

# ECOSOC Dialogue on the longer-term positioning of the UN development system in the context of the post-2015 development agenda

## Background Note

## Workshop 2 - Funding

Office for ECOSOC Support and Coordination  
Department for Economic and Social Affairs  
United Nations

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## 1. Introduction

The aim of this background note for the second workshop in the ECOSOC Dialogue series is twofold: firstly, to provide an overview of the evolution of funding of UN operational activities for development (UN-OAD)<sup>1</sup> and, secondly, to examine the possible implications of the post-2015 development agenda on funding practices in the UN development system.

UN-OAD are funded by a combination of core and non-core resources. Core resources are those that are commingled without restrictions and whose use and application are directly linked to the entities' multilateral mandates and strategic plans that are approved by the respective governing bodies as part of an established intergovernmental process. The specialized agencies receive assessed contributions, the funds and programmes voluntary core resources, and in the case of IFAD, negotiated pledges for a three-year period.

Non-core resources, in contrast, and as determined by the contributors, are mostly earmarked and thus restricted with regard to their use and application. This means that there may not be a direct link between activities financed by non-core resources and the multilateral mandates and strategic plans approved by governing bodies. In some instances governing bodies formally approve the use of core resources while "taking note" of the use of non-core resources. UN entities receive non-core funding in several forms: (a) single donor, programme and project-specific funding, (b) local resources from governments for activities in their own country, and (c) through pooled mechanisms, ranging from global, regional and local.

Total funding for UN system-wide activities in 2013 reached \$42.6 billion, of which peacekeeping operations accounted for about 18 per cent and global norm and standard-setting, policy and advocacy functions accounted for another 19 per cent. The remaining 63 per cent, or \$26.4 billion, were spent on UN-OAD, of which 63 per cent was for longer-term development-related activities while 37 per cent was focused on humanitarian assistance. Total UN-OAD, in 2013, accounted for some 29 per cent<sup>2</sup> of direct multilateral ODA, 19 per cent of total global official development assistance from DAC countries and 13.5 per cent of total development cooperation flows.<sup>3</sup> Some 88 per cent of total contributions for UN-OAD in 2013 were received by 10 entities, with three organizations (WFP, UNDP and UNICEF) accounting for over half of total contributions.

Both funding for UN-OAD and global ODA reached their highest volumes ever in 2013, yet these totals represent only a small share of overall global financing. Recent estimates have international resource flows to developing countries in 2012 reaching close to \$2 trillion (see Figure 1).<sup>4</sup> The largest of these flows are foreign direct investments which total roughly \$500 billion per year. Migrant remittances are

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<sup>1</sup> UN-OAD are activities that UN entities carry out with the promotion of development as the primary objective. These activities cover both longer-term development-related activities as well as those with a shorter-term humanitarian assistance focus.

<sup>2</sup> Source: A/70/62-E/2015/4, para 26.

<sup>3</sup> For the purpose of this paper the term "development cooperation" is considered to include official development assistance (ODA), South-South development cooperation and financial flows from private philanthropic organizations, the private sector and through innovative financing mechanisms to support the economic, environmental and social development of developing countries. The UN Secretariat has estimated that such private flows amounted to \$25 billion in 2010 and South-South development cooperation ranged between \$16.1 and \$19.0 billion in 2011. ODA from DAC and non-DAC countries in 2013 was \$135.1 billion and \$16.3 billion, respectively.

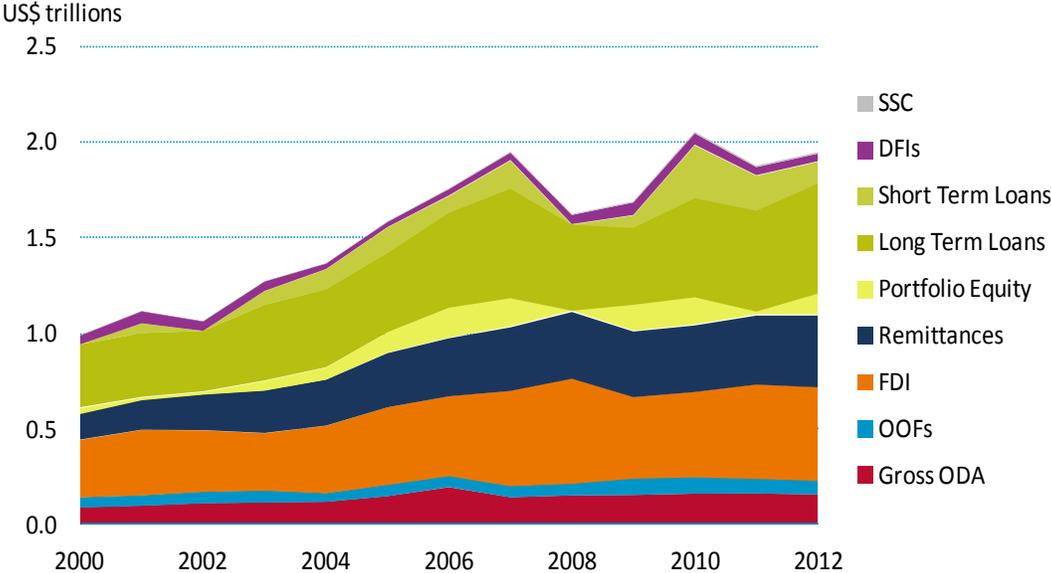
<sup>4</sup> Source: Update from Investments to End Poverty (2013).

another major flow reaching close to \$400 billion in 2012. Total international resource flows to developing countries have doubled in volume since the adoption of the Millennium Declaration in 2000, growing annually by 5.8 per cent on average. Official development assistance and funding for UN-OAD, accordingly, has fallen as a share of total international resource flows to developing countries, comprising about 7 and 1.3 per cent, respectively, in 2013.

