

## **A new funding architecture of the UN Development System for the 2030 Agenda: Options and Challenges<sup>1</sup>**

In 2014, the UN Development system (UNDS) collectively spent US\$20.0 billion to support development (54%) and humanitarian assistance related activities (46%) in 168 countries, excluding OECD-DAC Member States (Please see Annex I). This is in addition to \$8.5 billion that the UNDS entities spent at the global and regional levels to support the normative and operational mandates. On average, 34 UNDS entities spent about \$113.7 million in each Member State - less than 0.1% of the average GDP of the recipient countries. This, however, masks significant variation in UNDS expenditure levels across countries. In half the programme countries, UNDS spent US\$32 million or less in 2014. Notwithstanding its small contribution to the GDP of a recipient country, the UNDS expenditures at the country level was equivalent to 13.7% of total ODA disbursements from 29 OECD-DAC members in 2014.

Some 84% of UNDS expenditures in 2014 were funded with voluntary and earmarked resources. These non-core resources – typically determined bilaterally at the country level and outside the inter-governmental mandates and processes of UNDS entities, have grown significantly faster than core resources. This represents a growing ‘bilateralization’ of multilateral aid. Between 1999 and 2014, total non-core resources increased by 182% in real terms, while core resources increased by only 14%. This also underscores a critical disconnect between the inter-governmentally agreed development priorities and strategies of UNDS entities and their actual activities on the ground, which are typically funded with locally mobilized non-core resources.



Figure I: Thematic representation of UNDS in the current context

---

<sup>1</sup> The Co-Chairs of the Independent Team of Advisers (ITA) led the process of drafting the paper, with inputs from ITA members and a research team. The views expressed herein do not necessarily represent consensus among all ITA members. Additional viewpoints from ITA members are available in a separate compendium. The ITA Co-Chairs would like to thank all ITA members for their invaluable contributions to the paper.

In the current setup, the funding is the lever and driver of UNDS functions (Figure I), which in turn, determines governance and oversight, institutional arrangements and capacities of UNDS entities. For example, reliance on earmarked resources that are mobilized in a programme country typically entails localized governance at the project or programme level. The existing funding architecture is characterized by:

- Fragmentation of UNDS funds at sources, following different funding modalities (e.g. assessed contributions, pledged core, voluntary non-core, thematic funds), which often makes funding unpredictable and short-term;
- Fragmentation of UNDS funds at usage, earmarking resources for specific entities, thematic areas, countries, programmes and projects, which impedes the ability of UNDS entities to pursue inter-governmentally agreed development results;
- Bifurcation of UNDS funding along the humanitarian-development fault line, which undermines the potential for addressing predictable and protracted crises through a developmental lens ;
- Fragmentation of evaluation and reporting of development results, which undermines transparency, accountability and governance, and in turn, impedes the ability of UNDS entities to deliver on mandates agreed at the inter-governmental level.
- Fragmentation and siloed activities of UNDS entities in the management of human resources, IT, Printing and other operational activities impose high overhead costs on the overall UNDS at country level.

These fragmentations impose huge transaction and operational costs on the UNDS entities and undermine their efficiency, effectiveness, relevance and credibility.

#### **I. A new Funding Architecture**

In order to support Member States towards the realization of the 2030 Agenda, the UNDS will need a revamped and integrated funding architecture – with greater flexibility and predictability – that will address the problem of fragmentation and ensure more effective alignment of funding to functions. The UNDS would need to deploy a systemic approach to its own operation and develop a consolidated balance sheet for its operations, measured against the 2030 Agenda, as an initial step towards a consolidated balance sheet of the UN as a whole.

