Report of the Secretary-General

Implementation of General Assembly Resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR): Funding analysis

Development Cooperation Policy Branch
Office for ECOSOC Support and Coordination
Department of Economic and Social Affairs
United Nations

21 December 2016
1. BACKGROUND

The present report is submitted in response to General Assembly resolution 67/226 and provides an overview of the progress in the implementation of funding-related challenges addressed in that resolution, with a focus on 2015. Since 2015 marks the end of the MDG era, the report also presents some key trends in funding of UN operational activities for development over the past 15 years.

The report focuses on the thirty-four UN system entities (funds, programmes and agencies) that received funding for operational activities for development (OAD) in 2015. For the purpose of the present report, these entities constitute what is referred to as the UN development system (UNDS).

UN Operational activities for development are activities that UN entities carry out with the aim of promoting the development and the welfare of developing countries as the primary objective. OAD covers activities with longer-term development objectives as well as activities with a short-term humanitarian assistance focus. With regard to the distinction between development-related and humanitarian assistance-related activities, no harmonized system-wide classification exists. For purposes of the present report, and pending the introduction of a harmonized classification system, all activities of UNHCR, UNRWA, the OCHA, emergency operations of UNICEF and humanitarian operations of WFP are considered to be humanitarian assistance-related. Accordingly, all other operational activities are treated as being development-related.

The statistical data used as the basis for the presentations and analyses in the present report are contained in a detailed statistical annex, which is available on the QCPR web site. Most of this information is obtained from the UN Chief Executives Board for Coordination (CEB) financial statistics database and reporting system. The CEB data is supplemented by financial reports produced by individual UN entities and the inter-agency pooled funding database managed by the UNDP Multi-Partner Trust Fund office. The online technical note to this report contains further details on the sources of information and can be found on the QCPR website.

As reflected in Figure I, funding for OAD in 2015 accounted for about 60% ($26.7 billion) of total funding for UN system-wide activities ($44.6 billion). Peacekeeping operations accounted for 20% ($8.8 billion) and the global norm and standard-setting, policy and advocacy functions of the UN system accounted for the remaining 20% ($9.1 billion). This report concerns only the portion of funding used for OAD.

---

1 There is no commonly agreed definition of the terms “UNDS” and “operational activities for development”. For the purposes of the funding analysis, the definitions include those entities and activities linked to contributions in line with the OECD definition of official development assistance (ODA). This is not intended to imply that entities listed as part of the UNDS for the funding analysis are part of the UNDS for other purposes. For example, the Office for the Coordination of Humanitarian Affairs is not part of the UN development system for purposes other than those for the funding analysis in line with its non-operational humanitarian coordination mandate.

2 UNRWA’s mandate encompasses both humanitarian assistance and human development services, the latter in the areas of education, health, social protection and human rights for refugees.

3 Emergency operations comprised 33% of UNICEF’s total funding in 2015 and humanitarian operations of WFP comprised 94% of WFP’s total funding.


5 http://www.unsceb.org/content/un-system-financial-statistics

Figure I
Funding of UN system-wide activities: 2015

$44.6 billion

Global norms, standards, policy and advocacy 20%
Peacekeeping 20%
Operational activities for development 69%
Humanitarian assistance focus 41%
Development focus 59%

2. INTRODUCTION

The longer-term trend in funding of OAD shows significant growth in the volume of flows, but also a change in the character of these flows. The volume of funding has more than doubled since 2000, in real terms. However, the nature of these resources has fundamentally changed. Contributions in the form of non-core resources have grown six times faster than core contributions during the past 15 years. This has resulted in an increasing share of non-core resources, with most of these resources strictly earmarked to particular projects and activities.

The growing imbalance between core and non-core resources has consequences on the multilateral nature of the UNDS as it decreases the flexibility and discretion that UN entities have on the use of their resources. The implications stemming from a relatively slow growth in core funding are magnified given that core funding is being spent to subsidize the non-programme costs of non-core projects, leaving fewer core resources available for core programme activities.

Despite repeated calls from Member States in QCPR resolutions for UN entities and contributing countries to address the imbalance between core and non-core resources, reservations on increasing assessed contributions and the voluntary nature of remaining contributions makes it unlikely that the core share will increase. Another factor making this difficult is the legacy of supporting sectoral goals that shaped the current development landscape and led to more earmarking of contributions by donors.

Given the constraints to increasing core funding, it will be crucial for the UNDS and donors to improve the quality of non-core flows. The UNDS should also make full use of its absolute advantage to leverage additional international and national financial resources, including from innovative mechanisms, to be directed to the 2030 Agenda.

To date, innovative financing solutions have generated limited additional resources and have been, for the most part, narrowly targeted towards specific challenges, such as in the health and climate sectors, and further concentrated to particular projects within these sectors. However, the potential exists to scale-up such resource flows significantly to complement traditional mechanisms, and help address the need for additional and more flexible funding to deliver on the SDGs.

The relevance and ability of the UNDS to respond to an increasingly interconnected set of global challenges and to support the implementation of an integrated 2030 development agenda requires the UNDS to shift its approach from funding to an integrated financing strategy. The financing
strategy would involve UNCTs identifying an appropriate mix of financial instruments that best complement and leverage other sources of development finance in the country, including private, public, external and domestic resources which may not flow through the UNDS. UNCTs would assist national governments in enhancing their understanding of the various forms of development finance in a country, and make recommendations to the national government and development partners on options for improving the efficiency and development effectiveness of the country’s development finance.

