the 1993 to 2008 period. To facilitate better understanding of trends in core and non-core resources flows, operational activities for development have been broken down into two main categories (a) development-related activities and (b) humanitarian assistance. Further information on how the share of each category is estimated, is provided here below.

The real growth in non-core funding for development-related activities was particularly high or 257 per cent. Total contributions to UN operational activities for development grew, in real-terms, by 5 per cent annually in the 1993 to 2008 period, compared with 1.5 per cent in overall OECD/DAC ODA flows. The core ratio of development-related contributions to the UN development system, however, declined from 55 to 27 per cent during this period.

		Current US\$ (billion)				Constant 2007 US\$ (billion)				
		1993	1998	2003	2008	1993	1998	2003	2008	% change '93-'08
TOTAL	core	3.6	3.6	3.7	5.7	4.9	4.9	4.5	5.4	10%
	non-core	3.9	5.1	9.2	16.4	5.4	6.9	11.3	15.6	190%
	total	7.5	8.7	12.8	22.0	10.3	11.8	15.8	21.0	104%
	core ratio	48%	42%	29%	26%					
Longer-term development	core	2.6	2.8	2.6	4.0	3.6	3.8	3.2	3.8	6%
	non-core	2.1	3.5	6.5	11.1	2.9	4.7	8.0	10.5	257%
	total	4.8	6.3	9.1	15.1	6.6	8.5	11.3	14.4	119%
	core ratio	55%	44%	29%	27%					
Humanitarian focus	core	0.9	0.8	1.1	1.6	1.3	1.1	1.3	1.5	20%
	non-core	1.8	1.6	2.6	5.3	2.4	2.2	3.3	5.1	110%
	total	2.7	2.4	3.7	7.0	3.7	3.3	4.6	6.6	79%
	core ratio	35%	35%	29%	23%					

- The data in the table is based on nine UN entities accounting for 87 per cent of total contributions to UN operational activities for development in 2008. The nine entities are: UNDP (including administrative funds UNCDF, UNIFEM and UNV), UNICEF, UNFPA, WFP, FAO, ILO, UNESCO, WHO and UNHCR. An estimate for total contributions to the UN development system was made by dividing each figure by 0.87.
- The figure for longer-term development activities is calculated by adding 95 per cent of all contributions to UNDP<sup>9</sup>, 75 per cent of all contributions to UNICEF and 100 per cent of all contributions to UNFPA, WHO, FAO, ILO and UNESCO.
- The figure for humanitarian assistance is calculated by adding 5 per cent of all contributions to UNDP, 25 per cent of all contributions to UNICEF and 100 per cent of all contributions to WFP and UNHCR.

<sup>9</sup> Including administrative funds UNCDF, UNIFEM and UNV.

Graph 1 Real growth in core, non-core and total contributions between 1993 and 2008

This graph shows the real growth in core, non-core and total contributions to UN operational activities for development between 1993 and 2008. As can be seen from the graph, the real increase in core contributions was very modest compared to the growth in non-core contributions which almost tripled during this period.

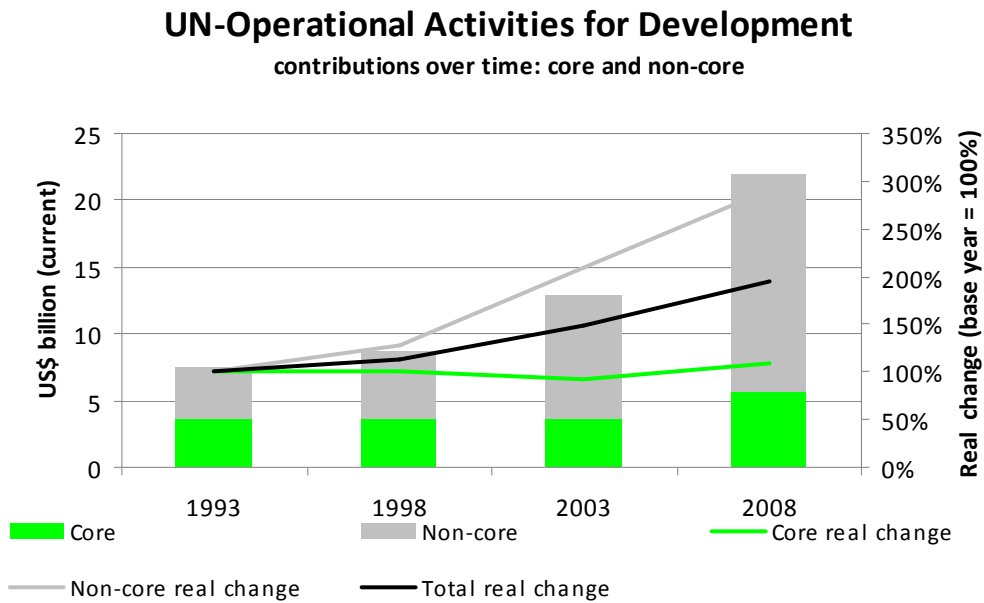
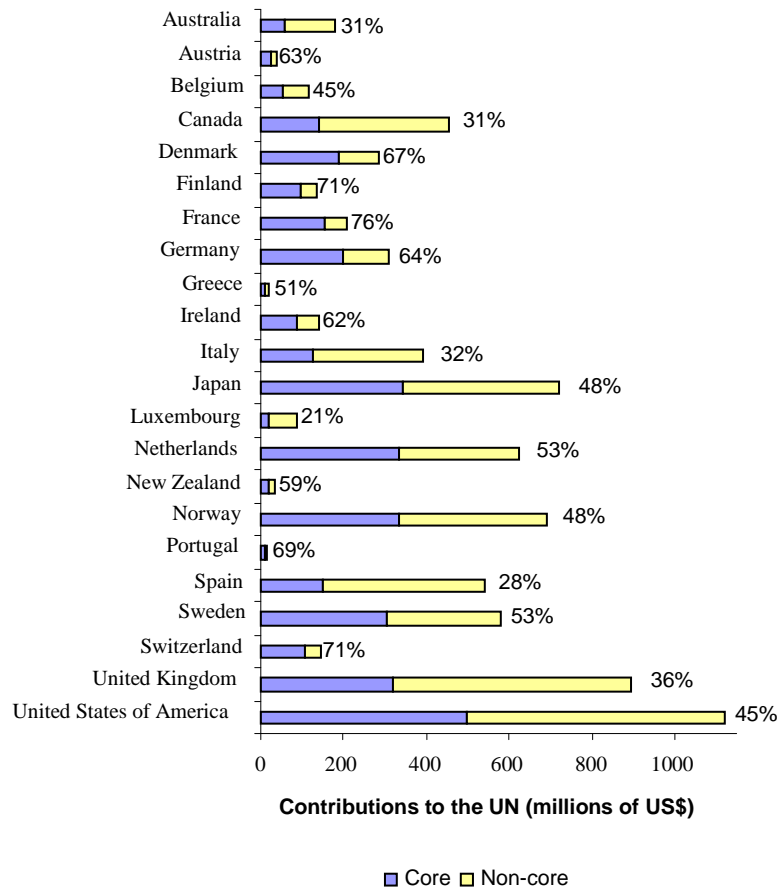