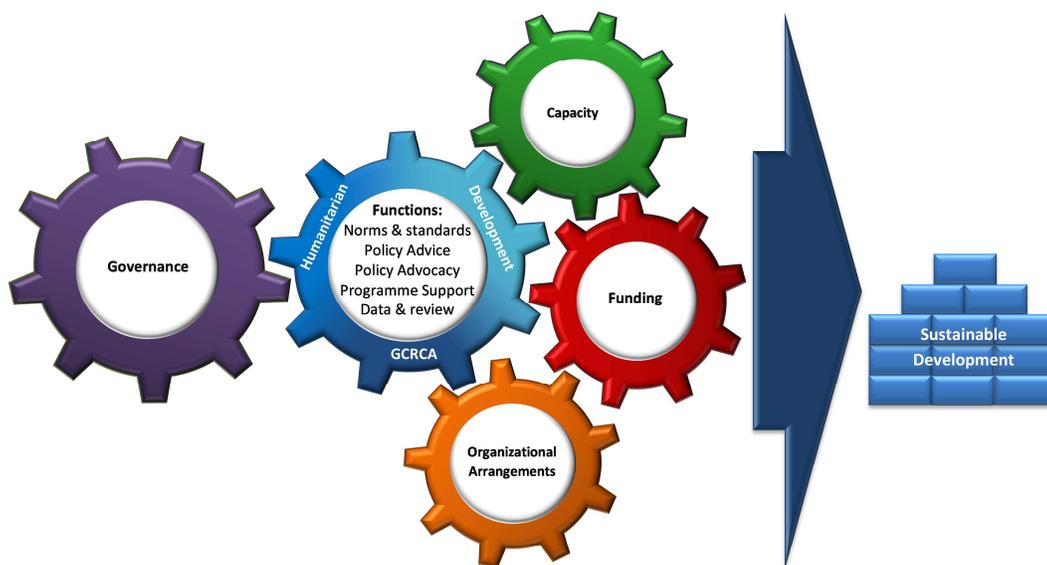


Figure II: Thematic representation of UNDS in the context of SDGs

In the context of the 2030 Agenda, governance will need to become the key lever of UNDS (Figure II), which will then determine how the UNDS performs its critical functions in varying priority and intensity, in different country contexts, how these functions should be integrated within and across entities and how they should be funded to support the Member States in realizing the 2030 Agenda. This will require the UNDS to have a revamped funding architecture that is adequate, flexible and predictable.

**a. Ensuring greater flexibility and predictability of resources to deliver core functions**

The UNDS would need predictable, un-earmarked and flexible resources to perform its core functions at the national level. Taking into account the perspectives of suppliers and recipients of funding, the UNDS quest for additional un-earmarked, flexible resources should be complemented by much-needed improvements in cost efficiency and cost effectiveness, which are discussed in the paper on Organizational Arrangements. This is an imperative to ensure the neutrality of policy advice, policy advocacy and data and review functions of the UNDS. Given the current level of un-earmarked resources, the UNDS may consider a number of options to mobilize additional quantum of predictable and un-earmarked resources to perform these functions.

Options	Pros and Cons
<p><b>Assessed contribution (AC):</b> Introduce/scale-up assessed contributions for all core functions, using an agreed scale of assessment for all entities.</p> <p>Review assessed budget to ensure that it adequately funds normative and other core functions (and possibly country level RC functions) and is allocated effectively and efficiently based on results.</p>	<p>This is likely to face resistance from programme countries, which would not want to pay for programme support in their countries.</p> <p>AC will be infeasible for funds and programmes, which are governed by Executive Boards and lack universal representation in their governance.</p> <p>This will require a new governance mechanism that is currently absent.</p>
<p><b>Negotiated replenishment (NR): NRNR):</b> NR, as</p>	<p>While NR provides some predictability, it also</p>