The quality of non-core funding can be improved through incentivizing contributions to well-designed inter-agency pooled funds and loosely-earmarked (agency-specific) thematic funds. Inter-agency pooled funds have demonstrated to be well-suited to support integrated approaches to the delivery of OAD, such as those expected for the implementation of the 2030 Agenda, by improving aid coordination and coherence and bridging the silos between development, humanitarian and peacebuilding assistance. Agency-specific thematic funds are not only, by definition, aligned to the strategic plan outcomes of entities. Like inter-agency pooled funds, they also enable the flexibility to dynamically reallocate resources to under-funded priorities within a broader programmatic framework.

The approaches described here are meant to complement ongoing efforts to secure an adequate level of core funding. Enhanced transparency on the use of core resources in order to strengthen accountability for results and to build trust between the UNDS and Member States could incentivize contributors to provide adequate core funds. There will also be a need for a more logical attribution of costs in accordance with the principle of full cost recovery as defined in GA resolution 67/226, so that core resources are not used to subsidize non-core projects.

3. QUANTITY AND QUALITY OF FUNDING

a) Context of UN OAD funding

Funding for OAD amounted to $26.7 billion in 2015. This represents a decrease of 6.8% in nominal terms compared to 2014. However, this nominal decrease can be attributed to the weakening of several major currencies relative to the US dollar. In real terms, taking into account inflation and exchange-rate differences, total contributions in 2015 increased by 3.9% compared to 2014.

Funding for OAD in 2015 accounted for 19% of total ODA provided by OECD/DAC donors.7

Figure II shows the trend in funding to the UNDS, with development and humanitarian funding also shown separately, relative to total ODA. Over the past fifteen years, the growth in funding for UN development-related activities followed a similar trend to the growth in total ODA. Funding for OAD increased more rapidly than ODA due to two periods of increased funding for UN humanitarian assistance activities. In 2008, humanitarian funding grew due to increased global hunger in the face of rising fuel and food costs. More recently, humanitarian funding surged again primarily due to the crises in the Syrian Arab Republic and Iraq as well as in Yemen.

7 Local resources channelled through the UNDS are excluded as they do not fall within the definition of ‘ODA’.
Figure II
Growth in ODA and funding for UN operational activities for development, 2000-2015

Growth in real terms (2000 = 100%)

Aid flows channeled through the multilateral system (core+non-core) rose from a 36% share of total global ODA to a 45% share between 2007 and 2014, primarily due to an increase in non-core funding.

Funding for OAD accounts for some 31% of multilateral ODA as reported by OECD/DAC making it the largest single channel of direct multilateral ODA (see Figure III)\(^8\). This represents an increase from the 29% share in 2011\(^9\).

Figure III
Channels of multilateral aid: 2014\(^{10}\)

Total use of multilateral system (2014): $62.3 billion

---

\(^8\) To avoid double-counting, ODA flows between any two multilateral organizations are excluded.

\(^9\) Comparable data does not exist prior to 2011 due to a lack of comprehensive reporting of non-core funding flows through some multilateral organizations.

\(^{10}\) The data is for 2014 as the DAC Statistics report for 2015 is published in late December 2016, which is after the issue-date of this report.
Despite solid growth in both volume of funding for OAD and global ODA since 2000, these aid flows represent only a small share of overall global financial flows to developing countries. The largest of these flows is international private finance in the form of foreign direct investments, which have more than doubled over the past ten years to reach some $765 billion in 2015. Migrant remittances are another major flow. In 2015, some $582 billion was sent by migrants to individuals in their home countries, which is almost double the amount it was ten years ago.

However, in terms of directing aid to the poorest and most vulnerable people, ODA and funding for OAD can have significant impact, as these flows have a comparative advantage in focusing on leaving no-one behind and ending poverty. For instance, less than 7 per cent of the growth of international resource flows since 2000 went to LDCs. Of the $765 billion in foreign direct investment flows in 2015, only $35 billion, or 5%, went to LDCs. In contrast, some 44% of ODA disbursements and 47% of UN OAD expenditures were in LDCs in 2015.

Given that funding for OAD increasingly represents a small proportion of international financial flows to developing countries, there is an increasing need for UNCTs to shift from a funding to an integrated financing strategy. Such a strategy would need to look in a complementary manner at the development, humanitarian and peacebuilding financing needs in a given country, with a view to support national governments to identifying and bringing together diverse sources of international and domestic finance, and including finances coming from partnership arrangements most of which will not be passing through the UNDS. The UNDS’ universal nature and comparative advantage as a global convener of multi-stakeholder development actors makes it ideally suited to lead country level support for such a strategy. It is important to stress that such an integrated financing strategy, focusing on determining the optimal mix of financing resources for a country’s development agenda, should be undertaken to complement, not replace, the UN’s own joint resource mobilization strategies (i.e. identifying potential donors for UN activities and coordinating fundraising activities among UN entities).

b) Contributor base

Some 80% of total contributions in 2015 were made by Governments directly (see Figure IV). This includes the contributions made to inter-agency pooled funds which are administered by a UN entity on behalf of the UNDS. The remaining 20% is accounted for by the European Commission and by NGOs, PPPs and other multilateral institutions (including global funds).

