

Issues Note – ECOSOC 2010 Operational Activities Segment

**Funding of UN operational activities for
development: Challenges and best practices
at the country level**

12 July 2010, New York

Development Context

- 79 million people increasing 2 million pa.
- 170/177 on HDI
- All Human Development indicators are below sub Saharan Africa
- Average 4.5 hours walk to all weather road
- Climatically vulnerable; 8-13 m food insecure
- Located in politically volatile geography thus faced with many challenges

Government Policies

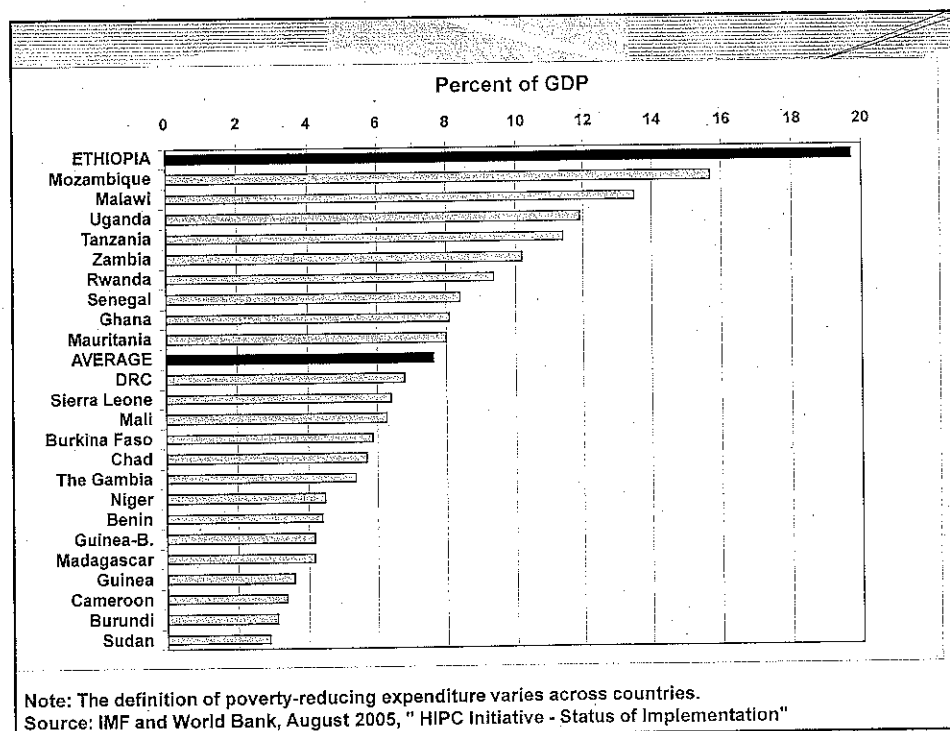
- Strong ownership: clear vision
- Well developed sectoral policies and strategies
- Capacity building given much emphasis
- Strong Poverty focus 60% of annual budget
- Good macro economic management; though challenged with problems on inflation and balance of payments but now stabilized
- Ambition: middle income status 20 years
- Developmental State ideology:
- Public sector investment led

Overview of Recent Macroeconomic Performance

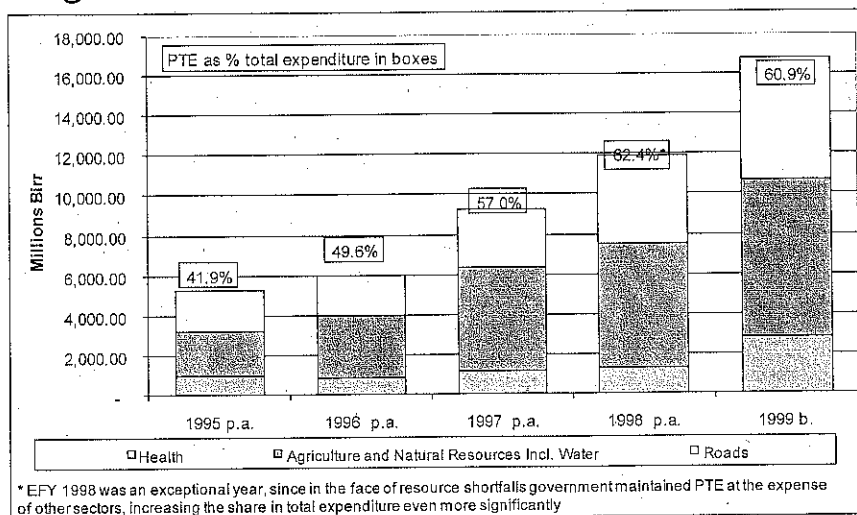
- The PASDEP growth Targets of 7% has been surpassed and performance so far has been according to the High Scenario;
- The economy has shifted to a higher growth trajectory in 2003/04 and that has been sustained since then;
- It has witnessed an annual average real GDP growth rate of 11.2 % during the last four years ending in 2008/09;
- During this period (2005/06 to 2008/09), agriculture, industry and service sectors registered average annual growth rate of 8.5%, 10.2% and 14.7%, respectively;
- The agricultural sector has continued to contribute the lion's share to economic growth;
- However, the recent expansion has been broad based with significant contribution from manufacturing, construction and service sectors;