followed in IFAD (Annex II), can enhance some predictability for core resources, with the Member States negotiating and replenishing resources for 3, 4 or 5 years.	encounters the problem of extensive earmarking, as experienced in IFAD.  NR can be very cumbersome and process-intensive, which can shrink the base of funding partners, as experienced in IFAD.
<b>Negotiated pledge (NP):</b> It can be another alternative to mobilize flexible, core resources at the global level, as practiced by WHO (Annex III).	WHO has been able to mobilize only a small portion of resources through NP, which is fully flexible and earmarked only at the level of a strategic objective.  NP has not been able to generate contributions from a large funding partner base.  The problem of unpredictability persists in NP.
<b>Voluntary indicative scale of contributions (VISC):</b> UNEP has used VISC to create the Environment Fund to generate flexible, un-earmarked resources (Annex IV).	VISC has managed to generate only a very small amount of resources.  The funding partner base to EF has shrunk over the years. However, on average, UNEP is slightly less reliant on their top funding partners for core funding than the major funds and programmes.
<b>Additional options</b>	<b>Pros and Cons</b>
<b>Soft option:</b> Member States could agree to a special surcharge on strictly earmarked development-related and humanitarian assistance funding for UNDS entities, which would become a source of flexible non-earmarked resources for UN development system entities.  The levy should be in addition to the cost-recovery charges that UNDS entities recoup from non-core resources.	This is likely to be most effective in providing additional predictable, un-earmarked funding for UNDS entities to undertake core functions.  Contributing MS may find it too costly to channel their development assistance through UNDS entities and use alternative delivery mechanisms.  Reduce the overall funds for programme implementation, which the programme countries may find unacceptable.

#### **b. Higher level earmarking while using non-core resources for programme implementation**

The UNDS entities and the contributing Member States would need to agree on higher level earmarking in project and programme implementation. This would essentially mean that the contributing member states would need to agree to earmark their funds funding for specific results and not earmark for specific projects or activities. Pooling of resources, with soft earmarking for specific thematic coverage, can also ensure greater flexibility in funding implementation and minimize the adverse effects of project or programme level hard-earmarking.

<b>Options</b>	<b>Pros and Cons</b>
Higher level earmarking would require a system-wide commitment among all UNDS entities that they will not pursue or accept non-core resources that are earmarked at the project or activity level.	A system-wide commitment to higher level earmarking would be hard to achieve and enforce without a system-wide understanding of what actually constitutes results for a particular entity.  A system-wide commitment would be also difficult to achieve, especially when some of the entities heavily rely on earmarked resources to undertake programme implementation.

	Instead of broadening the level of earmarking, this may only lead to funding partners providing fewer (earmarked) resources.
Pooling of resources with higher sustainable development levy on earmarked non-core resources. The sustainable development levy may have a sliding scale, allowing it to decline as the non-core resources are earmarked at higher levels.	This may be difficult to administer in the absence of clear definition and agreement among MS and UNDS entities as to what constitutes a higher level earmarking.

### c. Strengthened linkages between humanitarian and development assistance

Humanitarian assistance has grown significantly in recent years, given the spread of political crisis, conflict and displacement of people in many parts of the world. The rational alignment of humanitarian and development functions is necessary to ensure that humanitarian assistance is delivered in the context of broader sustainable development priorities and avoids chronic short-term perspectives. It is also necessary to prevent the perceived de-prioritization of development, which can escalate humanitarian crises in the future and strengthen capacities and readiness of UNDS entities to address global challenges that require collective action, which typically transcends the humanitarian-development divide. Most programme countries would like to prevent de-prioritization of UNDS development spending against the backdrop of rising demand for humanitarian assistance. Given that humanitarian and development assistance follow different funding modalities, there needs to be a funding mechanism to strengthen the linkages.

Options	Pros and Cons
<b>Strengthening humanitarian linkages at source:</b> MS may be encouraged to make clear how much of their contribution to a particular humanitarian assistance should be spent on long-term development priorities.	It may be difficult to assess the development needs at the onset of a humanitarian crisis, which may make such earmarking of humanitarian funds for longer term development difficult.  Development entities may not be able to move as quickly to engage in the pledging exercise and identify the resource needs.
<b>Development levy for humanitarian assistance:</b> As humanitarian assistance is delivered on the ground, a portion of the assistance (as a levy or earmarked resource) may be set aside to support longer term development needs. The share of resources earmarked for development may increase over time, as humanitarian assistance recedes and development assistance steps in.	This will require a strong leadership and governance mechanism at the top, which will be addressed in the governance paper.
Alternatively, humanitarian funds should be used appropriately, depending on the context, avoiding the use of humanitarian funds and approaches in preventable and protracted crises, which should be addressed through a development lens. Development funds should be used in crisis contexts by development actors, but there would need to be strong incentives to make sure that these are deployed systematically (and early enough) in these contexts.	This might be hard to implement, given that it might be difficult to identify a protracted crisis ex ante and implement development programmes in crisis contexts.