Figure 3 Contributions and core ratio of OECD/DAC countries for development-related activities in 2008

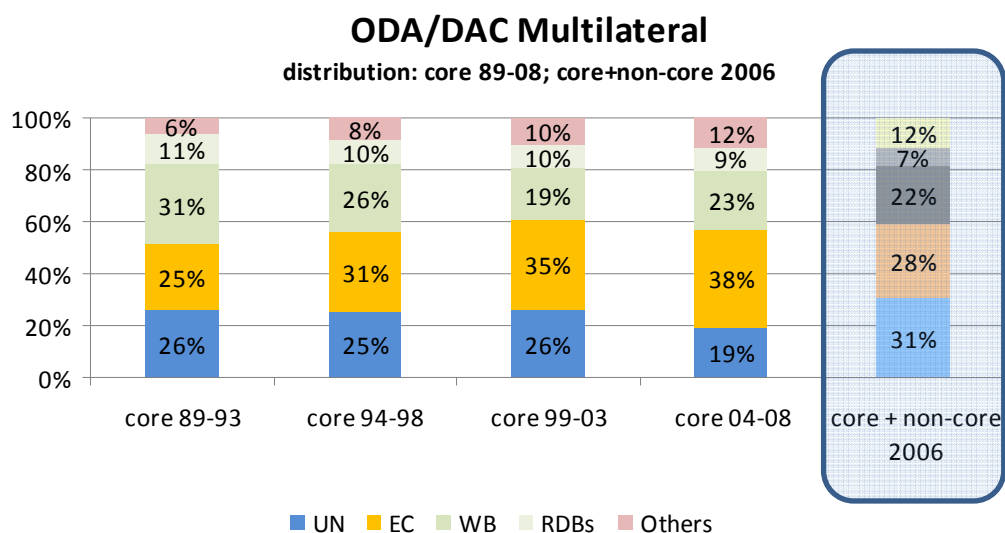
This graph presents the volume of development-related funding provided by OECD/DAC countries in 2008 as well as the ratio of core funding. The core ratio of eleven of the OECD/DAC countries was higher than 50 per cent in 2008, with the average 47 per cent. Six OECD/DAC countries contributed less than 40 per cent of development-related contributions as core funding.



**(c) Sources of funding**

Figure 4 Share of UN development system of OECD/DAC bilateral flows to multilateral system

This graph presents trends in direct funding of OECD/DAC countries to key multilateral institutions. It shows that the share of the UN development system of all core contributions by OECD/DAC countries to the multilateral system declined from 26 to 19 per cent between 1989 and 2008, with the World Bank experiencing a reduction from 31 to 23 per cent<sup>10</sup>. The share of the European Commission, however, increased significantly from 25 to 38 per cent. The last column in the figure shows the relative share of the UN system, European Commission, World Bank, regional development banks and others of overall funding to the multilateral system. Annex I provides additional information on the comparability of OECD/DAC and UN system reporting.



The above graph captures direct funding by OECD/DAC countries and not the funding channeled through the UN system indirectly in the form of contributions to the UN system by the EC, WB, RDBs and others. Non-core contributions of the European Commission to the UN development system for instance increased from US\$0.2 billion in 1999 to US\$1.25 billion in 2008. Accordingly, the share of total OECD/DAC resources being channeled through the UN system is estimated to be in the range of 35 per cent.

The 5-year averages of total OECD/DAC ODA contributions to the multilateral system (in billions of 2007 constant US\$) were as follows: 1989-1993: \$23.5; 1994-1998: \$22.6; 1999-2003: \$24.6; 2004-2008: \$30.0.

<sup>10</sup> World Bank figures are based on OECD/DAC statistics.

Figure 5 Sources of contributions to operational activities for development in 1993

Figure 5 shows that of all contributions to UN operational activities for development in 1993, OECD/DAC accounted for 80 per cent. About 57 per cent of all funding by OECD/DAC countries in 1993 were core contributions.

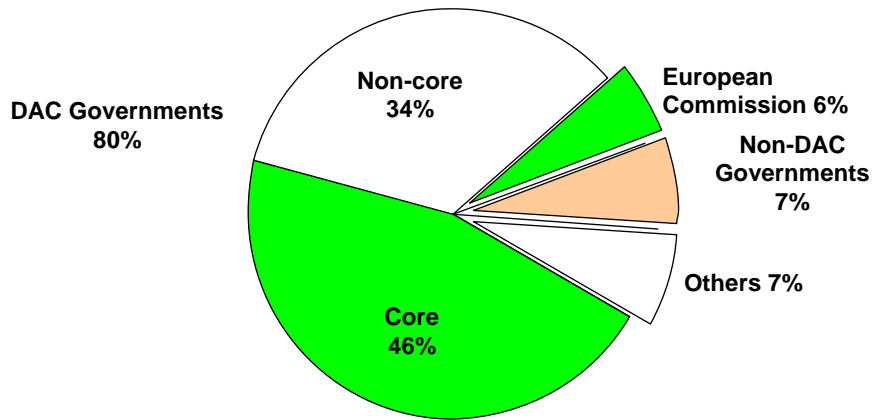
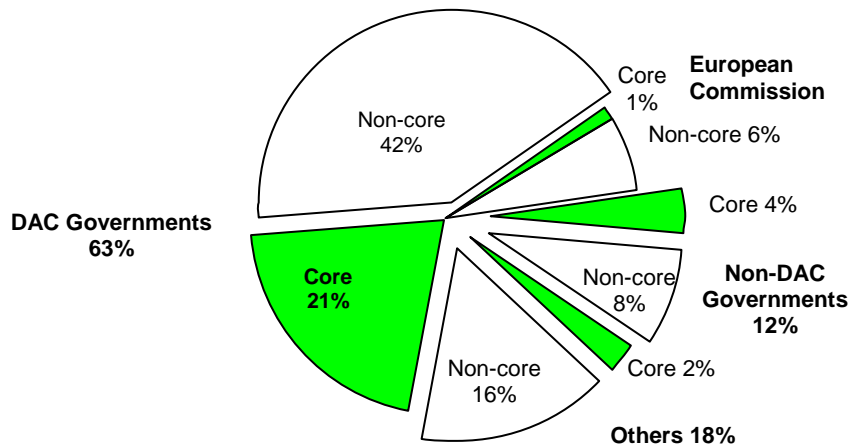