In terms of directing aid to the poorest and most vulnerable people, ODA and funding for UN-OAD can have significant impact as these flows are generally more targeted towards development objectives such as the Millennium Development Goals (MDGs). In comparison, two-thirds of foreign direct investment flowed to just 10 countries in 2012<sup>5</sup>, most of which were upper middle-income countries. Importantly, overall, only 6.4 per cent of the increased volume of international resources in the 2000 to 2012 period went to the least-developed countries. ODA, therefore, still represents a significant portion of the total international development financing flows to the poorest and most vulnerable countries. In total, ODA represented the largest flow in 33 low-income countries in 2012, accounting for some 41 per cent of total international financing flows in these countries.<sup>6</sup>

Domestic resources have also grown rapidly since 2000, or by 8.6 per cent on average annually in real terms, to reach an estimated \$6.4 trillion in 2012. The majority of this growth has been in upper-middle income countries; however the growth has also been widespread with over half of all developing countries experiencing, on average, a 5 per cent annual increase rate in domestic resources, making this the largest source of financing for the realization of national development plans in developing countries.<sup>7</sup>

**Figure 1 International resources flows to developing countries, 2000-2012**



<sup>5</sup> In order of FDI receipts these are: China, Brazil, Chile, India, Indonesia, Colombia, Kazakhstan, Mexico, Argentina and Turkey.

<sup>6</sup> Source: Improving ODA allocation for a post-2015 world.

<sup>7</sup> Source: Improving ODA allocation for a post-2015 world.

## 2. Evolution of funding of operational activities of the UN system

### The early years to 1980s

When the UN was established in 1945 there was no provision in the regular budget for technical assistance. In 1948, the General Assembly (GA) decided to appropriate funds under its regular budget to enable the Secretary-General to supply teams of experts, offer fellowships, and organize seminars to assist national development projects at the request of governments. About the same time, many of the specialized agencies had begun to undertake similar projects.

It soon became apparent that the regular budget would not be enough to meet demand and in 1949 a General Assembly resolution authorized the establishment of the Extended Programme of Technical Assistance (EPTA) to assist developing countries. EPTA was funded by voluntary contributions and the administration of EPTA was carried out by UN Secretariat units: the Technical Assistance Administration (1950-1958) and DESA (1959-1965).<sup>8</sup> UNICEF, established in December 1946 to meet the emergency needs of children in post-war Europe and China, had a modest humanitarian programme only and was not considered to belong to the 'development' club.<sup>9</sup>

In 1958, the General Assembly decided to set up a new institution known as the Special Fund that would run along similar lines as EPTA. The Fund acted as a multilateral channel for voluntary contributions for pre-investment projects and as a coordinating centre for the work of various UN agencies. Where practical, the Special Fund would concentrate on relatively large projects in order to avoid fragmentation in resource allocations. From 1959 to 1965, an average of \$60 million per year in contributions were pledged to the Special Fund (\$447 million in 2012 US dollars<sup>10</sup>), of which close to 90 per cent came from developed countries. A further \$54 million in contributions were pledged to the EPTA in 1965 resulting in voluntary contributions towards UN technical assistance at that time reaching approximately \$114 million (\$850 million in 2012 US dollars).<sup>11</sup>

The 1960s proved to be a turning point for global development cooperation as decolonization led to the establishment of many new independent states. A wide range of UN bodies such as specialized agencies, funds, programmes, regional commissions and Secretariat entities were also established in the 1960s, which led to significant expansion in UN operational activities in the newly emerging states.<sup>12</sup>

*The 1960s, the era of decolonization, marked the first major growth period for the UN development system, which included the establishment of a large number of new entities*

In the early years, the technical assistance priorities of programme countries had been determined by the specialized agencies of the UN system, which also executed the respective country cooperation programmes. However, in 1966, EPTA and the Special Fund were merged in a single entity, UNDP, in order to pool resources together, simplify procedures and planning and reduce administrative costs and duplication of efforts. UNDP, as a result, became the central funding organ for all technical assistance

<sup>8</sup> Source: <http://atom.archives.unesco.org/united-nations-extended-programme-of-technical-assistance;isaar>.

<sup>9</sup> Source: <http://www.unicef.org/sowc96/1960s.htm>.

<sup>10</sup> Using OECD/DAC deflators which take into accounts inflation and exchange rate movements.

<sup>11</sup> Source: Olav Stokke, 2009. The UN and development: From aid to cooperation.

<sup>12</sup> Among the new entities was UNCTAD, established in 1964, to discuss issues related to international trade, an institutional development which subsequently led to the creation of the Group of 77 (today, the Group has 131 members).

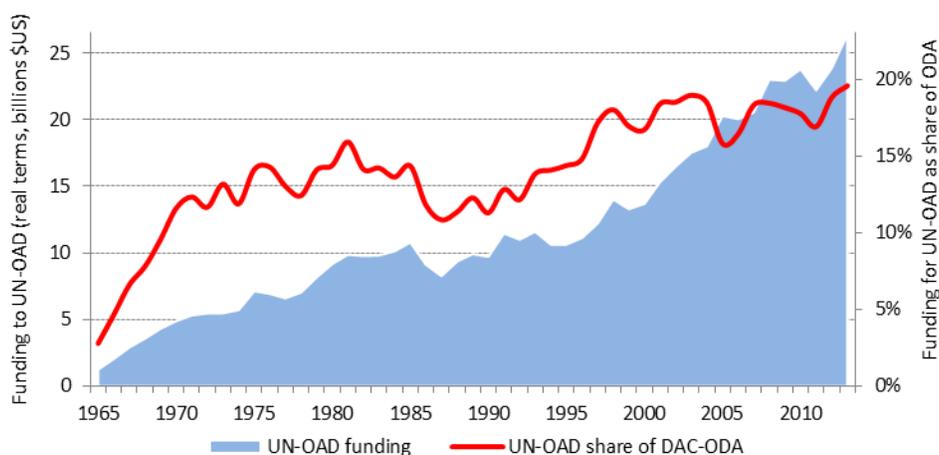
within the UN system. The establishment of UNDP also marked a major change in the definition of country priorities for operational activities. Previously, the specialized agencies had performed that role, but governments in the newly emerging states now increasingly demanded to set technical assistance priorities themselves.

The 1970s brought about a new climate of development thinking. Development analysts concluded that since economic growth did not automatically eliminate poverty, development must include measures that specifically target the poor. In 1970, the General Assembly set a target of 0.7 per cent of Gross National Income of developed countries as official development assistance, making ODA an international obligation for the first time.

By the end of the 1970s, voluntary contributions to UNDP reached \$680 million<sup>13</sup> and another \$2.4 billion in contributions were received by other UN entities. This included UNICEF, UNFPA, WFP as well as assessed and extra-budgetary<sup>14</sup> contributions to specialized agencies. This meant that total funding for UN-OAD stood at an estimated \$3.1 billion in 1979 (or \$8.2 billion in constant 2012 US dollars), which represented some 14 per cent of total ODA from DAC countries at the time (see Figure 2).