---

11 Source: http://www.unctad.org/fdistatistics
Figure IV
Main groups of funding sources: 2015

Figure V below shows the core and non-core contributions by the top 10 government donors as well as groups of main contributors. Together, the sources of funding presented in figure V, accounted for 95% of total funding in 2015. Contributions to inter-agency pooled funds are excluded from information on individual contributors, and shown as a separate bubble. The chart shows that out of the top ten government donors, only Sweden provided more core contributions than non-core (illustrated by being inside the shaded region). The combined contributions received from the 18 other DAC contributors had a core share of 52%.

Figure V
Main contributors: 2015

(Size of bubbles are proportional to total contributions)
Programme countries\textsuperscript{14} contributed over $1.5 billion to OAD in 2015, excluding local resources, which represents a 12% decrease compared to 2014 in nominal terms. The decrease can be mostly attributed to exceptionally high contributions in 2014 by Saudi Arabia. Compared to 2013, contributions from programme countries were 16% higher in 2015. Over 70% of programme countries’ contributions were non-core. This $1.5 billion in contributions are equivalent to 8% of total estimated South-South development cooperation flows in 2014\textsuperscript{15}. In addition, programme countries also provided $1.4 billion in local resources to finance UN activities in their own countries.

Entities throughout the UNDS have made efforts to try to broaden their donor base including by making this a regular issue discussed during the structured financing dialogues held within UN governing bodies. In the 2015 DESA survey of UN entities\textsuperscript{16}, 23 of the 25 that responded indicated that their organization reports annually on concrete measures to broaden the donor base as part of its regular reporting.

Despite these efforts, in 2015, three Government donors accounted for 47% of all contributions made by Governments, while the top 10 accounted for 73\%\textsuperscript{17}.

Figure VI shows that there has been no easing on the reliance of the top few donors despite strong calls to broaden the donor base in GA resolution 67/226, as well as in earlier TCPR resolutions. In fact, the reliance on the top 3 donors have increased over the past decade.

**Figure VI**

**Dependency on top Government donors: 2005-2015**

In order to enhance the predictability and stability of funding it will be important for the UNDS to diversify its funding base thereby reducing its reliance on a few top donors. This will also require

\textsuperscript{14} For the purpose of this report, programme countries are the 149 countries that were sent the DESA programme country government survey in 2015. See technical note on the QCPR webpage for further details.

\textsuperscript{15} Report of the Secretary General, “Trends and progress in international development cooperation”, E/2016/65 which estimated South-South cooperation flows to have exceeded $20 billion in 2014.


\textsuperscript{17} In order beginning with the largest, the top ten donors in 2015 were the United States, the United Kingdom, Japan, Germany, Sweden, Canada, Norway, the Netherlands, Switzerland, Australia.
finding ways to encourage non-traditional partners that are in a position to do so to contribute more.

c) Trends in core and non-core flows

OAD are funded by a combination of so-called core and non-core resources\(^{18}\). Core resources are those that are not earmarked and are co-mingled without restrictions. Their allocation and use are directly linked to the multilateral mandates and strategic plan priorities of entities as legislated by their governing bodies.

In contrast, and as determined by the contributors, non-core resources are earmarked and thus restricted with regard to their allocation and application. Accordingly, there is not necessarily a direct link between activities financed by non-core resources and the multilateral mandates and strategic plan priorities legislated by governing bodies. In some instances, governing bodies formally approve the use of core resources while only “taking note” of the use of non-core resources. Non-core contributions can also have a high level of reporting requirements tailored to the specific needs of donors, which can increase transactions costs.

Figure VII shows that the general trend in funding has been quite positive over the past 15 years, with funding for development-related activities increasing by 85% in real terms, while funding for humanitarian activities has more than tripled. However, the vast majority of the growth has been in the form of non-core resources. Non-core funding for development-related activities has grown more than 8 times faster than core funding. As a result, the core share of development-related funding dropped from 47% to 29% during this 15-year period.

![Figure VII](image)

The growth in overall funding for development-related activities has slowed in the past few years. Since 2010, such funding has increased by only 7%, while funding for humanitarian-assistance activities grew by 59%. This more recent trend may continue, as current funding provided towards

\(^{18}\) Except for UNOPS, which is almost entirely self-financed
global humanitarian activities cannot keep pace with the growing humanitarian demands. A challenge moving forward will be to adequately assist countries requiring urgent humanitarian assistance while also committing to protect development gains and support the longer-term sustainable development challenges of all programme countries, particularly those that are most vulnerable, including building resilience as well as synergies among development efforts and humanitarian interventions.

Linked to the issue is the need for the UNDS to play a catalytic role in bringing key development actors together and explore ways to identify and mobilize support for innovative financing mechanisms based on models that combine public and private resources such as green bonds, vaccine bonds and carbon pricing mechanisms as well as new forms of taxes and levies that can complement financing for sustainable development.

This would include innovative mechanisms that allow countries to manage and finance disaster risk reduction, including by developing mitigation plans, in an effort to bring better alignment between development and humanitarian finance.

To this end, in October 2016, the SG launched a new financial innovation platform to support the identification and piloting of innovative financing instruments that can drive investment and support well thought-out SDG interventions. The initiative will engage a broad range of Government and non-State actors who already have new and innovative financing mechanisms under development.