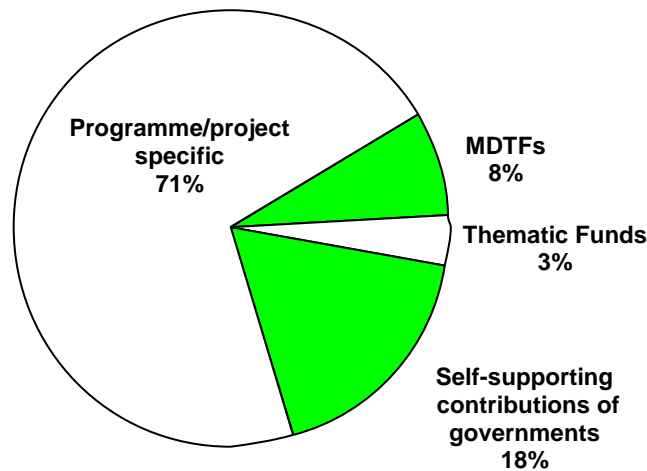
Figure 6 Sources of contributions to operational activities for development in 2008

By the year 2008, the share of OECD/DAC countries of overall contributions to UN operational activities for development had declined to 63 per cent. During this time, a notable diversification had taken place in the funding base of the UN system. For example, non-DAC countries accounted for 12 per cent of total contributions in 2008 compared to 7 per cent in 1993 and others i.e. global funds, foundations and the private sector for 18 per cent.



**Figure 7** Modalities for delivering non-core development-related funding in 2008

Non-core funding to the UN development system is delivered through three main funding modalities: (a) pooled mechanisms such as multi-donor trust funds and thematic funds, (b) local, self-supporting contributions of programme countries, and (c) programme and project specific funding. Of the US\$15.7 billion in non-core funding to the UN development system in 2008, US\$9.0 billion was development-related (see Table 1). Of this amount, 71 per cent, or US\$6.4 billion, was programme and project specific funding, of which OECD/DAC countries contributed 64 per cent or US\$4.1 billion. It is this non-core development-related programme and project specific funding by OECD/DAC countries that constitutes the main pool of resources that could potentially become more flexible and predictable.



**(d) Predictability of resources**

Table 3 Comparison of projected and actual contributions to four UN entities (millions of US\$)

This table compares projected core and non-core funding to four entities as reflected in strategic plans to actual contributions received from development partners. The table shows that projected and actual figures, particularly for non-core funding, have varied considerably.

Year	UNDP				UNICEF				UNFPA				WHO			
	Core		Non-core		Core		Non-core		Core		Non-core		Core		Non-core	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
2000-2003			6314	8090					1377 <sup>11</sup>	1051	140	412				
2000	800	634			643	597	435	516								
2001	900	652			701	541	453	639								
2002	1000	663			588	697	610	702								
2003	1100	769			585	721	610	967								
2004-2007			7800	14610					1203	1471	320	538				
2004	800	842			602	779	610	1190								
2005	900	918			815	796	610	1946								
2006	1000	916			839	1043	1249	1710					2006-7 915	2006-7 909	2006-7 2398	2006-7 3072
2007	1100	1116			869	1090	1275	1889								
2008-2011																
2008	1100	1097	3900	4160	900	1067	1301	2273	416	429	200	366				
<b>Total</b>	<b>8700</b>	<b>7607</b>	<b>18014</b>	<b>26860</b>	<b>6542</b>	<b>7331</b>	<b>7153</b>	<b>11832</b>	<b>2996</b>	<b>2951</b>	<b>660</b>	<b>1316</b>				

(See below).

<sup>11</sup> The strategic plan projected core contributions to be in the range between 1,294 and 1,460 million US\$.

An effort has been made to examine predictability of resources by comparing information in strategic planning frameworks with actual contributions received. At the time of preparing the current note insufficient data were available for a comprehensive and meaningful review.

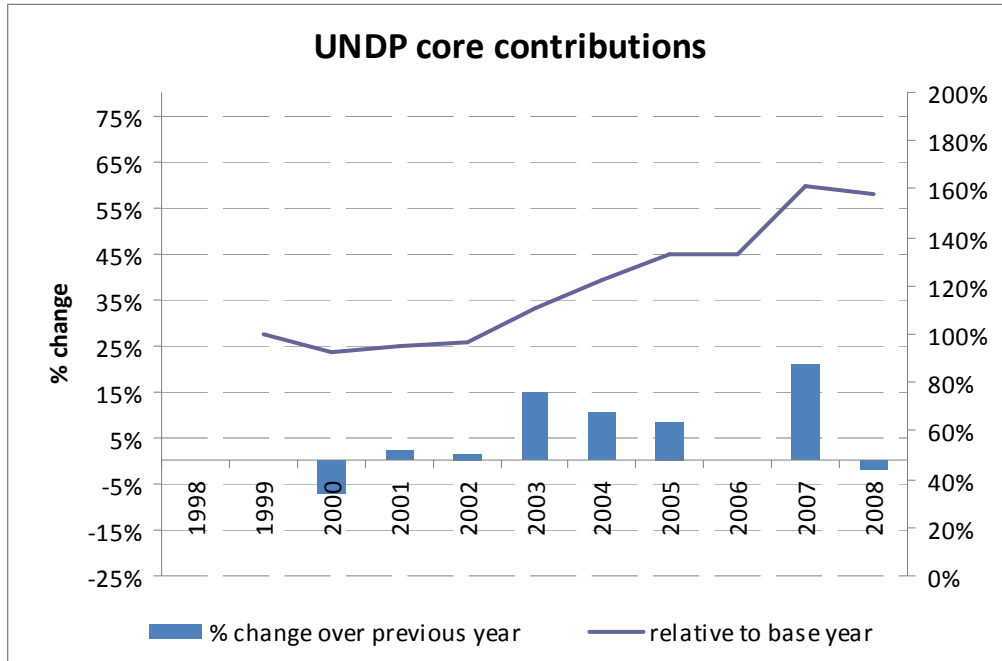
Instead, elements of predictability have been reviewed for some entities by examining actual volatility and fluctuation in contributions compared to the previous year and the actual impact thereof on overall availability of resources over time as compared to a given base year. Further review is needed to examine whether the actual performance in the case of UNDP and UNICEF is representative for other entities and for operational activities as a whole.