During the 1980s, funding for UN-OAD increased from \$3.1 billion to \$5.6 billion. Due to high inflation throughout most of the 1980s, this corresponded to a modest average annual growth rate in real terms of 2.0 per cent. In contrast, the real growth rate of ODA during this decade was 3.2 per cent annually, resulting in a declining share of UN-OAD of total ODA for the first time (see Figure 2). The vast majority of funding for UN-OAD at this time was still in the form of core/un-earmarked contributions and subject to formal governance review at the intergovernmental level.

**Figure 2 Real change over time in funding of UN-OAD and as share of ODA, 1965-2013**



### The end of the Cold War, global conferences and the Millennium Development Goals

In the 1990s, funding for development cooperation, contrary to most expectations after the end of the Cold War, experienced for the first time in many decades negative real growth. While ODA decreased by

<sup>13</sup> Source: Annual review of the financial situation: 1979, DP/490, 21 April 1980

<sup>14</sup> To avoid double-counting, this includes only the \$254 million in extra-budgetary contributions from bilateral sources and from multilateral sources other than UN funds and programmes.

some 10 per cent in real terms during the 1990s, total funding for UN-OAD increased (see Figure 2). The end of the Cold War and a growing number of countries in conflict and humanitarian situations contributed to this increase in UN-OAD during the 1990s.

Until the early 1990s, the vast majority of funding for UN-OAD was in the form of core/unrestricted funding, as mentioned earlier. This was true for specialized agencies with assessed contributions as well as for the funds and programmes which relied on voluntary contributions. The increase in

*In 1997, non-core funding exceeds core resources to the UN development system for the first time.....*

funding for UN-OAD in the 1990s was entirely due to a significant increase in non-core resources and in 1997, non-core funding exceeded core contributions for the first-time. The absolute volume of core resources, in fact, has grown very little since the 1990s. The stagnant growth in the level of core funding for UN-OAD applies to UN entities that rely entirely on voluntary contributions such as the funds and programmes as well as the specialized agencies that receive assessed contributions.

The early-1990s also saw continued erosion in the coordination and funding role of UNDP, which meant that the specialized agencies and other entities increasingly had to mobilize resources directly from donor countries for operational activities. The practice of executing development cooperation projects by the specialized agencies, established in 1966, also came finally to an end in 1995 when UNDP redefined its role in development cooperation.

### The arrival of the MDGs marks rapid growth in non-core funding

The arrival of the MDGs in 2000 further accentuated the trend towards non-core funding of UN-OAD. This period also saw a major increase in funding for humanitarian assistance and conflict resolution and recovery in transition countries, which was mainly non-core in nature. Funding also became more targeted towards specific development goals. Non-core funding therefore continued to increase rapidly while core funding remained stagnant.

*.....a funding trend that has continued in the new century with the arrival of the MDGs*

Figure 3 shows that non-core funding for longer-term development-related activities have increased by 135 per cent since 1998 compared to an increase of just 12 per cent in core funding over the same period. Overall, core funding for operational activities has increased by 10 per cent, in real terms, in the 1998 to 2013 period, while non-core funding has grown by 149 per cent, also in real terms. Total contributions for operational activities have increased by 88 per cent, or nearly doubled in real terms in this period.

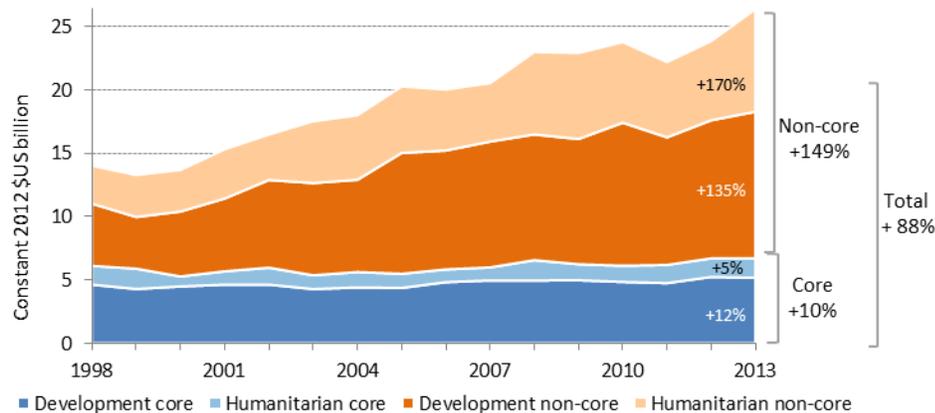
Since 1998, and in real terms, assessed contributions to specialized agencies have increased by 2 per cent while voluntary core contributions to other UN entities have increased by 13 per cent. In comparison, the Gross National Income (GNI) of OECD/DAC member countries increased by 30 per cent in real time over the same period. This, in part, led to increasing pressure on the UN development system to identify options for incentive mechanisms aimed at increasing core resources.

*Total funding for UN-OAD has nearly doubled in real terms in the 1998 to 2013 period*

The rapid growth of non-core funding for UN-OAD combined with stagnant growth in core flows means that currently nearly three-quarters of total funding for UN-OAD is in the form of non-core resources. These non-core flows are overwhelmingly single donor, programme- and project-specific (90 per cent of

operational activities for development in 2013). Programme priorities of UN entities are therefore now to a greater extent than before driven by the availability of funding rather than mandates and strategies set by agency-specific and system-wide governing bodies, as was the case before the 1990s.

**Figure 3 Real change in funding for UN-OAD, 1998-2013 (with % change since 1998)**



It has been argued that the rise in non-core funding was a natural by-product of the emergence of development cooperation tied to the MDGs, which has also led to the creation of new vertical funds.<sup>15</sup> While non-core funding can potentially distort programme priorities, it is also recognized that it has allowed UN entities to expand their activities beyond what would have been possible through core resources alone. New non-core pooled funding mechanisms were developed in an effort to counter-balance some of the negative aspects of single donor, programme and project-specific non-core funding on the overall effectiveness of the Organization in the delivery of operational activities in programme countries.