While exploring new ways to leverage additional resources through innovative financing mechanisms, the UNDS should partner with other multilateral organizations, IFIs and global funds that have experiences engaging in these mechanisms. This would facilitate the effort to enhance value for money as well as mitigate risks associated with innovative financing.

d) Non-core funding modalities and trends

Non-core funding can generally be grouped into four types. These are: entity-specific thematic funds, inter-agency pooled funds (which include joint programmes), funding earmarked to specific programmes and projects (which includes local resources) and global funds administered outside the UNDS.

Figure VIIIa shows these main types of non-core resources organized from left to right according to the degree of flexibility from the perspective of UN entities. The relative sizes of the rectangles are proportional to the quantity of resources received through each of the different modalities in 2015. Contributions to loosely earmarked funding arrangements, namely thematic funds and inter-agency pooled funds, accounted for 11% of overall non-core flows.

The vast majority or 89% of non-core flows continued to be earmarked to specific projects. Considering that 77% of funding was non-core in 2015, it means that over two-thirds of the $26.7 billion in total contributions received were tightly earmarked to specific projects.

---

19 For example, over the past five years in WFP the funding gap has average 30-40% of identified needs according to the WFP Annual Performance Report for 2015.
In terms of funding for development-related activities specifically (excluding humanitarian funding), some 91% of all non-core flows were earmarked to particular projects (see Figure VIIIb).

Discussions in the context of the ECOSOC dialogue on the longer-term positioning of the UNDS highlighted that this dominance of strictly earmarked, donor-driven funding has resulted in a highly complex and resource-consuming reporting system for both entities and programme countries alike. The reporting burden is particularly heavy on governments in small programme countries. It would appear that donor-driven and fragmentation-inducing nature of the current funding architecture has reached its limits. The integrated nature of the 2030 Agenda will further amplify the need for core resources to be complemented with flexible non-core funding in order to deliver the expected results.

---

20 According to information contained in the CEB financial statistics database and the MPTFO database on inter-agency pooled funds.
21 Ibid
Entity-specific thematic funds

Contributions to thematic funds are softly earmarked to outcomes of an entity’s strategic plan. This type of funding mechanism offers long-term planning and flexibility and is an effective way to attract large-scale non-core resources through internally pooled donor funds, which in-turn saves on transaction costs. It is therefore concerning that between 2014 and 2015 contributions to thematic funds declined by 41% from $893 million to $529 million.

The discussions during the ECOSOC dialogue on the longer-term positioning of the UNDS indicated that attracting more contributions which are earmarked at a broader level would require stronger ownership by Member States of the strategic plans of entities and a higher degree of confidence in the quality of entities’ results-based management, evaluation and reporting systems.

Inter-agency pooled funds

Inter-agency pooled funds are designed to support a clearly defined broad programmatic scope and results framework through contributions that are co-mingled, without earmarking to a specific UN entity and managed by a UN fund administrator. In these funds, decisions on programmatic allocations are made by a UN-led governance mechanism, which is responsible for defining the purpose and results framework of the fund, resulting in a flexible form of non-core flows, which help strengthen system-wide coordination and coherence.

Contributions to inter-agency pooled funds totaled $1.5 billion in 2015 (see Figure IX), of which close to two-thirds were to humanitarian funds. This represents an overall 33% decrease compared to 2014, which was an exceptional year due to the one-time contribution from Saudi Arabia to the Humanitarian Fund of Iraq. If 2014 is excluded, then a modest increase could be observed in contributions to inter-agency pooled funds since 2010.

Figure IX
Deposits made to inter-agency pooled funds, by fund category: 2009-2015

While not a separate type of third-party pooled funding modality, funding for joint programmes are included in the volume of flows shown in figure IX above as they can be regarded as a form of pooling of resources by UN entities at the country level to make the UNDS more coherent, effective and efficient. A joint programme consists of a partnership involving generally two to five UN entities, their (sub-) national governmental partners and other stakeholders. Total funding for joint programmes in 2015 was $204 million.
In order to reap the benefits of economies of scale and for inter-agency pooled funds to act as gravity centres for strengthening system-wide coherence at the country-level, based on past experience, it is estimated that at least 15 to 20% of non-core expenditures should be channelled to inter-agency pooled funds. In 2015, only sixteen programme countries reached the 20% threshold and in another six countries the 15% threshold was obtained. In the majority of programme countries, less than 5% of non-core expenditures were channelled through inter-agency pooled funds (see Figure X). One of the main reasons that the target share is not achieved in more programme countries is the narrow donor base for these types of contributions. Just four donors accounted for 63% of all contributions to inter-agency pooled funds in 2015.

Figure X
Estimated share of country-level non-core expenditures channeled through inter-agency pooled funds: 2015

When well-designed inter-agency pooled funds attract a significant volume of resources, these funds can counteract many of the negative effects of tightly-earmarked non-core contributions, namely lack of flexibility and predictability as well as increased fragmentation of aid and high transaction costs.

However, the set-up and administration of inter-agency pooled funds come with additional transaction costs. As a result, if there are too many such funds and they do not attract enough resources to generate adequate economies of scale, they can contribute to decreased efficiency and further fragmentation of resources.

The UNDS has recently designed a number of new pooled funding arrangements, such as the Joint Policy Fund under the aegis of the UNDG. This fund aims at supporting Member States’ efforts to advance the 2030 Agenda through integrated policy support, providing programme countries with catalytic support, where needed and as identified by UNCTs and in response to specific complex and multi-dimensional policy challenges. It will draw on the multi-sectoral policy expertise that exists across the UNDS to enhance cross-sector government approaches to national and sub-national policymaking, providing funding at a scale and duration that allows for deeper policy engagement and innovative approaches to policymaking.