**d. Addressing global challenges that require collective action (GCRCA)**

During the SDG period, UNDS entities will need to strike a delicate balance among managing humanitarian crises, supporting national development priorities and addressing global challenges that will require collective action (GCRCA). Currently, the linkages between humanitarian, national development and GCRCA are weak, if not non-existent in certain cases. A revamped funding architecture, supported and overseen by an effective governance mechanism, would need to strengthen the linkages among humanitarian, national development and GCRCA. The UNDS should assume the role of a financial broker, matching the supply and usages of finances to foster sustainable development.

Options	Pros and Cons
<p>The pooling of resources with a sustainable development levy can be an important mechanism to strengthen the linkages between development assistance and GCRCA and strengthen UNDS capacities for addressing GCRCA.</p>	<p>This will possibly offer a compelling argument for pooling of resources at the global with a sustainable development levy.</p> <p>The use of the proceeds of the sustainable development levy will require an appropriate and effective governance structure to make it acceptable to the Member States.</p>
<p>Creating a new global fund for GCRCA to address cross border and trans-national sustainable development challenges. The proposed fund will not be vertical fund, addressing a particular thematic area, but a fund that will cross-sectoral and multi-sectoral sustainable development challenges.</p>	<p>The Member States, particularly the contributing MS, are unlikely to support the establishment of a new over-arching fund for GCRCA, given that many of the GCRCA would need to be addressed at the country level within national mechanisms.</p>

**Global funding for the sustainable development agenda**

Funding for the implementation of the 2030 Agenda should be considered at the most extensive and inclusive scale – not limited to funding available to the UNDS – in the context of the Addis Ababa Action Agenda (AAAA). The main objective should be broadening the overall resource base for sustainable development and the UNDS should play a catalytic role or the role of a “financial broker” to mobilize the required domestic and external resources to support the implementation of SDGs. In particular, the UNDS would need to look “beyond aid” and analyse all resource flows, which can support investment in sustainable development at the national level. In particular, the UNDS should:

- Facilitate strengthening of national capacities for domestic resource mobilization, including expanding domestic tax base and preventing tax avoidance, tax evasion and illicit flow of capital;
- Assist member states in identifying gaps, designing appropriate policies and creating enabling environments to facilitate long-term finance for priority development projects such as infrastructure, which is a key role for the IFIs;
- Engage and deepen the discussions on innovative financing for sustainable development, including financing mechanisms using the Special Drawing Rights;
- Engage in the discussions on IFI reforms to ensure that the reforms support the realization

- of the 2030 Agenda;
- Work with national governments and regional banks with the support of IFIs to create a “brokering role” with full ownership of the country-level institutions and harvest the full potential of the growing diversity of funding while creating investment opportunities for international providers.

A more detailed discussions on the linkages between UNDS funding and the broader financing for sustainable development and the AAAA will follow in the paper on “Inter-linkages”.

The UNDS cannot solely rely on non-core voluntary resources to fund its programmes and projects at the country level. Increasingly private sectors are playing critical role in delivering basic services in health, education, credit and social protection. Leveraging its funding to mobilize additional technical and financial resources will be particularly important for the delivery of basic services in low income countries and LDCs, which can also promote national ownership and strengthen national capacities for implementation. Leveraging UNDS resources are also critical for maximizing the multiplier effects of development assistance and addressing GCRCA at the national level. However, the UNDS, with its very limited grant resources, will have difficulty leveraging investments at scale. ; this will require UNDS to more effectively use public-private partnerships to deliver sustainable results.