*The growth in non-core funding has enabled the UN development system to expand activities into new areas of work*

The major growth in non-core funding experienced in the 1990 to 2013 period has had significant implications for the UN development system. For example, having a significant increase in non-core financed projects also requires a larger core funding base to support. This is particularly true in the UN development system where the programme support cost rate for non-core funded projects may not cover all the costs associated with their administration and management.<sup>16</sup>

*The high growth in non-core funding has also brought to the fore the issue of cost recovery of programme support and management costs*

<sup>15</sup> See Jenks and Jones (2013).

<sup>16</sup> See A/68/97-E/2013/87, paras 94-107.

### (a) Review of sources of funding for operational activities

The past reports of the Secretary-General on funding of operational activities of the UN system have shown that the volatility in contributions from top donors can fluctuate considerably from one year to the next.<sup>17</sup> In order to enhance predictability and stability of funding it will be important for the UN development system to diversify its funding base thereby reducing its reliance on a few top donors. Some UN entities have already made considerable progress in this regard. UNICEF, for example, received some 28 per cent of its total funding and 48 per cent of core funding in 2013 from private sector donors. However, overall 73 per cent of total funding and 86 per cent of core funding for UN-OAD comes from government donors. Furthermore, 3 State donors<sup>18</sup> accounted for 41 per cent of all contributions by governments for operational activities for development in 2013 (see Figure 4). If the European Commission is included as a direct contributor, the top 4 donors accounted for 47 per cent of total funding from government sources. Contributions from non-OECD/DAC donors have increased in recent years and currently represent some 8 per cent of total government-funding for UN-OAD.

*The top 3 State contributors to the UN development system account for 41 per cent of total funding by governments*

**Figure 4 Contributions from State donors, 2013**

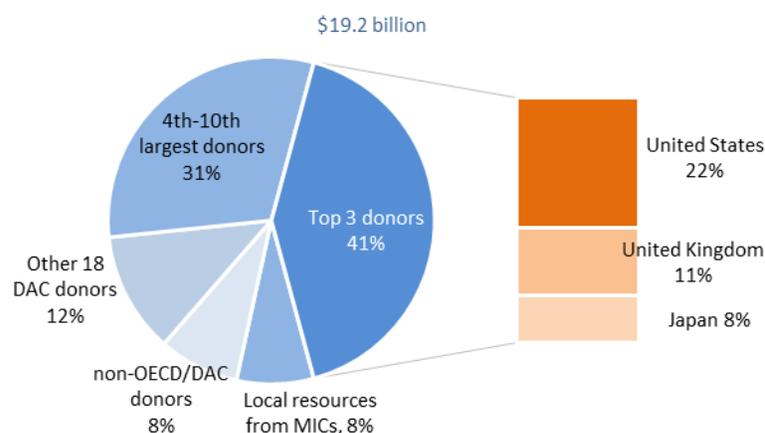


Figure 5 provides a summary of contributions to UN development-related activities by source and type of funding (core and non-core). It shows that contributions received directly from governments, including those of developing countries generally have a good balance between core and non-core. The core/non-core imbalance is therefore significantly driven by relatively new sources and channels of funding which were not prevalent prior to the 1990s, e.g. NGOs and private sector, local resources from governments for activities in their own countries, global funds, multi-donor trust funds and the European Commission.

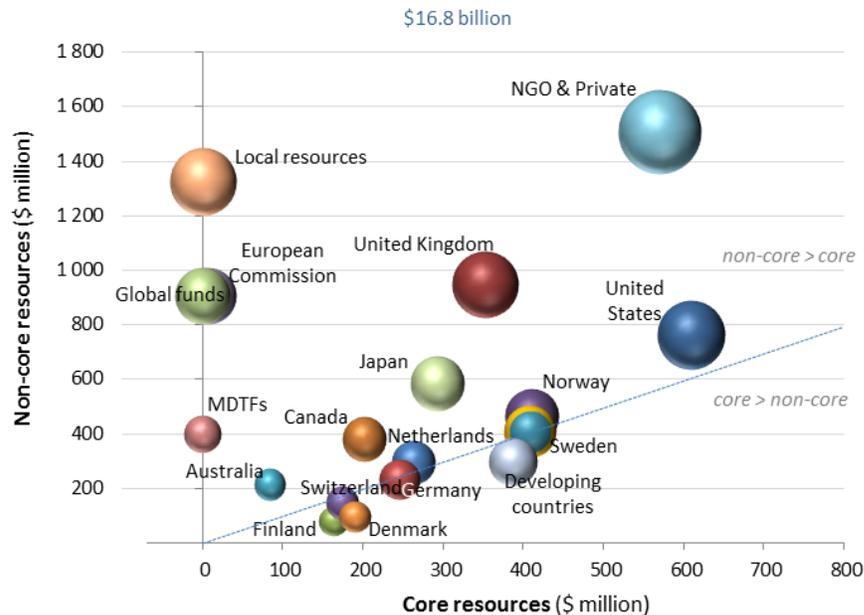
With regard to government contributions to development-related activities, there is less reliance on the top donors than for funding for UN-OAD in general (i.e. including humanitarian assistance). However,

<sup>17</sup> See, for instance, A/70/62-E/2015/4, paras 51-53.

<sup>18</sup> United States, United Kingdom and Japan.

the top 5 donors<sup>19</sup> still account for some 45 per cent of all government contributions to development-related activities.

**Figure 5 Main contributors to UN development-related activities, 2013**



### The use of pooled funding mechanisms remains limited in the UN development system

There are four types of pooled funding mechanisms used in the UN system focused on: (a) inter-agency pooled funds focusing on humanitarian coordination, (b) inter-agency pooled funds and joint programmes focusing on development activities, (c) agency-specific thematic funding and (d) national pooled funds.

The practice of inter-agency pooled funding mechanisms is fairly recent in the UN development system, starting with the UNDG Iraq Trust Fund in 2004. The objective of this MDTF was to enable donors to contribute to the UN system as a whole and coordinate their support for reconstruction and development activities in Iraq by relying on a transparent allocation mechanism to disburse resources in alignment with programme priorities and needs. Most inter-agency pooled funds are administered by either the UN Secretariat or the Multi-Partner Trust Fund Office (MPTFO) of UNDP.