In the case of both UNDP and UNICEF it would seem that annual fluctuations in core contributions did not have a negative impact on the overall steady growth in available core resources during the 2000 to 2008 period. It is further believed that annual fluctuations had an even lesser impact on overall programme expenditures as a result of the inherent delay between receipt of contributions and actual programme delivery.

In examining fluctuations and volatility in contributions, the impact of exchange rates should be taken into account. Graph 5 provides information in this regard by examining volatility and fluctuations in US\$ exchange rates of the Euro and Japanese Yen compared to the previous year and the actual impact thereof over time as compared to a given base year. The graph illustrates the very significant fluctuations experienced during the period 1999-2008. Some of the fluctuations had orders of magnitude that were similar to fluctuations in US\$ denominated contributions reviewed for UNDP and UNICEF.

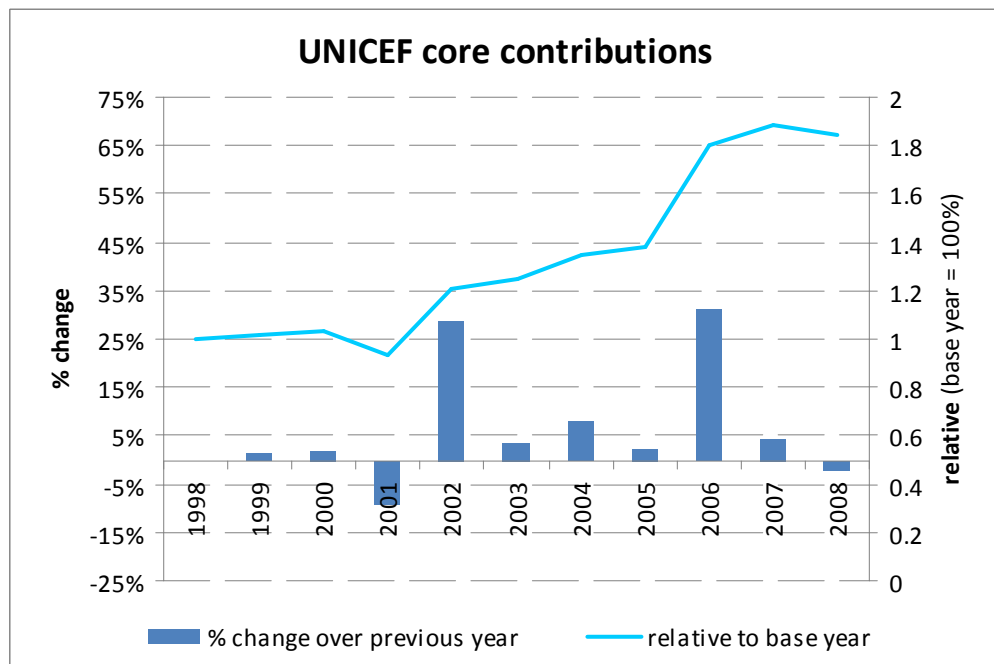
Graph 2 Trend in core contributions to UNDP (base year: 2000; nominal data)

As can be seen from this graph, core contributions of UNDP experienced a steady increase during the 2000 to 2008 period.

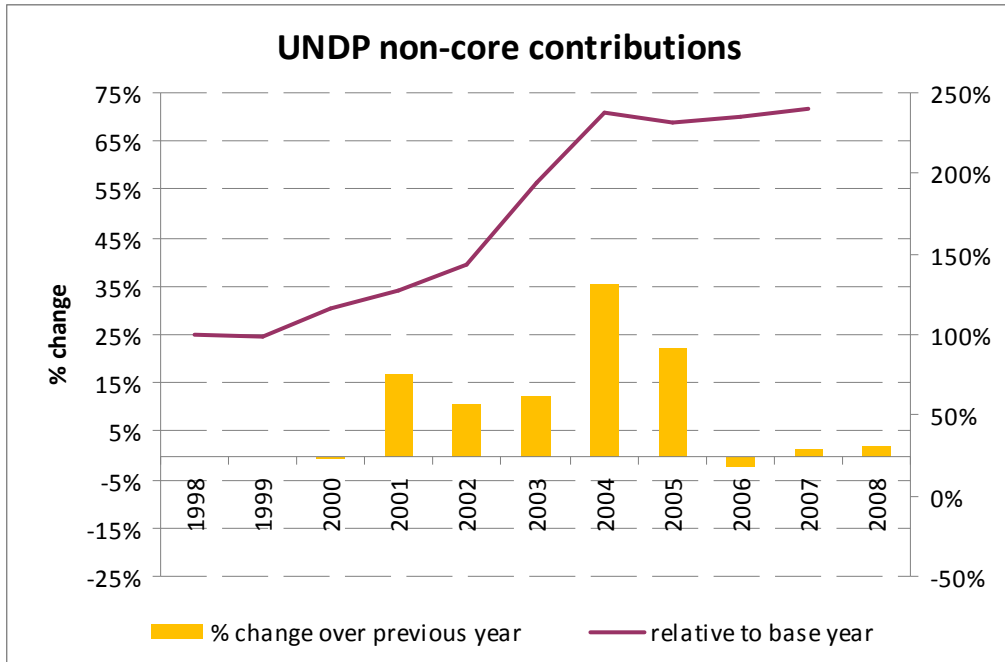


Graph 3 Trend in core contributions to UNICEF (base year: 1998; nominal data)

Core contributions of UNICEF also experienced steady increase between 1998 and 2008.

