

ISSUES NOTE – ECOSOC 2010 OPERATIONAL ACTIVITIES SEGMENT

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

(3:00 – 5:00 p.m., 12 July 2010, New York)

I. Background

The United Nations (UN) is a pivotal multilateral provider of development-related and humanitarian assistance and by far the largest multilateral partner of OECD/DAC member governments, receiving 36 per cent of their overall contributions. The relevance and impact of the UN in responding to global development and humanitarian needs hinges on, among others, the scale, flexibility, and predictability of funding it receives.

In the 1993-2008 period, total increase in contributions for UN operational activities for development outpaced the OECD/DAC ODA flows, but the UN system continues to face significant challenges in term of funding quality. The un-earmarked core resources that serve the core mandate of the UN have not benefited proportionately from the overall significant funding growth in this period. In real terms, core funding grew 5 per cent as compared to 198 per cent for the earmarked non-core funding, resulting in a diminishing share of the core budget, currently levelled off at around 29 per cent. This overall trend is mirrored at country level by an exponential growth of programmes and projects attributable to specific donors' financing (e.g. in the case of single donor programme/project specific financing) or a group of donors (e.g. in the case of pooled funds), with significant impact on transaction costs, if not subject to full cost recovery.

In spite of the increasing diversification of UN's donor base due to the growing significance of global funds, civil society organizations and the private sector, the UN continues to rely on a relatively small group of donor options for its operational activities. In 2008, a group of 13 DAC member governments account for over half of the total funding for development-related operational activities (more than 70 per cent of core contributions, and over 40 per cent of non-core resources). Individual UN funds and programmes have also seen a shrinking donor base over the past decade. The narrow donor base might make the UN system more susceptible to fluctuations

Reducing transaction costs, thereby maximizing expenditures on country-level programmes remains an important task. In 2008, 34 per cent of development-related funding and a quarter of overall expenditures on operational activities (including funding of humanitarian assistance) were not spent at country level. Programme expenditures at regional and country level altogether accounted for 69 per cent of core contributions and 91 per cent of non-core funding. This suggests that core resources appear to be covering a higher share of institutional costs of UN entities compared to non-core funding.

A number of innovative funding mechanisms have been put in place by UN system organizations to ensure alignment non-core funding with their strategic priorities, broaden the donor base and improve predictability and sustainability. Multi-donor trust funds (MDTFs) and thematic funds are being promoted as funding mechanisms to channel and leverage resources in an effective and coordinated way in support of UN system-wide development efforts or a specific agenda in line

with agency's priorities. The multi-year strategic plans have become a mainstreamed instrument to address unpredictability. Other innovations include the UNEP Voluntary Indicative Scale of Contributions (VISC), which is regarded as a 'best practice' to improve the predictability and adequacy of resources for those UN system organizations facing uncertain core funding¹ and integrated resources mobilization frameworks combining both core and non-core resources as applied by some specialized agencies.

MDTFs, compared to other pooled funding mechanisms are assuming growing importance in quantitative terms. As of May 2010, the UNDP multi-donor trust fund Office was administering 34 inter-UN agency MDTFs. The amount of contributions invested in these funds total some US\$4.4 billion. Several of these funds are Delivering-as-One related. The MDG Fund and the One UN Funds have played a notable role in counterbalancing fragmentation in the UN development system. The MDTFs are also being used to address various humanitarian, recovery, reconstruction and development challenges that have emerged at the country-level.

Thematic contributions remain a tiny source of funding for entities of the UN development system, except UNICEF. This form of contributions, however, may be considered the most attractive form of funding after regular resources and/or voluntary core funding, because such support is aligned with the strategic goals and priorities of the respective UN entity, while allowing for longer-term planning and sustainability.

The funding challenges faced by the UN may fare differently for programme countries. The current mix of core and non-core funding comes with significant transaction costs, but it also increases programme countries' access to donors' funds in the context of decentralized development cooperation. Shifting non-core resources to core funding, for some countries may cause an overall reduction of resources made available to them by bilateral and multilateral donors at country-level. Improvements on the current UN funding architecture therefore should take into consideration the impact on programme countries.

The pooled funding mechanisms represent preferred non-core funding modalities for the UN system. However, there is scope to improve the effective use of such modalities. For example, the MDTFs in some cases have not been able to respond to the contingency needs due to the stringent fiduciary requirements. Ensuring a balance between responsiveness and necessary fiduciary oversight should be resolved. There are also repeated calls for improving programme countries' impact on country-level funding allocation.

II. Objective

This session aims to achieve following objectives: (a) assess the pros and cons of the current funding architecture and practices of the UN system from the perspectives of programme countries; (b) share experiences with regard to the financing and management of country-level pooled funding mechanisms, notably the MDTFs; (c) improve understanding of donor policies and strategies in

¹ VISC has an indicative amount of contributions for each member state which is invited to contribute according to the amount. The amount is developed on the basis of UN scale of assessments and some other factors.

financing UN operational activities for development; (d) apprise the Council of recent findings of the Secretary-General's statistical analysis; and (e) come up with action-oriented recommendations to address the funding challenges faced by the UN, bearing in mind programme countries' needs. The session will build on the discussions held in the context of the General Assembly informal consultations on system-wide coherence.

III. Suggested questions

The panel will start with presentations by panelists, followed by questions and answers. Panelists are encouraged to limit their presentations within 7 minutes. Participants should likewise limit their interventions to three minutes and refrain from reading written statements. The following questions could guide the discussion:

1. What are the most important advantages/disadvantages of current core/non-core funding mix for programme countries?
2. What are the advantages of thematically or sectorally earmarked non-core contributions (pooled funding, Multi-Donors Trust Funds (MDTFs)? What are the challenges in making better use of the pooled funding mechanisms?
3. To what extent are programme countries involved in decision-making on funding of the UN system, e.g. pledging conferences concerning core funding, MDTFs, and other non-core funding mechanisms?