*Funding for multi-donor trust funds and agency-specific thematic funds accounted for 10 per cent of total non-core contributions to the UN development system in 2013*

In 2013, contributions to UN inter-agency pooled funds stood at about \$1.5 billion, of which roughly 60 per cent was for humanitarian funds and 40 per cent for funds focusing on development coordination. While these resources are considered to be flexible they are earmarked to particular pooled trust funds and thus, by definition, also non-core.

<sup>19</sup> United States, United Kingdom, Japan, Norway and Sweden.

Agency-specific thematic funds also allow donors to contribute resources to specific areas of work identified in organizational strategic plans and goals, regions and programme countries. Thematic funding is therefore softly-earmarked non-core pooled funds and allows long-term planning, sustainability and savings in transaction costs. This funding mechanism is most notably used by UNICEF and UNFPA. Thematic funding for UNICEF’s 5 strategic plan focus areas was \$211 million in 2013, and thematic humanitarian action was an additional \$148 million. In UNFPA, \$238 million was mobilized through thematic trust funds in 2014. Together these thematic funds accounted for 10 per cent and 50 per cent of non-core resources received by UNICEF and UNFPA, respectively. In other entities such as UNDP, the bulk of thematic funding is provided at the country level. System-wide, however, the use of the thematic funding modality has generally been limited.

Both inter-agency pooled funds and agency-specific thematic funds are pooled resources and thus a more flexible form of non-core contributions. The emergence of these two types of funds can be seen as a result of efforts by the international community to promote enhanced aid effectiveness. However, these sources of pooled financing only accounted for some 10 per cent of total non-core funding for UN-OAD in 2013.

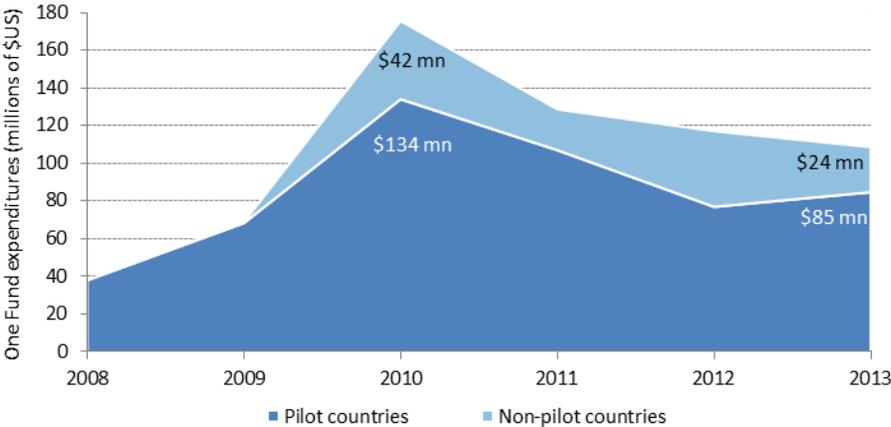
Currently, the MPTF Office administers more than 100 inter-agency pooled funds. In 2014, roughly 60 per cent of funding went towards development-related trust funds (of which about one-third were transition funds) and another 40 per cent of financing went towards humanitarian-focused trust funds.

**While resources for delivering-as-one funds are declining ...**

Included in the development-related trust funds are the “Delivering-as-One” (DaO) Funds, or simply “One” Funds. Expenditures through the One Funds peaked for in both pilot DaO and non-pilot DaO countries in 2010 at \$176 million. Since then expenditures through One Funds have declined by 38 per cent (see Figure 6).

*Funding for One Funds in DaO countries dropped between 2010 and 2013*

**Figure 6 One Fund expenditures in DaO countries (2008-2013)**



In December 2013, the UNDG established a ‘Delivering Results Together’ Fund (DRT Fund). The DRT Fund is designed to support countries applying the DaO approach by providing programme resources to

influence greater policy coherence by strengthening the integration of normative frameworks in DaO countries. As of April 2015, four donors have contributed \$27 million to this Fund.

A long-standing issue with the financing of MPTFs has been the small donor base. However, recent evidence suggests broadening of the donor base over the past 3 years. In 2014, the top 10 donors accounted for 78 per cent of all contributions to the MPTF Office compared to 2011 when the top 10 donors accounted for over 91 per cent of all contributions.

.....contributions to joint programmes are stable but limited .....

While not a separate type of third party pooled funding modality, joint programmes can be regarded as a form of pooling resources by UN entities at the next level. The Joint Programme supports a strategic vision, outlined in a Joint Programme Document with a well-defined results framework, work plan and related budget. The value of all stand-alone joint programmes are estimated to be around 200 million per year, or about 2 per cent of all non-core contributions to UN development-related activities.

..... and vertical funds have experienced steady growth

Global funds, sometimes referred to as vertical funds, have in the recent decade become a significant resource channel to the UN development system. They focus vertically on specific issues or themes and are special in that the fund administration function is carried out by an entity outside of the UN and the UN does not determine fund allocations; however, the UN entities are involved as fund implementers. These funds usually have their own funding, governance, trustee, policy and programming arrangements, with fund resources being earmarked for specific purposes. Thus, while global funds are a form of pooled funding, from the perspective of the UN, the funds are often tightly earmarked to particular projects.

*Global funds have become a major source of contributions to the UN development system*

Generally the global funds build partnerships between governments, civil society, the private sector and multilateral organizations. For instance, WHO, UNAIDS and the Bill and Melinda Gates Foundation are all members on the Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). In 2013, some \$930 million in contributions for development-related activities of the UN system came from global funds.

The largest of these funds are the GFATM, the Global Environment Facility (GEF) and the Vaccine Alliance (GAVI). The GFATM, for example, has become a leading funder of international health. It is a global partnership that includes governments, UN agencies, civil society, the private sector, local media, professional associations and communities living with or affected by the diseases. The GFATM respects the norm-setting functions of the UN as the broad policy reference for its work. Funding to the UN development system from these three global funds alone has increased by some 29 per cent since 2010.