Growth & Poverty

- Eliminating poverty has still remained the number one priority of government;
- Levels of income poverty can only be accurately measured every five years with the regular HICE and WM surveys;
- The data available up to 2005 suggests a strong decline in poverty rates in rural areas, with a slight increase in urban poverty levels. It also shows that levels of nutrition among children have been getting steadily better over time.
- The next Household Income Consumption Expenditure Survey is to be conducted in 2010/11, but the macroeconomic data suggest that average incomes have gone up by about 27% in real terms since the issuance of PASDEP.



Increasing government spending on poverty targeted sectors



MDG Progress

| | |
|---|-------|
| 1. Poverty and Hunger (income poverty/food security) | ○ ○ |
| 2. Universal Primary Education | ○ |
| 3. Gender Equality and Women's Empowerment | ● |
| 4. Reduce Child Mortality | ○ |
| 5. Improve Maternal health | ● |
| 6. Combat HIV/AIDS, Malaria and other diseases (Hiv/Malaria/TB) | ○ ○ ○ |
| 7. Ensure Environmental Sustainability (resource dep/water/slums) | ● ○ ○ |
| 8. Global Partnership for Development (resource Com/donor harm, and relationship) | ● ○ |

Donors

- 20 bilateral donors, 3 multilateral donors plus 25 UN agencies
- Total ODA risen sharply in last 8 years
- \$2.5 billion 2008
- Underaided \$28 per capita (75% SSA)
- Aid about 24% of budget
- Humanitarian aid still 30-50%
- Emergence of non traditional donors: China/India

Aid Modalities/Instruments

- ☐ Protection to Basic Services (PBS)
- ☐ Pool Fund
- ☐ Technical Assistance
- ☐ Programme Support
- ☐ Project Support
- ☐ Food Aid

Aid Modalities Cont'd

| Donors | Grants | Loan | Program Support | Project Support | Food Aid | PBS | TA Assistance |
|----------|--------|------|-----------------|-----------------|----------|-----|---------------|
| EU | ✓ | | ✓ | ✓ | ✓ | ✓ | |
| UNDP | ✓ | | ✓ | ✓ | | | ✓ |
| UNICEF | ✓ | | ✓ | ✓ | | | |
| WFP | ✓ | | ✓ | ✓ | ✓ | | |
| Other UN | ✓ | | ✓ | ✓ | | | ✓ |
| IDA | ✓ | ✓ | ✓ | ✓ | | ✓ | |

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Aid Modalities Cont'd

| Donors | Grants | Loan | Program Support | Project Support | Food Aid | PBS | TA Assistance |
|--------|--------|------|-----------------|-----------------|----------|-----|---------------|
| ADB | ✓ | ✓ | ✓ | ✓ | | ✓ | |
| EIB | ✓ | ✓ | | ✓ | | | |
| OPEC | ✓ | ✓ | | ✓ | | | |
| NDF | ✓ | ✓ | | ✓ | | | |
| BADEA | ✓ | ✓ | | ✓ | | | |

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Channels of Aid Flow

Channel 1: Donors release funds to MoFED (treasury)

A. From treasury funds will be allocated to any activity

B. From treasury funds transferred to specific program (earmarked)

Channel 2: donors through sector ministries to implementers (programme approach)

Channel 3: From donors directly to implementers (project approach)

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The UN in Ethiopia

- Largest UNCT in Africa
- 25 Resident and UN Agencies
- Annual Expenditure of \$ 1 Billion
- Over 2000 staff
- Leading on Humanitarian Response
- **STRONG GOVERNMENT LEADERSHIP**

***1. The most important
Advantages/ Disadvantages of
current
Core/ Non – Core funding mix
for programme countries***

1.1. Core Sources

1.1.1. Advantages: Core Sources –

- are pre-predictable and can be planned ahead of time
- Are highly aligned to the country's PRSP and development plans
- Are focused on the mandates of Institutions
- can easily be aligned to the sector plans and priorities

Advantage Cont'd

- Are secured and useful to effectively allocate resources
- Are more flexible within the mandates of the agencies
- They are more aligned to national needs and priorities
- There is less paper work and transaction cost to convince donors and to plan and implement programmes (compared to non-core resources)
- Being focused, core sources help to easily understand our scope and limitations