---

23 United Kingdom, the Netherlands, Sweden and Norway
24 “Financing the UNDS: Current Trends and New Directions”, June 2016
**Global thematic and vertical funds**

An increasingly significant channel of funding for the UNDS is global thematic funds, which are sometimes referred to as vertical funds. Global thematic funds focus ‘vertically’ on specific issues or themes just like global UN-administered inter-agency pooled funds, but are not directly administered by a UN entity and do not demand a UN lead role in the fund allocation process. They usually have their own trustee, funding, governance, policy and programming arrangements. Thus, while global funds are a form of pooled funding, from the UN’s perspective the funds are often tightly earmarked to particular projects, as depicted in figures VIIIa and VIIIb above, with the UN’s role as solely an implementing organization.

Vertical funds are often considered a mechanism of innovative development finance, however many large vertical funds are financed largely by traditional funding sources rather than leveraging additional innovative development finance to complement traditional ODA. In 2015, just over $1.4 billion in resources were channelled to the UNDS through vertical funds, nearly double the volume compared to 2010. The distribution of resources from vertical funds tends to fluctuate more significantly than direct contributions from government donors. This could have a notable impact on the level of predictability of funding for OAD as vertical funds continue to become a more prominent channel of resources.

**Local resources**

Contributions to entities in the form of local resources for programming in the contributors’ own countries amounted to $1.41 billion in 2015 or some 6.8% of total non-core resources to the UNDS. As shown in figure XI, this modality is most commonly used in the Latin American and Caribbean region where four of the five largest local resources contributors are located (Argentina, Colombia, Peru and Brazil). Pakistan was the second-largest contributor of local resources and the only country in the top 5 outside the Latin American and Caribbean region.

Figure XI

**Source of local resources by region: 2015**
4. ALLOCATION OF FUNDS

a) Overview of expenditures

In 2015, expenditures for OAD totalled $28.4 billion of which an estimated 76% were spent on programme activities at the country level. Accordingly, about 24% of total expenditures related to programme activities at the regional and global levels, as well as programme support and management, and activities that could not be attributed to any of the above categories. While some entities refer to programme support as “development effectiveness”, in QCPR-related discussions on cost recovery, both programme support and management costs were referred to as non-programme costs.

Of the $21.5 billion in expenditures at country-level in 2015, $9.9 billion, or about 46%, were spent in the Africa region (see Figure XII). This represents an increase of $1 billion compared to 2014. The share of expenditures in the Western Asia region has increased rapidly in recent years, primarily due to the continuing humanitarian crises in Syria and Iraq. In 2015 this region comprised about 25% of country-level expenditures which is more than double the share just 3 years ago. Conversely, both the volume and share of expenditures in the Asia-Pacific region and the Latin America and Caribbean region decreased in recent years.

Figure XII
Allocation of country-level expenditures by region: 2015

Nearly half of the expenditures at country-level were directed towards humanitarian-assistance activities in 2015. This is a notable departure from just 3 years ago when humanitarian expenditures represented fewer than 40% of all country-level expenditures.

Figure XIIIa below shows the distribution and degree of concentration of 2015 country-level expenditures, development- and humanitarian assistance-related, among the top 50 programme countries. These together accounted for 85% of total country-level expenditures. The top 10 countries alone accounted for 40%.
Figure XIIIa

Expenditures in the top 50 programme countries: 2015

Figure XIIIa also shows that humanitarian assistance dominated the activities in eight of the 9 largest programme countries (Afghanistan, the largest programme country, being the exception). These eight countries accounted for more than half of the total expenditure on humanitarian activities.

In 100 of the 149 programme countries, UN expenditures amounted to under $100 million in 2015. Of those, in 79 countries UN expenditures amounted to less than $50 million. The 100 smallest programme countries (shown in figure XIIIb) accounted for just 15% of total country-level expenditures. Despite comprising a relatively small share of overall UN expenditures, on average these countries have about 10 resident UN entities on the ground receiving primarily funding that is earmarked tightly to specific projects. These facts have led to the growing fragmentation of funding flows with implications on the overall efficiency of the UNDS.

25 According to UN System human resources statistics report and database (http://www.unsceb.org/content/personnel-statistics)
Figure XIIIb
Expenditures in the smallest 100 programme countries: 2015

Figure XIV is a way to illustrate the financial relevance of the UNDS at country level. The figure presents a comparative analysis of total OAD expenditures and total ODA disbursements at country-level. The figure shows that OAD expenditures accounted for less than 10% of total ODA in 49, or over one-third of the 145 total programme countries that received ODA in 2015. These 49 countries combined accounted for some 11% of all country-level OAD expenditures. In a further 39 programme countries, OAD expenditures accounted for between 10 and 20% of ODA.

Figure XIV
Country-level UN-OAD expenditures as a share of ODA: 2015

UN expenditures account for over 20% of ODA in 27 LDCs and some 60% of fragile, post-conflict countries\(^{26}\) indicating that the UNDS tends to have a higher financial relevance in LDCs and post-conflict countries than programme countries in general.