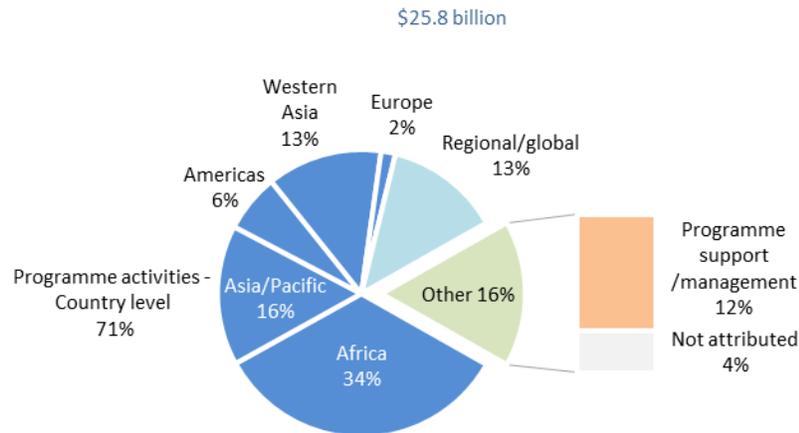
**(b) Destination of funding flows**

In 2013, total expenditures of UN-OAD was \$25.8 billion, of which 71 per cent, or \$18.5 billion, concerned programme activities at the country level. Figure 7 shows the regional breakdown of expenditures. About one-third of total expenditures and 48 per cent of programme expenditures at the

*The Africa region receives approximately half of country-level expenditures for operational activities*

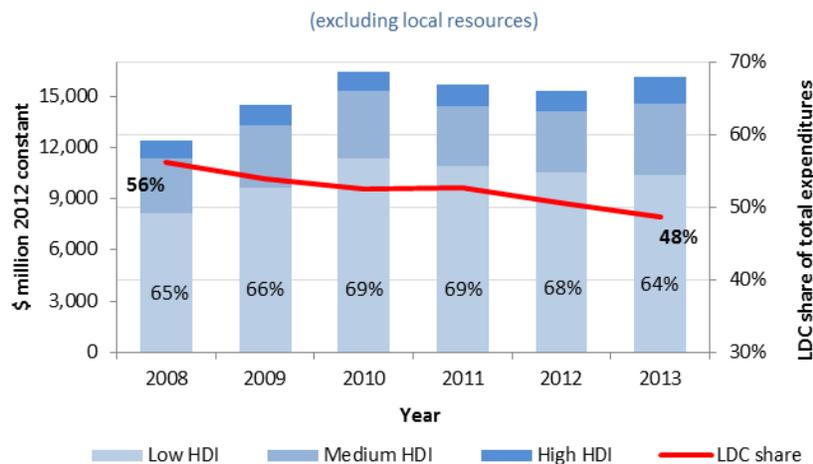
country-level were spent in Africa. The proportion of UN-OAD expenditures spent in Africa has remained fairly constant over the past decade, or around 50 per cent. Expenditures in the Western Asia have increased from \$1.9 billion in 2011 to \$3.3 billion in 2013. This trend can be attributed to a large increase in UN humanitarian activities in response to the crisis in Syria.

**Figure 7 Expenditures of UN operational activities by region, 2013**



Excluding local resources, some 48 per cent of UN-OAD expenditures, or \$8.4 billion were in least-developed countries (LDCs) in 2013 (see Figure 8). Another 6 per cent were spent in low-income countries which are not included in the LDC group. The proportion of UN expenditures in LDCs has seen a downward trend in recent years, largely due to higher humanitarian expenditures in non-LDCs. Only a slightly higher share, or 50 per cent, of expenditures financed from core resources are in LDCs. The figure also shows that close to two-thirds of expenditures are in programme countries with a low human development index.

**Figure 8 Expenditures of UN operational activities by country groups, 2008-2013**



### (c) Agency efforts to improve the quantity and quality of funding

As the funding architecture of UN operational activities has radically changed in the past two decades, most individual entities have responded by undertaking a review of their funding practices.

*Many UN entities have begun a strategic dialogue with their respective governing body to discuss how development results should be funded*

In 2012, WHO, for example, began undergoing extensive reform with the aim to improve the alignment, flexibility, predictability and transparency of its financing. A key part of this reform was a financing dialogue held in 2013 with Member States and key non-state contributors (see Box 1). WHO also recently set-up two new accounts for voluntary contributions to support their stagnant core/assessed budget. The “Core Voluntary Contributions” account contains fully and highly flexible funds earmarked only at the level of a strategic objective in the programme budget, and a “Voluntary Contributions – Core” account which contains funds which are earmarked for purposes within the programme budget, but not tightly specified to a particular activity. Contributions to these two accounts in 2013 were \$115 million and \$18 million, respectively, adding 28 per cent of flexible funding on top of WHO’s assessed contributions.

#### Box 1 WHO Financing Dialogue in 2013

As part of WHO’s reform, a financing dialogue was held in 2013 with Member States and key non-state contributors to ensure that the Organization is well-equipped to address increasingly complex challenges. As agreed during the 2013 Financing Dialogue, the funding of WHO will be underpinned by four guiding principles:

##### Alignment and flexibility

Voluntary funds will be mobilized in alignment with the intergovernmentally-approved programme budget. Contributors’ commitments to increase the flexibility of resources will further facilitate an even distribution of funds across programme areas.

##### Predictability

Member States and other contributors will strive to make at least 70 per cent of required funding available at the start of a biennium. In addition, the Organization will promote a longer-term view of organizational financing, including by linking to the six-year General Programme of Work.

##### Transparency

WHO will make information about contributors’ funding public, facilitating a shared understanding of available and projected income by category, programme, major office and budget centre, and promoting well-informed decision-making about voluntary contributions.

##### Reducing vulnerability

Member States and other contributors will address the Organization’s reliance on just 20 contributors (11 of them non-State actors) for 80 per cent of all voluntary contributions. This will involve both broadening and deepening the existing contributor base, with an initial focus on Member States.

ILO launched a regular budget supplementary account in 2008-9 to provide additional flexible un-earmarked voluntary contributions to the Organization’s technical cooperation programme. During 2012-13, the ILO received a total of \$36 million to this account from 6 Member State development partners. This funding modality enables the ILO to allocate resources to specific areas of work identified in the strategic plan and country programmes when and where they are most needed in an independent, flexible and rapid manner, complementing other resources. It also enables the ILO to

accelerate, deepen and replicate existing technical cooperation programmes, allowing the ILO to serve those thematic areas that do not attract voluntary contributions as easily as others.