Options	Pros and Cons
<p>Leveraging UNDS resources to partner with private sector and deliver and augment the quality of basic services can strengthen the sustainability and impact of UNDS interventions. UNDS resources are scarce and they need to be complemented with additional engagement and support from private sector entities.</p> <p>UNDS involvement through PPPs can also improve the monitoring and evaluation of development results, as this will ensure participation of private sector stakeholders in the development process and demand more value for money.</p> <p>Develop and implement guidelines on due diligence in public-private partnerships.</p>	<p>There needs to be a system-wide framework for managing PPPs to ensure that leveraging of UNDS resources to crowd in private resources is aligned with the inter-governmentally agreed strategic objectives of the entities. PPPs should be well targeted to support the SDG implementation. Furthermore, PPPs should be facilitated to complement various national efforts supported by UNDS and not substitute such efforts.</p> <p>UNDS entities would need to carefully manage PPPs to ensure that private sector providers do not “free-ride”, deliver low quality outputs and risk the reputation of the UNDS.</p> <p>The UNDS will need a compliance mechanism to ensure adherence to these guidelines.</p>

## II. Recommendations:

Successful Implementation of the recommendations below will require commensurate changes in governance, institutional arrangements, capacities and partnerships, which are presented in subsequent papers.

### **Strategic emphasis**

- The UNDS should be mandated to engage in negotiated pledges to ensure that funding is predictable and flexible in order to guarantee that the global objectives are guiding all its actions. This may be pursued by functional grouping or by entity.

- The UNDS entities should adopt a common strategy to ensure that non-core resources are earmarked at outcomes levels of a UNDS’s strategic plan, with a view to ensuring alignment between inter-governmentally agreed strategic objectives and development programmes funded with non-core resources at the country level.
- The UNDS should play the role of a “financial broker” to support the capacities of developing countries in matching funding opportunities (domestic/external) with local funding/investment needs and augment the overall resource envelope for sustainable development within the framework of AAAA.
- The UNDS entities should undertake specific efforts to enhance their cost efficiency and effectiveness to make additional resources available to fund core functions for supporting the SDG implementation.

***Addressing fragmentation***

- The UNDS should develop a consolidated balance sheet for its operations, measured against the 2030 Agenda, as an initial step towards a consolidated balance sheet of the UN as a whole.
- Pooling financial resources has been shown to be a helpful mechanism promoting cooperation. It should be considered to set a target for an increase in pooled resources to support the SDGs, for example, a doubling of current pooled resources.
- The notion of internal levies on contributions to enhance longer-term development priorities (e.g.: redirecting a portion of humanitarian funds to longer-term development) has been discussed. The notion requires further analysis.

***Partnerships and synergies***

- The UNDS should strengthen synergies with IFIs and other stakeholders to identify innovative financing options, including utilizing SDRs, to assist Member States in accessing resources for sustainable development.
- The UNDS should actively engage with IFIs to ensure stronger alignment and integration among various multilateral processes, and pursue opportunities in the context of Bretton Woods institutions’ reform.
- The UNDS should adopt a common framework for PPPs to maximize the impact of its development interventions as well as guidelines for public-private engagement that maximizes benefits while protecting the UN against reputational risks.

## Annex I

**Table 1: UNDS funding at the country level**

	2006	2010	2014
Total UNDS expenditures for development and humanitarian assistance (excluding regional, HQ, programme support and management/administration costs) in Member States (billion US\$)	\$11.4	\$16.5	\$20.0
Share of development-related expenditures (%)		61.4%	54%
Share of top 10 UNDS programme countries in "total" UNDS expenditures at the country level	39.0%	43.7%	40.2%
Number of conflict, post-conflict and crisis countries among the top 10 program countries	3	5	9
Share of UNDP, UNFPA, UNICEF and WFP in total UNDS expenditures in Member States	69.8%	67.8%	66.7%
Ratio of non-core to core resources		4.7	5.8
Overhead (programme support, management and administration costs) per \$1 delivery of development related activities		19 cents	22 cents
Overhead (programme support, management and administration costs) per \$1 delivery of humanitarian assistance		12 cents	11 cents