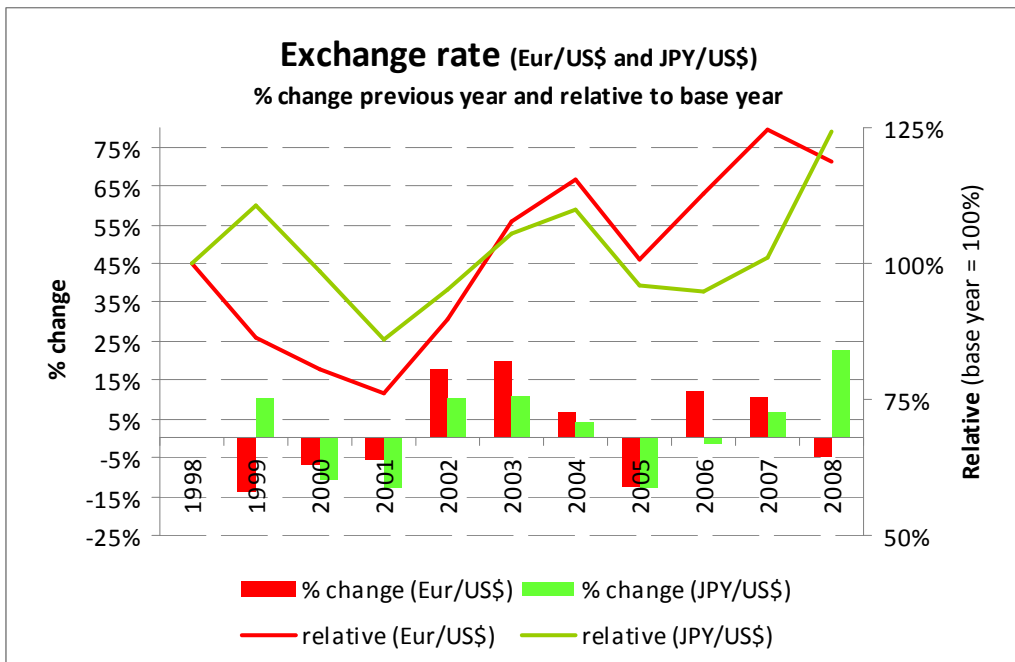


Graph 4 Trend in non-core contributions to UNDP (base year: 1998; nominal data)



Graph 5 Trend in Euro/US\$JPY exchange rates (base year: 1998)

This graph shows the significant influence that exchange rate fluctuations have had on contribution levels to the UN development system. Between 1998 and 2001, the Euro and Japanese Yen depreciated about 25 per cent against the US\$, a trend that has since reversed in the other direction, with positive impact on contribution levels.



### **(e) Prospects for 2010**

There is concern that the growth seen in contributions to the UN system over the past five years could stagnate, or possibly reverse, due to the negative impact of the global economic crisis.<sup>12</sup> UNDP, for example, is projecting core resources in 2009 to decrease to about US\$1.0 billion and amount to US\$2.3 billion in the 2010/11 biennium, the same as 2008/9. UNDP is also projecting non-core contributions to drop to US\$5.0 billion in the 2010/11 biennium, down from US\$5.3 billion in 2008/9. UNICEF forecasts total income to decrease about 14 per cent in 2009 compared to 2008, with income increasing slightly each subsequent year, but not reaching the 2008 level until at least 2012 (US\$3.16 billion forecasted for 2012).<sup>13</sup> UNICEF attributes the decrease in non-core funding in 2009 primarily to the negative impact of the global economic downturn. WFP received US\$4.0 billion in contributions in 2009, down from US\$5.0 billion in 2008. UNFPA is forecasting income of US\$1.4 billion in the 2010/11 biennium, slightly down from the US\$1.446 billion in 2008/9.

### **(f) Burden-sharing among DAC donors**

The volume of core funding for UN operational activities and respective sources of such funding is closely linked to the sharing of the burden by contributing donors. This has added importance in view of the fact that core resources in general cover a greater proportion of institutional costs of UN entities thereby affecting the volume of core resources available for actual programme expenditures at regional and programme country levels. The difference between donors in this regard is quite significant. The volume of core funding for UN operational activities is closely linked to the sharing of the burden by donors.

The 1970s and 1980s saw a trend emerging towards increasingly uneven burden-sharing of core funding for UN operational activities for development.<sup>14</sup> This trend has largely continued during the 1990s and the first decade of the new century. From 1995 to 2008, the top ten donors to UNICEF contributed on average 80.5 per cent of core contributions; for UNDP the percentage was close to 84.1 per cent; and for UNPFA 92.5 per cent. The issue of concentration of donor-related funding also applies to specialized agencies. In FAO, for example, the top ten donors (excluding global funds such as CERF, but including multilateral contributions) accounted for 53 per cent of total voluntary resources received in 2006-2007, with the top twenty contributing 79 per cent.<sup>15</sup>

Of total core contributions from governments to UN operational activities for development in the 2007 to 2008 biennium, 10 donor countries accounted for approximately 79 per cent (See Table 4). Reliance on small number of countries for high share of core contributions also makes UN entities vulnerable to fluctuations in overall resources flows, e.g. if one, or more, major donors suddenly decide to reduce funding. This risk should be addressed by broadening the donor base of UN operational activities for development.

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<sup>12</sup> Information provided in this section is largely based on inputs provided by UNDP, UNICEF and UNFPA for the 2009 UN Pledging Conference.

<sup>13</sup> See E/ICEF/2009/AB/L.5.

<sup>14</sup> Report of the Nordic Project, 1991.

<sup>15</sup> FAO Programme Implementation Report, 2006-2007 (paragraph 34 and table 4).