1.1.2. Disadvantages: Core Sources –

- Are limited in terms of addressing development needs
- Resources are overstretched (allocation of resources for several programmes/ Interventions across the nation that limits visibility of outcomes)
- Lack flexibility in terms of aligning to national programs
- country offices have limited power to use flexibility
- The new UN harmonization process is not well implemented

Disadvantage Cont'd

- The global harmonization processes has rather been introduced to satisfy the agencies' needs
- The HACT and other management rules have inherent inefficiencies and transaction costs
- There are severe technical assistance limitations
- Fund flow mechanisms are not efficient and effective – There is delay in fund transfer resulting delay in Implementation and reporting

1.2. None Core Resources

1.2.1. Advantages: None Core Resources –

- Supplement the already existing limited resources
- In most cases, resources are concentrated on given programmes and have better visibility of outcomes
- Help to address emerging issues

1.2.2. Disadvantages: None Core Resources –

- Are unpredictable and off budget
- Have too much paper work and transaction cost to plan and implement
- Sometimes overlap with existing interventions supported by other donors (UN Agencies)
- Focus on donors' interests and difficult to focus on the mandates of Institutions
- Are not consistent with national needs and priorities
- Are difficult to align to the national plans

Disadvantages Cont'd

- Are difficult to transfer using the usual fund transfer modalities
- Do not have fixed time or fiscal year to allocate and implement and therefore, are difficult to align and follow up
- Are more of supply driven
- Are mostly implemented by agencies' rules and regulations and have high transaction costs

Disadvantages Cont'd

- Non Core Resources are mostly mobilized by the agencies and Involvement of the countries in resource mobilization is very limited
- Non-core funding has implication of tied aid. The conditions set by donors or MDTFs to release funding, (i.e. only if the programme is designed as per the specific sector and contents of the donor and MDTFs), is another way of tying aid.

II. Advantages/ Disadvantages of thematically or sectorally earmarked Non-Core contributions (pool funding, multi-donors trust funds)

2.1. Advantages

- Pool funding helps the UN/ donors to agree on one set of procedures and harmonize all of donors' requirements and procedures
- It reduces burden on countries or sector institutions in terms of planning, implementations, monitoring and evaluation, coordination and communication
- It avoids fragmentation with too many similar, parallel and small interventions which may have very low impact, huge administrative cost on agencies and high transaction cost on the countries and implementing partners

Advantages Cont'd

- It enhances mobilization of expertise of different UN Agencies to work together (e.g. MDG Spain Fund, DIP, MDG achievement fund)
- In Ethiopia, pool fund mechanism is being adopted with huge resources including Protection of Basic Social Services (PBSS), Public sector Capacity Building (PSCB), Productive Safety Net Programme (PSNP), General Education Quality Improvement Programme (GEQIP) and Democratic Institutions Programme (DIP)

Major Joint Programmes in Ethiopia

| Programme | Channel | MUSD value per year | UNpartners | Goals |
|--------------------------------------|---------|---------------------|--------------------|---|
| Protection of basic services | 1 | 600 | None | Budget support for social sector |
| Public Sector Cap building programme | 2 | 220 | None | Build civil service |
| Productive Safety net Programme | 2 | 400 | WFP | Protection assets of the poor |
| GEQUIP | 2 | | None | Education quality |
| Agriculture support programme | 2 | | FAO | Boost smallholders; fertilizer, extension workers |
| Health sector development | 1 & 2 | 1200 per year | UNICEF, UNFPA, WHO | Sector support to health sector |
| Water | 1 & 2 | | UNICEF | |
| Humanitarian | 2 | 270 | UNICEF OCHA | Social Protection |

Advantages Cont'd

- Our experience shows that these pool funding mechanisms are very rewarding in terms of bringing many partners together in harmonized manner with huge resources and high impact on development results

2.2. Disadvantages

- Pool funding mechanism adopts one set of rule and regulation usually the rules of lead agency. Examples PBS, PSCAP, PSNP – use World Bank procedures, DIP uses UNDP procedure. Then if the lead agency procedure is cumbersome or the relation with the lead agency is not good, it will have serious implication in terms of implementation of programmes. All other donors will be tired up regardless of their willingness to disburse resources to the country.

Disadvantages Cont'd

- Pool funding mechanism tends to slow down donors and development partners from using the national systems as they are using the lead agencies rules and regulations.
- It has too much paper work and transaction costs (time, indirect support cost at different levels) to plan and implement.

III. Extent of involvement of programme countries in decision making on funding of the UN system

- The extent is high as pooled funds have a better chance to be linked to nation wide sectoral funds, SWAP, etc.
- The Ethiopian government has highly involved in the allocation of the core resources to the programs
- The involvement of the country in the allocation and decision on the utilization of the non core resources is very limited as it has been specified in the agreement between the donor and the UN MoU.