Source: Compiled from CEB data

## Annex II – IFAD Negotiated Replenishments

<b>BACKGROUND</b>
<p>This approach is followed by IFAD for its core funding and is carried out every three years. It has three main objectives: (a) resource mobilization, (b) accountability for results and (c) strategic guidance. IFAD replenishments have provided a central platform for dialogue and reflection on IFAD’s strategic directions, operating model and development instruments, results and lessons learned and the resources needed to achieve these.</p>
<b>PROCESS</b>
<p>The replenishment process generally consists of 4 sessions focusing on: (a) review of progress made by IFAD in implementing its work programme; (b) emerging strategic issues, (c) objectives that shall guide the next replenishment cycle and (d) the preparation of a report with recommendations, including a draft resolution which is presented for approval by the Governing Council. The report includes, <i>inter-alia</i>, an agreement on IFAD’s strategic priorities, programme of loans and grants, and financial contributions (target level) that will be made by Member States in the corresponding replenishment period. The four sessions include a full review and assessment of the organization, including its policies it has pursued and the overall results and impact of its operations.</p> <p>The Governing Council (IFAD’s highest decision-making body) delegates the task of conducting the relatively complex negotiations of the replenishment process to the Replenishment Consultation Committee, i.e. a more limited group of representatives drawn from the Council’s membership. The RCC is the platform where major policy and organizational changes are discussed and agreed upon. From this smaller group, a report is developed which goes to the Governing Council for approval. The full Membership of IFAD, therefore, formally approves the outcome of the work of the RCC to which it has delegated the negotiations. There is a voting structure in the Governing Council partly based on donor contribution levels. Decisions are normally by consensus.</p>
<b>ASSESSING IMPACT</b>
<p>In IFAD’s 9th replenishment, Member States pledged \$1.387 billion, more than double the amount pledged in the 7th cycle (\$639.3 million). The replenishment modality used by IFAD ensures a certain level of predictability of funding as the resources generated are intended to finance a three year period. As the funds are part of regular resources which finance IFAD’s core mission, they also give the organization flexibility to maintain its strategic direction and ability to respond to emerging issues.</p> <p>With regard to the donor base, a total of 78 countries made commitments to the 9th replenishment (IFAD9). Contributions from developing countries nearly doubled from IFAD7 to IFAD9, with India, China and Brazil contributing the most from this group.</p> <p>The replenishment meetings serve to discuss the results in recent years, to define the priorities and volume of resources in the coming years, to shape the policy framework of the agency and to guide the organization to effectively implement its development programme. IFAD has an evidence-based approach to organizational reform with strong role for independent corporate level evaluations in identifying sets of recommendations, which, in turn, are reinforced through replenishment commitments. As a result, this funding mechanism drives change to a large extent.</p> <p>The measurement of results has been a major issue in the last three replenishments. IFAD responded by developing a comprehensive results measurement framework and is now seen by a number of donors to have developed one of the better results management and reporting systems.</p>
<b>POTENTIAL CHALLENGES</b>

There is an increasing trend towards earmarking of the resources mobilized through the replenishment process. Most of the increase in funding between the 8th and 9th replenishments was due to increase in earmarked funding. In addition, the number of countries contributing to IFAD's replenishments has been declining (although significantly higher than for the World Bank IDA, for example) raising issues both of overall financing of IFAD but also of burden-sharing among the membership.

The replenishment process is heavy and complex. The amount of documentation requested as part of the process is substantial; however, much of the reporting is also in response to other requests from Member States. Furthermore, many changes introduced through the replenishment respond to external challenges and global issues that IFAD would in all likelihood have had to address in any event (such as the strong focus on results).

Sustainability of the replenishment system, to a large extent, is dependent on the trust that has been built between IFAD and Member States. IFAD has gained this trust in many ways, including through high level of transparency, a willingness to examine even difficult issues through evaluations, and responsiveness to issues raised during replenishment consultations. Engagement of Member States in the consultations, however, varies by country. In practice, developed countries have more capacity and resources to prepare for and participate actively in the replenishment dialogue. If the fundamental principle of joint responsibility for IFAD is to be preserved, the original burden-sharing arrangements needs be re-examined in the light of current global political developments. In this respect, non-traditional donors should become a more integral part of the dialogue shaping the institution's agenda and business model.