Table 4 Top 10 donors of core contributions to the UN system in 2007/2008 biennium (thousands of US\$)

Rank	Donor	Core Contributions (2007, 2008)	Share (%)
1	United States of America	1 387 295	14
2	Japan	966 152	10
3	Netherlands	909 481	9
4	United Kingdom of Great Britain and Northern Ireland	894 580	9
5	Norway	838 476	8
6	Sweden	823 541	8
7	Germany	626 940	6
8	Saudi Arabia	533 491	5
9	Denmark	520 964	5
10	Spain	470 113	5
	Total	7 971 033	79

## B. Use of resources

### (a) Volume

Table 5 Expenditures on operational activities for development by the UN system in 2008<sup>16</sup>

<i>Expenditures by:</i>	<i>2008 (thousands of US\$)</i>		
	<i>Core financed</i>	<i>Non-core financed</i>	<i>Total</i>
<i>Funds and Programmes</i>			
UNDP	590 436	3 679 363	4 269 799
UNFPA	272 246	164 209	436 455
UNICEF	746 575	2 061 764	2 808 339
WFP	516 699	3 019 046	3 535 746
UNHCR	319 495	1 277 978	1 597 473
Other Funds and Programmes	773 817	697 753	1 471 570
<i>Specialized Agencies</i>			
FAO	48 972	512 888	561 860
ILO	237 968	159 354	397 322
UNESCO	143 169	228 213	371 382
UNIDO	116 506	102 616	219 122
WHO	452 499	1 253 779	1 706 277
Other Specialized Agencies	357 084	340 173	697 257
<i>Regional Commissions</i>	12 235	41 658	53 892
<i>Other<sup>1</sup></i>	55 583	150 076	205 659
<b>Total Expenditures</b>	<b>4 643 284</b>	<b>13 688 871</b>	<b>18 332 155</b>

<sup>1</sup> UNDESA, UNOCHA, PBSO

<sup>16</sup> Reporting on contributions to WHO's operational work will be further refined in collaboration with that entity. For the time being, the entire WHO core budget is included in the above table.

**(b) Geography**

Figure 8 Top ten recipient countries of non-core funded expenditures in 2008

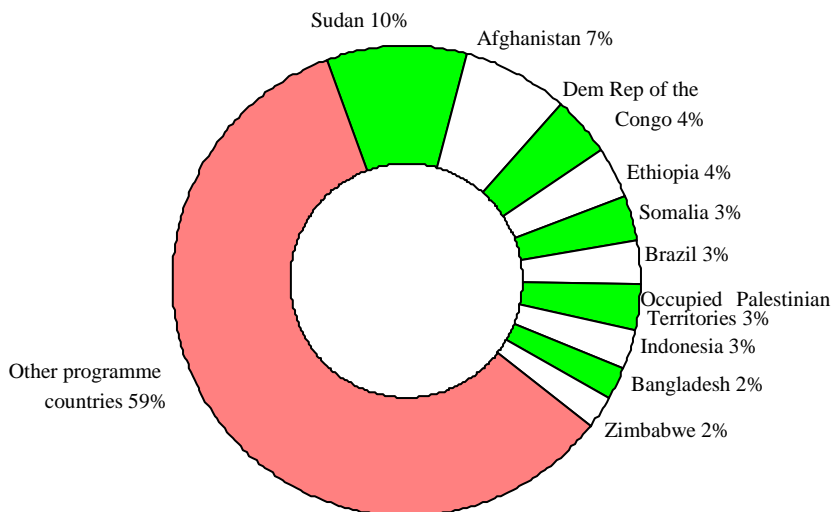


Table 6 Top twenty recipient countries of core and non-core funding in 2008<sup>17</sup>

Recipient	Expenditure ranking	
	Core	Non-core
Sudan	3	1
Afghanistan	8	2
Occupied Palestinian Territories	1	6
Dem Rep of the Congo	5	3
Ethiopia	4	4
Somalia	26	5
Kenya	6	10
Bangladesh	19	9
Uganda	12	12
Zimbabwe	43	9
Indonesia	..	7
Iraq	21	11
Chad	17	13
Pakistan	14	16
India	11	17
Myanmar	20	15
Jordan	53	2
Lebanon	10	18
Nigeria	9	20
Liberia	15	22

<sup>17</sup> Brazil, Colombia, Panama and Argentina with major “self-supporting” non-core contributions, have not been included in the above list.

Table 7 Proportion of expenditures financed from core resources of selected entities in LDCs and non-LDCs<sup>18</sup>

This table shows the share of expenditures in least-development countries (LDCs) and other developing countries that do not belong to the LDC group that is financed from core contributions to the respective entities. Where the share is greater for LDCs than for non-LDCs, it means that non-core resources are less focused on LDCs compared to core resources.

	LDC	non-LDC
<b>(Development-related)</b>		
UNDP	18	8
UNFPA	58	67
UNICEF	31	22
FAO	15	24
UNIDO	4	3
WHO	..	..
<b>(Humanitarian focus)</b>		
WFP	12	7
UNHCR	..	..
UNRWA	..	..
<b>Overall (excl. UNRWA)</b>	<b>21</b>	<b>14</b>

<sup>18</sup> Least-developed countries are considered the most vulnerable countries in the world as classified by the UN Committee for Development Policy (a subsidiary body of the UN Economic and Social Council).

Table 8 Proportion of expenditures financed from core resources by income groups<sup>19</sup>

The *first column* in this table shows the proportion of expenditures in the three income groups financed from core resources in 2008. For example, 62 per cent of expenditures of UNFPA in low-income countries were financed from core contributions in 2008. The *second column* shows the share of core resources spent in the three income groups. For example, 79 per cent of core resources in UNDP were spent in low-income countries; 17 per cent in low-middle income countries; and 4 per cent in upper-middle income countries. The *third column* shows the share of non-core resources spent in the three income groups. For example, 23 per cent of non-core resources in UNDP were spent in upper-middle income countries.

	CORE SHARE			CORE EXPENDITURE SHARE			NON-CORE EXPENDITURE SHARE		
	Low-Income	Low-middle income	Upper-middle	Low-Income	Low-middle income	Upper-middle	Low-Income	Low-middle income	Upper-middle
<b>(Development)</b>									
UNDP	20	7	2	79	17	4	45	31	23
UNFPA	62	65	61	69	24	6	70	22	6
UNICEF	31	16	21	84	13	3	71	24	4
FAO	15	25	36	53	31	13	69	22	5
UNIDO	5	3	1	58	34	7	39	42	16
WHO									
<b>(Humanitarian)</b>									
WFP	13	1	54	96	2	1	81	16	0
UNHCR									
UNRWA	..	63	50	0	88	12	0	80	20
<b>Overall (excl. UNRWA)</b>	<b>22</b>	<b>11</b>	<b>7</b>	<b>81</b>	<b>14</b>	<b>3</b>	<b>63</b>	<b>24</b>	<b>10</b>

<sup>19</sup> Income groups are based on the World Bank's *World Development Indicators 2009* publication which groups countries according to 2008 GNI per capita.