\(^{26}\) According to WB list of countries in fragile situations.
b) Allocation of funds by country groups

Expenditures in LDCs totaled $10.2 billion in 2015. Until recently about half of all country-level expenditures were spent in LDCs, which is higher than the global ODA average. This share was below 50% in both 2014 and 2015 in large part due to the humanitarian crises in the Syrian Arab Republic and Iraq, which has led to an increase in UN expenditures in these non-LDC countries as well as neighbouring countries affected by these crises.

Figure XV
Expenditures in least developed countries: 2010-2015

In 2016, the SG began the process of launching and operationalizing the Technology Bank, as called for in SDG 17, that would act as a supporting mechanism dedicated to LDCs. In June 2016, the Bank’s governing council developed a 3-year Strategic Plan for the institution centered on building-up the capacities in science, technology and innovation in the LDCs.

Expenditures in landlocked developing countries reached an all-time high in nominal terms of $6.3 billion in 2015 and represents 29% of total country-level expenditures.

Expenditures in Small Island Developing States (SIDS) have declined from its all-time high of $881 million in 2010, to $576 million in 2015. However, the decrease was due to particularly high humanitarian expenditures in 2010 and 2011 due to the Haitian earthquake. Combined expenditures in other SIDS (excluding Haiti) have steadily increased in nominal terms from some $316 million in 2010 to $411 million in 2015.
5. SELECTED FUNDING ISSUES

a) Cost recovery

The growing imbalance between core and non-core funding over the past two decades has made the adequate attribution and recovery of institutional costs associated with the substantive and operational support to those activities an issue of growing concern. This follows from the logic that a substantial increase in non-core financed projects also requires a larger core funding base to support if the programme support cost rate does not cover all the non-programme costs (which include administration and management costs) associated with non-core funded projects.

In 2016, an independent and external assessment was done to review the new cost recovery methodology approved by the executive boards of UNDP, UNFPA, UNICEF and UN-Women in 2013, which included increasing the cost recovery rate from 7 to 8% beginning in 2014. The assessment concludes that the new 8% rate was not fully applied, since the methodology provides some provisions where certain types of non-core contributions are subject to a reduced rate. These include contributions to government cost sharing activities and contributions to loosely earmarked thematic funds, amongst others. Additionally, some donors have not been willing or able to accept the new 8% rate, even when they provide the types of contributions that should be subject to the standard rate.

Applying reduced cost recovery rates can give donors an incentive to provide certain types of contributions over others. For example, to provide more loosely earmarked thematic contributions instead of strictly-earmarked non-core funding. However, applying these reduced rates moves UN entities away from the principle of full cost recovery, since the effective cost recovery rates end up being lower than the standard 8% rate. The independent assessment showed that for UNDP, UNFPA, UNICEF and UN-Women, the effective cost recovery rates in 2015 ranged between 6.3 and 7.0%. Considering that non-core contributions to these four entities exceeded $10 billion in 2015, if the effective cost recovery rate is just one percent below the standard 8% rate, it means that an extra $100 million of non-programme costs attributed to non-core projects are not being financed with non-core funds.

Furthermore, the 8% standard rate was calculated through a formula that excluded certain institutional costs of entities, such as “critical cross-cutting functions”, as well as certain costs which are not common across all four entities. In the end, these exceptions and reduced rates mean that core funding that otherwise could have been spent on core programme activities, must go towards subsidizing the non-programme costs of non-core projects. This circumstance forms the basis of the SG’s recommendation in A/71/292/Rev.1 to attribute an incremental cost to all strictly earmarked contributions. Such a cost would help offset the discounts and exceptions applied to the standard cost recovery rate while maintaining the incentives for donors to provide certain types of contributions such as those that promote greater coherence and efficiency. Such a levy can be justified due to the need to cover extra management and administrative costs generally associated with the handing of and reporting on strictly earmarked resources. The goal should be to have an effective cost recovery rate at the level required to prevent the need for core resources to subsidize the financing of non-core activities.

The independent assessment stopped short of providing an estimate of the extent to which core funds were being used to subsidize the non-programme costs of activities financed with non-core resources. However recent reports of the SG on the implementation of the QCPR and on the funding of operational activities for development have reviewed and analysed non-core funding and cost

27 DP/FPA-ICEF-UNW/2016/CRP.1
recovery in detail\textsuperscript{28}. These reviews have been based on a high-level comparison between the use of core and non-core resources for (a) programme activities (programme costs); and (b) programme support and management activities (non-programme costs)\textsuperscript{29}.

The outcomes of the high-level comparisons conducted by the SG confirmed that there was indeed a significant difference in the distribution of non-programme costs between core and non-core funding sources. Consequently, core resources are being used to subsidize non-core activities, thereby reducing the share of core funds available for actual programme activities. The studies reveal that if the principle of full cost recovery had been implemented, as defined in GA resolution 67/226, there would be a release of between $550 and $720 million per year in additional core resources for programme activities. This translates to between $2 and $3 billion per QCPR-cycle. The fact that a higher proportion of non-core resources tend to be spent on programme activities compared to core resources may also provide an incentive for donors to contribute non-core funding.

It is important to note that these studies were based on aggregate system-wide data and therefore the results do not imply that all entities subsidize non-core financed projects with core funds. For instance, WFP applies the principle of full cost recovery, since it finances its entire programme support and administrative budget by charging the same cost recovery rate to its core and non-core contributions.