The issue is not only about quantity of core funding. More predictable core funding would also make it easier for UN entities to carry-out integrated planning for core and non-core resources, thereby potentially filling funding gaps in non-core financed programming. IFAD, for example, mobilizes core resources through a replenishment consultation process which aims to ensure availability of the required amount of resources needed for the programme of work to be carried out during the following three years, resulting in enhanced predictability. These consultations also provide a forum for strategic dialogue between Member States and the management of IFAD on past results and future orientations of the work of the Organization.

UNEP relies on contributions to its Environment Fund as the main source of flexible funding to implement its programme of work. The Fund is financed through a *voluntary indicative scale of contributions* where all Member States of the United Nations, taking into account economic and social circumstances, are encouraged to contribute financially to UNEP at least to the UN assessed scale or the donor's historical level of contributions to UNEP, whichever is higher. However each Member State reserves the right to determine whether or not it wishes to contribute to the Fund. The aim of this funding mechanism is to broaden the donor base and enhance predictability. In 2013, 87 countries contributed to the UNEP Environment Fund. The top 10 donors to the Fund accounted for 80 per cent of the total. While this may appear high, the top 10 Member State donors of core resources to UNDP, UNICEF and UNFPA accounted that same year, on average, for 85 per cent of the total core contributions from governments, indicating that UNEP is slightly less reliant on their top 10 Member State donors of core funding.

*UNEP has established a funding system based on voluntary indicative scale of contributions*

WFP does not have a core budget, but receives a flexible form of contributions referred to as "multilateral contributions" which are allocated through a comprehensive and strategic prioritization process within the Organization. Included within the multilateral contributions

*All non-core contributions of WFP are subject to full cost recovery of non-programme costs*

received by WFP are those contributed to the 'Immediate Response Account', a flexible, replenishable, revolving multilateral funding mechanism that enables the Organization to respond quickly to emergency situations. An indirect support cost rate is applied to every contribution received as a means of reimbursing WFP for programme support and other non-programme costs incurred during implementation of projects. It thus follows the principle of full cost recovery, allowing more flexible, un-earmarked resources to be spent on programme activities and ensuring that no single donor inadvertently subsidizes the donations of others.

UNAIDS is a rare example of a UN entity that has maintained a high share of core funding of around 90 per cent. UNAIDS is the only co-sponsored Joint Programme within the UN system, which brings together the efforts and resources of 11 UN organizations to the global HIV/AIDS response. At the country level, UNAIDS operates through Joint UN teams and Joint Programmes of Support which promote coherent and effective UN action under the overall leadership of the Resident Coordinator. The

*Around 90 per cent of contributions to UNAIDS are core in nature*

Joint Programme has a modest, but catalytic budget (\$485 million for 2014-15), representing just over 1 per cent of overall development assistance for HIV/AIDS. UNAIDS business model is underpinned by its Unified Budget, Results and Accountability Framework.

### Increasing non-state sources of income has become a priority for some entities

Increased funding through multilateral organizations, non-governmental and private sources is undoubtedly the most significant funding trend over the past fifteen years, as mentioned earlier, and almost all of this funding is non-core.<sup>20</sup>

UNICEF, for example, generates revenue from individuals and corporations through the fundraising and sales activities of their 36 National Committees and 50 country offices, including 25 country offices with structured private sector operations. In 2013, revenue from the private sector amounted to \$1.26 billion of which some \$588 million were defined as core resources. Furthermore, 2014 marked the first year of implementation of the UNICEF Private Fundraising and Partnerships Plan which aims to maximize contributions, including core funding, from the private sector and to expand strategic engagements and advocacy with the private sector for UNICEF's programmes. By 2017, UNICEF plans to raise some \$500 million through digital channels. UNHCR and WFP are other UN entities that have been successful in mobilizing private income.

*UNICEF has been able to rapidly expand funding from non-state actors and also UNHCR and WFP*

Innovative sources of financing have grown at a high rate in the past decade. It is estimated that innovative financing mechanisms have mobilized \$94 billion since 2000.<sup>21</sup> While the UN development system has not yet been an active participant in such initiatives, UNICEF, for example, has partnered with the World Bank in supporting the *Advance Market Commitments* initiative of the Vaccine Alliance GAVI, which has created incentives for commercial suppliers to bring their products to the market. In order to meet demand for the Pneumonia Vaccine in GAVI-eligible countries, UNICEF issues and manages calls for supply offers. UNITAID is another example, hosted by the WHO in Geneva. The principal role of WHO is to negotiate low prices for drugs and diagnostics on the basis of its strong financial means. A key source of income for this programme is the international solidarity levy on airline tickets, which has generated more than 2.5 billion euros since its inception.

*Most funding from innovative sources of financing mechanisms has so far been channelled to issue-specific global funds*

It is also worthwhile to mention in this context, although not directly related to operational activities, that some 90 per cent of WIPO's income comes from fairly predictable core non-state sources in the form of fees paid for the Organization's services in granting patents. UNOPS is another organization that is funded through management fee for services provided. A number of UN entities have also created units to service inter-agency pooled funds or vertical funds or to provide operational services to state or non-state actors on a full cost recovery basis. The question is whether there are areas in the work of the UN development system that would allow for wider application of such a fee-based mechanism to mobilize resources.

<sup>20</sup> Although there are some exceptions such as private funds raised by UNICEF.

<sup>21</sup> Financing the UN Development System: getting it right for a post-2015 world, Multi-Partner Trust Fund Office and Dag Hammarskjöld Foundation, 2015.

### Growth in non-core funding has led some governing bodies to adopt integrated budgets

In order to enhance strategic positioning, governing bodies of 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. The integrated budget is adopted by Member States in the respective governing body even though all resources have not yet been committed. The approval of the integrated budget implies that governments have endorsed its contents and that entities must remain within its parameters. A key objective of the integrated budgets is to increase the flexibility and predictability of non-core resources to the entity concerned. This is achieved by having the integrated budget adopted by Member States and ensuring that all non-core contributions are aligned with the integrated budget framework thereby enhancing the core-like qualities of earmarked funds. Furthermore, by presenting the integrated budgets in conjunction with the strategic plan of organizations, it strengthens the linkages between resources and results.