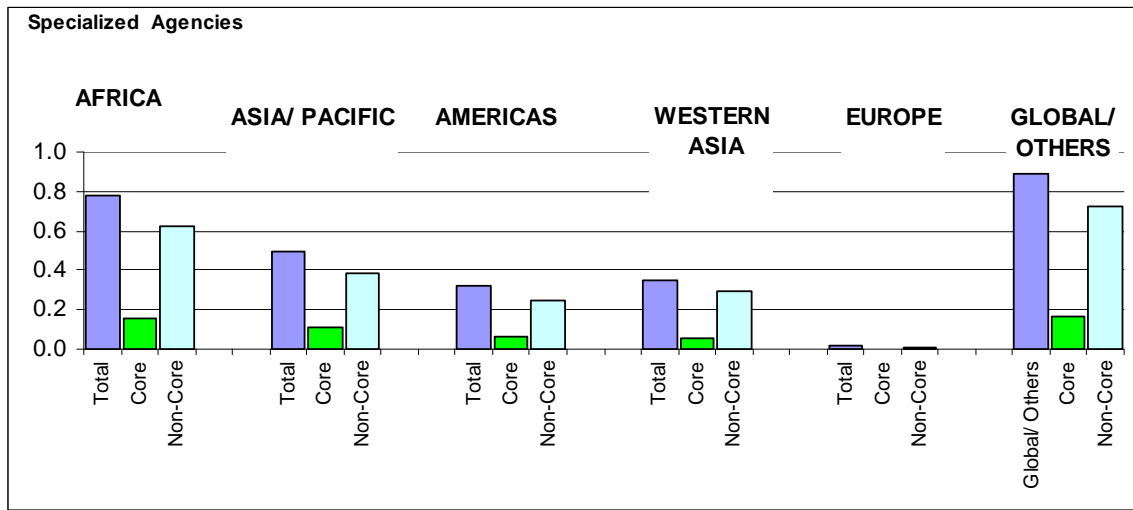
Table 9 Proportion of expenditures financed from core resources of selected entities by region (blank cells means no information available)<sup>20</sup>

This table presents the share of expenditures in different regions that was financed in 2008 from core contributions. For example, 30 per cent of the expenditures of UNICEF in Africa were financed from core resources. This ratio was much lower in FAO or 19 per cent. It is particularly noteworthy that a considerable part (25%) of global programmes in funds and programmes were financed from core resources.

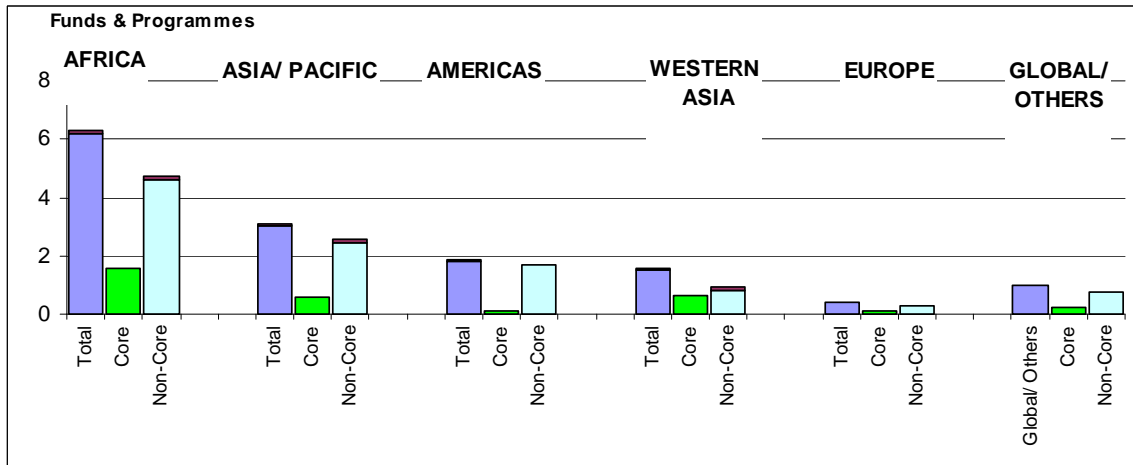
	Africa	Asia/Pacific	Americas	Western Asia	Europe	Global
<b>(Development)</b>						
UNDP	23	14	2	5	8	25
UNFPA	60	78	52	45	59	..
UNICEF	30	24	19	17	23	16
FAO	19	22	40	20	45	0
UNIDO	4	5	8	1	5	15
WHO	26	31	60	16	38	25
<b>(Humanitarian)</b>						
WFP	13	3	9	17	37	..
UNHCR	37	31	36	16	83	..
UNRWA	..	..	..	61	..	..
<b>Overall</b>	<b>23</b>	<b>18</b>	<b>9</b>	<b>34</b>	<b>31</b>	<b>21</b>
Specialized Agencies	21	25	43	17	27	26
Funds & Programmes	23	17	6	43	15	25

<sup>20</sup> See Annex II of the *Comprehensive statistical analysis of the financing of operational activities for development of the United Nations system for 2007* (A/64/75-E/2009/59) for a complete country-breakdown of the regions.

Graph 6 Expenditures of specialized agencies by region in 2008 (billions of US\$)



Graph 7 Expenditures of funds and programmes by region in 2008 (billions of US\$)



## **Annex I**

### **Differences in OECD/DAC and UN system reporting**

There are a number of important differences between the way the United Nations and DAC define, classify and report contributions to the UN system. The use of different definitions and classifications by the United Nations and DAC means that the UN contributions data cannot be added to or compared with the DAC ODA data without considerable double counting.