\textbf{b) Burden sharing of core funding}

As described earlier, despite efforts by UN entities to broaden their donor base, they are generally highly dependent on a few top donors for the majority of their funding.

Figure XVI below examines the issue of burden-sharing of core funding by showing DAC donors’ core contributions relative to their GNI in 2015 (or core/GNI ratio). As a group, these countries contributed $4.6 billion in core resources in 2015, or about three-quarters of all core contributions received. The median core/GNI ratio for the group of DAC countries as a whole was 0.01%. It should be noted that a logarithmic scale is used on the horizontal axis in Figure XVI. As a result, countries that provide significantly different amounts of core contributions may appear relatively close to each other in the graph. This uneven burden-sharing has added importance in view of the fact that core resources are found to subsidize the support to and management of activities financed from non-core resources, as illustrated in the previous section.


\textsuperscript{29} The data was collected through the DESA surveys of the headquarters of UN entities.
During the ECOSOC dialogue, it was the view of some Member States that further discussion and analysis was required with regard to the potential of a negotiated pledging mechanism to improve the volume and burden-sharing of core funding.

c) Transparency and accountability of funding flows

The results of a recent OECD survey of DAC donors\(^{30}\) showed that the growing imbalance between core and non-core funding has been influenced by the contributors' need for greater visibility, control over disbursements, enhanced accountability and concerns about distribution of decision-making power at the level of governing bodies. Funding, as a result, is increasingly seen as driving functions and activities.

In the last couple of years, many UN entities have developed and/or significantly improved publicly accessible online systems that map data on donor contributions and expenditure allocations. Other entities may want to follow suit since a culture of transparency can also foster better alignment between the preferences of contributors and the strategic intent and work priorities of entities.

Additionally it will be important to develop and strengthen these online systems to ensure they include comprehensive information on staffing and office presence at the country, regional and global levels to help illuminate and strengthen operational efficiencies. More information would enable Member States to support governance decisions, enable improved accountability and to strengthen trust between Member States and the UNDS. Publishing such information using a common standard that is familiar to Member States would facilitate such efforts.

System-wide compliance with the IATI common standard, which the 2030 Agenda outcome document took note of, seems to be a way forward in this regard. From a programme countries' point of view, this standard provides the information they need to generate budgets and national

plans based on accurate information on current and future resources coming from different actors. The standard also allows contributing countries to hold multilateral and other organizations more accountable for the use of humanitarian and development aid flows that they provided. Evidence also suggests that many contributing governments do not have a comprehensive view of the totality of the support they provide to multilateral organizations, since the allocations are often scattered across various ministries and departments within their government. Many turn to the funding organization itself to obtain this information, which underscores the usefulness of UN entities adopting a common standard for reporting on its funding flows.

In 2015, nine UN entities were publishing in the IATI Standard, but with varying degrees of quality. Four other UN entities became new members of IATI in 2016 indicating a commitment to begin reporting using the IATI standard in the near future. UNDP had the highest Aid Transparency index among the 46 donors and organizations studied in 2015, while UNICEF ranked third. These two entities provide good examples which other UN entities can follow in their efforts towards providing timelier, comparable, disaggregated and comprehensive information on their activities.

A UN Working Group on Transparency has also been set up in an effort to leverage the collective work of the UN on IATI and reduce the barrier of entry for UN entities that have not yet engaged in the initiative.

At country-level, the UNDS must continue with efforts to develop and improve the quality of a Common Budgetary Framework (CBF) in all programme countries to support financial management of its operational activities for development, as requested in the QCPR. Full implementation of a medium-term CBF in every programme country should be viewed as a minimum requirement as it provides Member States a simplified reference document which covers the funding situation in a programme country at a given point in time, including where the shortfalls in funding lie. A CBF is also a basic requirement to develop a joint resource mobilization strategy to enable UNCTs to better attain One Programme outcomes and outputs by ensuring adequate resources are raised.

At corporate level, some UN entities have recently stepped-up efforts to consolidate all projected resources within an integrated budgetary framework based on priorities determined in the respective strategic plan. By presenting the integrated budgets in conjunction with the strategic plan of organizations, it strengthens the linkages between resources and results.

It will be important to strengthen harmonized approaches like the CBF at country level, and integrated budgetary frameworks at corporate level to strengthen reporting in the 2030 Agenda context.

Transparency will need to be a core operating principle of the UNDS in order to allow for regular reviews and informed discussions based on such frameworks that capture the volume and allocation of core and non-core funds, including where the gaps are and what type of funding is available. These frameworks will need to be high-quality and regularly updated to form the basis of more dynamic resource mobilization strategies given that the mix of different types of funding will likely change continuously, thereby opening opportunities for re-allocating core and other flexible funding to under-funded areas and/or themes.

31 Ibid
32 The International Aid Transparency index is used as a measure of how transparent donors and multilateral organizations are in the way they present information about their development projects to the IATI registry.
d) Structured dialogues on financing

The high degree of strict earmarking in the UNDS indicates that contributions are strongly influenced by donor-specific priorities, rather than intergovernmentally-approved strategic plans and mandates of entities. This is seen to negatively affect the ability of entities and the system as a whole to implement mandates and core activities in the most effective and efficient manner. As a result, the functions of the UNDS are increasingly being dictated by the nature of the funding it receives.