There are questions though about how feasible it would be to implement such a relatively complex process on a wider scale (i.e. across more UN entities). Certain aspects of the practice of negotiated replenishments but with less complexity than practiced by IFAD could perhaps be useful in the broader discussion of negotiated non-earmarked funding in the post-2015 period.

### Annex III: WHO Negotiated Pledges

BACKGROUND
<p>The financing of WHO has undergone major transformation over the past decades. While WHO's budget has increased substantially, from \$1423 million in the 1990-1991 biennium to \$4400 million in 2016–2017, assessed contributions have remained stagnant.</p> <p>The programme budget of WHO was originally funded solely by assessed contributions. Now WHO is financed by a mix of assessed and voluntary contributions, and the proportion of voluntary contributions has increased significantly to almost 80 per cent of the total income of the organization.</p>
PROCESS
<p>In addition to its non-earmarked assessed contributions, WHO has adopted a system of voluntary as-if core negotiated pledges. Negotiated core voluntary contributions provide predictable amounts for a time period corresponding to the WHO Medium-Term Strategic Plan, and are negotiated centrally in order to align the extra-budgetary funding with the strategic objectives and results of the organization.</p> <p>These negotiations are part of a greater structured dialogue process being conducted within WHO underpinned by the following guiding principles: addressing alignment, predictability, flexibility, transparency and broadening of the donor base. The process encompasses the following steps: a strategic planning and preparation phase that sets the framework for dialogue; two milestone dialogue meetings with partners that include Member States as well as non-state actors such as foundations, UN agencies and global partnerships (e.g. GAVI, GFATM); bilateral meetings with a group of partners that include Member States and non-state actors; followed by briefings to Permanent Missions of Member States based in Geneva; as well as regional committee meetings. At the end of the process, funding partners have the option of making funding commitments in the form of negotiated pledges.</p>
ASSESSING IMPACT
<p>In 2014, WHO received \$116 million in fully flexible contributions and highly flexible contributions, earmarked only at the level of a strategic objective. A second type of voluntary contributions included in WHO's voluntary core account are those which are earmarked at the level of organization-wide expected results, disease or programme. A total of \$15.7 million of this type of flexible resources was received in 2014. While these amounts may be considered modest compared to the \$1,869 million mobilized in specified and highly earmarked contributions in 2014, it does provide additional flexibility to address funding gaps which the agency's assessed budget cannot fill. Implementation bottlenecks that arise when immediate financing is lacking are also eased. The core voluntary contributions account thus contributes to both greater alignment and improved efficiency.</p>
POTENTIAL CHALLENGES
<p>The main challenge facing WHO is to raise the volume of such flexible core voluntary contributions, which would require further expanding the donor base. In 2014, fifteen donor countries contributed to the <i>Core Voluntary Contributions Account</i>, which accounted for only 7 per cent of all voluntary contributions to WHO for the 2014-15 biennium. An initial target had been set to increase this share to 33 per cent by 2013).</p>