In UN statistics, both core and non-core funding from Governments to the United Nations system are classified as contributions to the United Nations for its operational activities. DAC classifies only core contributions from Governments as multilateral aid to the United Nations system, while non-core contributions, sometimes called “multilateral” assistance, are classified as bilateral aid.

The UN includes non-core contributions in its estimates because it considers that the purpose of both core and non-core Government contributions to the United Nations system is to support its operational activities. DAC classifies non-core contributions to the United Nations system as bilateral aid because it considers that donor Governments effectively control the use of non-core funds and that the UN entities are channels of delivery, as opposed to recipients, of aid.

This difference in the treatment of non-core contributions is the most important single cause of differences between the data published by the two organizations. This includes self-supporting contributions which are not treated as contributions to the United Nations by DAC, as DAC would have already classified them as contributions either directly to the recipient country or to the relevant development bank.

In addition, UN figures include contributions to the UN system from all non-DAC countries whereas the DAC does not collect data from some large non-DAC countries.

The UN data include contributions from NGOs and private organizations. In DAC statistics these are recorded under the category of private flows (i.e., not ODA), and those extended to the UN cannot be separately identified.

There are also other reporting differences currently under review, such as contributions to the United Nations system for thematic programmes, still mainly reported by DAC as bilateral aid but included in the United Nations financial statistics. It is not only a classification problem, but also a timing problem. For example, when a donor contributes money to a trust fund, it would probably be recorded as a disbursement by that donor (and thus by OECD/DAC) at the moment the donor makes the contribution. However, there may be a delay before those funds are transferred to the implementing agencies. Money is allocated to the United Nations entities implementing certain aspects of a project only when the project has been approved, and, once allocated, the amount is recorded as income by the UN.

## Annex II

### Key non-core funding modalities

#### *Thematic funds*

Thematic contributions remain a tiny source of funding for entities of the UN development system, except UNICEF. This form of contributions, however, may be considered the most attractive form of funding after regular resources and/or voluntary core funding, because such support is aligned with the strategic goals and priorities of the respective UN entity, while allowing for longer-term planning and sustainability. One advantage of thematic funds vis-à-vis other non-core funding modalities is lower transaction costs combined with less burdensome reporting, thus allowing more concentration on programming and achieving results. Member States may wish to discuss how to strengthen the role of thematic funds in the overall funding architecture of UN operational activities for development.

#### *Multi-donor trust funds*

As of the end of 2009, over \$4.5 billion had been invested in UN-administered MDTFs, with the vast majority of these resources being channeled through the UNDP MDTF Office. Fourteen of the twenty-eight MDTFs administered by UNDP are Delivering-as-One related.<sup>21</sup> The experience in the UN system in administering such funds in post-conflict contexts has been mixed.<sup>22</sup> The MDTFs are being used to address various humanitarian, recovery, reconstruction and development challenges that have emerged at the country-level as the result of 'horizontal' programming, including the UNDAFs. Such funds have well-defined objectives, but operate outside the strategic planning framework of UN agencies as special development situations cannot easily be foreseen and planned for. The MDTFs provide an instrument to enable UN entities to pool their technical resources to address difficult development challenges at the country-level.

#### *Self-supporting contributions*

Often countries provide resources, either in cash or in kind, to UN agencies for development activities in their own countries. In 2008, so-called "self-supporting" resources, channeled by Governments, through United Nations agencies for expenditure in their own country, amounted to \$1.73 billion. The top self-supporting contributing countries in 2008 were Panama, Brazil and Argentina.

Self-supporting contributions represent a large share of UNDP resources and reached \$1.04 billion in 2008. This type of financing is most prevalent in middle-income Latin American countries,

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<sup>21</sup> The experience from Tanzania suggests that the One UN Fund has fostered strategic focus, enhanced Government ownership, allowed for better performance on Paris indicators, reduced transaction costs and competition for funds, served as catalyst for harmonization of business practices and allowed better long-term planning, MDTF UNDG-Donor Meeting, 21 January 2010.

<sup>22</sup> Lessons from operating MDTFs in Southern Sudan suggest the following: (a) if there is more than one pooled fund in a country, a joint management and governance structure should be created to enable joint assessments and improve synergies, (b) pooled funding mechanisms must be given sufficient management capacity including the deployment of sufficient numbers of appropriately trained professionals and allocations to cover necessary operational costs, (c) flexibility to respond to changing dynamics and insufficient Government capacity without compromising accountability must be included in the management arrangements of MDTFs and (d) a core set of harmonized procedures and guidelines for management and implementation of MDTFs, with specific fast-track provisions should be developed to enable efficient and accountable strategic results aligned to national priorities, MDTF UNDG-Donor Meeting, 21 January 2010.

where the host country channels funds through the local UNDP office, which receives a management fee for that service.

### *Programme and project specific funding*

As presented in Figure 7, 71 per cent of non-core development-related contributions are programme or project specific funding. These contributions are often of an unpredictable nature. The rapid growth in such programme and project specific funding in the past decade has been an important factor in increasing transaction cost for UN entities. Negotiating individual funding agreements, tracking and reporting programming and financial data for hundreds or even thousands of individual projects, and reporting according to widely varying sets of requirements, for example, all add significant costs that fall outside of the organization's basic operating systems. As a result, agencies must juggle both large and small supplementary contributions in time frames inconsistent with their basic managerial processes. In some instances, supplementary funding is also still provided with conditions on monitoring and reporting that fall outside of the normal systems of the respective agencies. Such conditions are an important factor in increasing transaction cost.<sup>23</sup>

There are also concerns that rapidly rising programme and project specific funding may distort the work priorities of UN agencies mandated by the respective governing body. While most UN organizations try to ensure that supplementary funding is aligned with strategic priorities, all such financing to some extent distorts the substantive direction set by the respective governing body. This poses a particular challenge for standard-setting specialized agencies, which collectively have seen the share of core funding decline from 36.8 per cent of overall contributions in 2003 to 30.0 per cent in 2008.<sup>24</sup> In addition, activities funded by extra-budgetary financing are often not subject to full cost recovery, which, de facto, means that they are being subsidized by core resources.

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<sup>23</sup> Discussion paper on funding of UN technical cooperation activities, Lindores (2007).

<sup>24</sup> The ratio of regular/extra-budgetary resources among specialized agencies varies greatly. For ILO, for example, this ratio is much higher than the above figure or above 60 per cent.