The structured financing dialogues taking place within two-thirds of UN entities represent a key element in the reform process of the UNDS. These dialogues aim to provide greater clarity on expected outcomes and impact outlined in the strategic plans of organizations and the resources available to finance them. Such a dialogue process has the potential to significantly strengthen current funding practices towards an alignment of funding with functions through substantive deliberations at the level of governance, which in turn will build trust between UN entities and Member States and other stakeholders. In the end, it is the trust of Member States and other stakeholders that ensures the relevance of the UNDS.

At individual entity-level, these financing dialogues must go well beyond discussing the current funding situation and highlighting the main funding-related challenges of an organization during one of its regular executive board meetings. One of the key conclusions emanating from the ECOSOC Dialogue on the longer-term positioning of the UNDS was that funding and governance are linked, and consequently, that such dialogues must also be about good governance, stronger ownership by Member States of the entity’s strategic plans, and better enabling the decision-making role of the Executive Board, based on transparent and accountable financial management practices and reporting.

As a first step, the ECOSOC Dialogue also underscored that Member States at the level of governance should establish clarity on the core functions and the absolute advantages of each entity to determine, through an interactive process, how these functions would be most logically funded.

Consensus at the governance level on the core functions and funding requirements of entities, and subsequently, the system as a whole, should become the foundation for effective medium and longer-term positioning of the UNDS in an SDG world. It is ultimately up to the individual entities and the UNDS as a whole to make the case for what and why contributors should provide resources and in what fashion.

Some entities have developed good practices in this area. In both IFAD and WHO, the structured dialogues have served as a vehicle for regular consultations among Member States and the senior management on issues related to reform of the organizations. Integral to the IFAD and WHO experiences has been a concerted effort to increase the ownership of Member States of the strategic plans and resources frameworks and related decisions at the level of governing bodies.

Other UN entities may wish to follow and build on some of these good practices. This could include, but not be limited to, conducting a thorough review of progress in implementing the work programme of an entity in the previous cycle; identifying emerging strategic issues; agreeing on objectives that should guide the new planning cycle; determining resources mobilization targets, including quality of funding, as well as the most appropriate mechanisms for delivery, and where relevant, proposals for burden-sharing among Member States; and ensuring logical attribution of costs, including full cost recovery.

33 The DESA 2015 HQ survey revealed that 68% entities engaged in a structured financing dialogue in 2014.
The structured dialogues will also need to explore innovative options towards mobilizing significant additional resources to supplement traditional ODA. The potential of innovative financing mechanisms presents a critical opportunity for the UNDS to reshape its approach to financing its programme of work, thereby enhancing the impact of the limited traditional funding it receives. UN entities need to work with each other to share knowledge and best practices with innovative funding mechanisms, and also to take into account the experiences of other multilateral institutions. In this regard, it will be essential to develop tools that are able to measure the volume of additional resources that the UNDS is able to leverage and direct towards the SDGs in order for Member States and other stakeholders to fully understand and appreciate the impact and relevance that the System has.

Given the importance and potential of such dialogues, it may be beneficial to schedule the dialogues in between Executive Board sessions. The dialogues also need to be integrated, transparent and inclusive by creating opportunities to involve and engage non-traditional state and non-state actors.

6. CONCLUSION

The Addis Ababa Action Agenda underlined the important role and comparative advantage of an adequately resourced, relevant, coherent, efficient and effective UN system in supporting the realization of the 2030 Agenda. The UNDS has a particularly important role to play in the new SDG era in supporting Member States to implement global norm and standards, providing thought-leadership, support to national development, engaging in humanitarian and crisis operations, supporting global and regional policy development and addressing global challenges that require collective action.

For UN entities to play this role effectively, delivering demand-driven results at country level that are tailored to national needs, more flexible and predictable funding will be crucial. This will also require reassessing the UNDS’ physical presence at country, regional and global levels to maximize value for money.

As highlighted in this report, the current funding trends are for the most part moving in the opposite direction towards reduced flexibility, less predictability and more fragmentation of resources. There is some overlap and duplication among the activities of UN entities, and the potential of identifying and implementing innovative approaches capable of leveraging additional resources to support development objectives in an integrated manner with other development actors is far from being realized. If the UNDS continues to depend primarily on its ability to combine short-term project- and sector-targeted funding as best it can to support the delivery of the SDGs, the relevance of the UNDS may be at risk.

Addressing this risk is a shared responsibility of Member States and the UNDS. The ECOSOC Dialogue on the longer-term positioning of the UNDS clearly indicated that the system needs to build trust and confidence with Member States by enhancing its transparency and accountability; strengthening its effectiveness, coordination and coherence; bolstering efficiencies through common, simplified planning, programming, operational and reporting policies, instruments and practices, and rethinking differentiated models of presence that respond to country needs, priorities and capacities with more collaborative arrangements, joined-up operational capacities and assets that build on different entities’ strengths; rethinking its presence and support in a manner that is flexible, tailored to countries’ strengths, priorities and capacities; enhancing partnership approaches by leveraging the strengths of all players and moving from funding to integrated financing strategies. For their part, Member States need to provide coherent guidance in their
governance of individual entities and the system as a whole, including by increased ownership of the strategic plans, and better alignment of their financial contributions to the results outlined in these plans.

The SDG world requires a UN development system that thinks, plans and operates as one, supported by enhanced governance, partnership, and funding that enable the system to deliver on the promise of the integrated 2030 Agenda that will leave no one behind.