## Annex IV: UNEP Voluntary Indicative Scale of Contributions

<b>BACKGROUND</b>
<p>The Governing Council of UNEP decided in 2002 to introduce a <i>voluntary indicative scale of contributions</i> to the Environment Fund. The VISC was developed specifically for the EF, taking into account, inter alia, the <i>UN scale of assessment</i> as well as the following criteria: (a) minimum indicative rate of 0.001 per cent, (b) maximum indicative rate of 22 per cent, (c) maximum indicative rate for LDCs of 0.001 per cent, (d) economic and social circumstances of MS, in particular those of developing countries and countries with economies in transition, (e) provision to allow for any MS, in a position to do so, to increase its level of contributions over and above its current level. The objective of VISC was to enhance predictability and adequacy of core funding as well as broadening of the donor base.</p>
<b>PROCESS</b>
<p>The VISC is issued biennially by the UNEP Secretariat following consultations with individual Member States. These consultations are not directly linked to intergovernmental deliberations on the medium-term strategy of UNEP, budget and programme of work. The Executive Director explains the approach and principles underpinning the VISC in a note to the governing body.</p>
<b>ASSESSING IMPACT</b>
<p>Contributions to EF have grown from \$48.9 million in 2003 to \$82.1 million in 2014 or 68 per cent in nominal terms. There was strong growth in funding to the EF in the first five years following the introduction of VISC. Average annual growth in this period was 7 per cent in real terms, or about 3 times greater than the increase in core funding to the major funds and programmes. Since 2008, however, funding to the EF has stagnated similar to voluntary core funding to the Fs/Ps.</p> <p>The number of donors to EF in the 2003 to 2013 period declined from 123 to 89 suggesting growing funding risks. Volatility in core contributions to EF in the period 2000 to 2014 has been similar to UNICEF and UNFPA and higher than for UNDP, as well as for the Fs/Ps as a group.</p> <p>Some 75 per cent of donor countries to EF made contributions above, equal or very close to VISC in the 2003 to 2006 period. Between 2012 and 2014, pledges and core contributions of Member States to EF were closely correlated. In the 2012 to 2015 period, 40 countries made annual core contributions to EF.</p> <p>In 30 years prior to VISC, 74 countries on average contributed annually to the EF (up to 2001). In 2003, 2004, 2005 and 2006, 123, 119, 110 and 107 countries contributed to the EF respectively. In 2013, 88 countries made core contributions to the EF – the second-fewest since the introduction of VISC. In the period 2003 to 2013, OESD/DAC members accounted for between 91 and 94 per cent of contributions to the EF. In the 2014 to 2015 period, this share dropped to 77.8 per cent, with non-traditional donors increasing their contributions. This suggests that VISC has increased participation in financing of the EF. In the 2003 to 2013 period, UNEP was slightly less reliant on top 10 donors for core contributions than UNDP, UNICEF and UNFPA. In 3 years prior to VISC, top 5 donors to EF accounted for 59.2 per cent and top 10 for 82.6 per cent. In 3 years after VISC introduction, these were 52.9 and 79.7 per cent.</p> <p>Non-core funding to UNEP has grown from \$57 million in 2003 to \$254 million in 2014, or by 11.6 per cent on average annually in real terms. The share of non-core funding of total contributions to UNEP in 2014 was 72 per cent. For the UN development system in general, non-core funding has increased by an average annual rate of 5.8 per cent in the same period. The share of UNEP's resources which are earmarked is therefore growing at an even faster rate than for the UN development system in general and fragmentation can be considered an issue of concern.</p>
<b>POTENTIAL CHALLENGES</b>
<p>The declining number of countries making core contributions to the EF of UNEP over the years suggests that political support for the VISC has gradually decreased. Recent increases by non-traditional donors may potentially compensate for decreasing number of OECD/DAC donors to the EF.</p> <p>Recent experience from UN entities suggests that a structured financing dialogue at the governance level is central to building commitment of Member States to financing the programme of work of an entity. The fact that the UNEP governing body meets only every two years and the Committee of Permanent Representatives accredited to Kenya is an advisory body makes informed, structured and participatory dialogue on the funding of the organization's programme of work more difficult to realize. Lack of link between core funding to the EF and seats on governing body poses another challenge to the effectiveness of such intergovernmental dialogue, including the sustainability of VISC.</p> <p>Further modernization of RBM, monitoring and reporting is another area that will greatly influence the sustainability of the VISC as an instrument contributing to higher growth in core contributions to EF. The presentation of causal pathways linking core contributions to EF, as well as other relevant non-core funding, to "core" activities of UNEP and expected results as expressed in the medium-term strategy are particularly important in this regard. VISC. Transparent reporting on the use of core resources to EF is also critical for demonstrating that such funding is clearly linked to the main purposes and central mandates of UNEP and constitute high rate of return and value-for-money.</p>