### 3. Lessons learned

This section aims to identify lessons learned from the evolution of funding of UN operational activities and discussed in the previous section. Some key messages that emerge include the following:

1. The UN development system is an important actor in global development cooperation, accounting for 29 per cent of direct multilateral ODA in 2013, making the Organization the second largest multilateral partner of OECD/DAC countries. However, given that funding for UN operational activities for development accounts for an estimated 1.3 per cent of total international resource flows to developing countries, the UNDS will need to be highly strategic in order to be fit-for-purpose in the post-2015 era.
2. In more than half of programme countries, the UN development system accounts for less than 10 per cent of total ODA at the country level. From a funding perspective, this suggests the UN development system is not an important player in development cooperation in those countries. The UN development system is a particularly important source of development financing in countries affected by conflicts and in humanitarian situations.
3. Siloed funding for development and humanitarian action at country level has undermined the ability of the UN development system to promote resilience and ensure greater continuity, synergies and integrated multi-year action between humanitarian responses and longer-term development. Pooled funding mechanisms are increasingly seen as effective in such country contexts.
4. The UN development system relies on a small number of donor countries for funding of operational activities. Three donor countries, for example, accounted for 41 per cent of total funding for UN-OAD from government sources in 2013. In terms of funding for UN development-related activities, five donors accounted for 45 per cent of all funding from government sources in 2013.
5. There is a need to ensure certain level of core resources that is required to fund the strategic plan. A number of UN entities have launched specific initiatives, or dialogues, with Member States, aimed at enhancing their core funding base.
6. Agency-specific processes and procedures as well as the vertical accountability structure and performance management and incentives have hampered efforts at joint resource mobilization at the country level.
7. The efforts by UN entities to enhance UN coherence, reduce the competition for resources and improve the quality of non-core resources through greater use of inter-agency and agency-specific thematic pooled funding mechanisms are slowly gaining traction. Further emphasis by agency headquarters on leveraging the added value of these pooled funding mechanisms for development effectiveness will be critical.
8. The current classification of the key functions of UN system (development, humanitarian assistance, peacekeeping operations, technical cooperation and normative, treaty-related or

knowledge-creation activities) needs to be revisited in light of the changing nature of activities that encompass normative, policy and knowledge-related work as well as service delivery.

#### 4. *The post-2015 era: possible implications for funding practices*

A universal post-2015 development agenda is expected to mark a major new departure in the work of the UN development system. The proposed SDGs are expected to bring the poverty eradication, social equity and equality, and environmental sustainability processes together in a unified and universal post-2015 development agenda underpinned by a single set of sustainable development goals and a sustainable development financing framework.

The proposed SDGs also signify the growing interdependence of country and global action inherent in the broadening of the post-2015 development agenda to include what is sometimes referred to as global development challenges requiring collective action. This interdependence of development action will require UN entities to further enhance synergy between the normative and operational support functions in the post-2015 era, but also mean that activities will increasingly need to be pursued in an integrated and coordinated manner so that the UN development system can deliver more as a whole than the sum of their parts can achieve.

The broadening of the global development agenda as reflected in the proposed SDGs will therefore have impact on the funding of the UN development system in the post-2015 era. A companion note prepared by DESA for the first workshop in the ECOSOC Dialogue series has identified the following eight potential key functions of the UN development system in response to the post-2015 development agenda (not an exhaustive list):

- (1) Support to countries to respond to national development challenges in a wide range of areas
- (2) Normative and technical support to ensure that no-one is left behind
- (3) Support to countries to address global development challenges
- (4) Invest in conflict prevention, disaster reduction, peace-building, humanitarian assistance, recovery and resilience-building
- (5) Support to South-South and triangular cooperation
- (6) Partnership-building and stakeholder engagement
- (7) Integrated policy advice/advocacy
- (8) Strategic innovations in development

Member States are currently engaged in an intensive discussion on the longer-term positioning of the UN development system in the context of the post-2015 development agenda. Financing is a critical element of that discussion. Funding practices have to be aligned with these functions. It is expected that the issue of identifying interlinkages will be part of the discussions at the forthcoming workshop on funding. The following selected messages could help in identifying these interlinkages and funding modalities for various functions:

##### 1. *Functions need to drive selection of funding practices*

In the MDGs era, donor funding in some instances was driven by the perceived “fitness” of individual entities rather than organizational “functions” as mandated at the intergovernmental level. This led to

competition among entities, overlaps and duplication of activities in some priority development areas. More informed governance deliberations on the alignment of functions and funding practices in the post-2015 era could also benefit from better estimation of short-, medium- and long-term resources requirements for agencies individually as well as the system as a whole. Better information flow can facilitate a more strategic approach to decision-making on funding of the UN development system by governing bodies of UN entities in the post-2015 era. At the system-wide level, it will also be important to strengthen statistics, analysis and reporting on funding flows for UN operational activities.

## 2. Sustainable, predictable and flexible financing will be key in the post-2015 era

The UN development system has a particularly important role to play in the post-2015 era in strengthening global norms, provide policy advice and support and address inequality. The increased importance of global development challenges and accelerating pace of globalization will also require further strengthening of the global norm-setting and implementation function of the Organization. For UN entities to play this role effectively, including the provision of integrated normative, policy and operational support in programme countries, core resources will be vital. Therefore, UN entities will need sustainable, predictable and flexible financing for operational activities. Ensuring sufficient core funding at the UN entity level will be particularly important in this regard. Increasing the quality of earmarked funding will similarly be important in the post-2015 era. This can be achieved by either broadening the level at which the earmarking is done or by introducing more flexible provisions.

## 3. The leveraging potential of the UN development system is likely to grow in importance

The pursuit of sustainable development will require the UN development system to coordinate more effectively internally, as well as with external partners. As highlighted in the first workshop of the ECOSOC Dialogue series, the convening role of the UN development system is seen by most Member States as an important strength of the Organization vis-à-vis other development cooperation players. In the post-2015 era, individual entities as well as the UN development system as a whole will need strong capacity for mobilizing and utilizing both public and private funding and agency-specific and pooled resources.

In the past few years, the UN system has been very active in establishing a number of issue-based coalitions of multiple stakeholders in development areas of high importance. These issue-based alliances will need an appropriate mix of financing mechanisms in order to be effective. The UN development system will need to build and support a number of financing facilities for issue-based alliances to be established and/or further strengthened, in the post-2015 era. This leveraging role of UN entities in the post-2015 era will require significant strengthening of the core funding base.

In addition, the UN development system will have to actively explore options for increasing the use of innovative sources of financing and to increase the share of individuals giving to the Organization to complement traditional financing sources.<sup>22</sup> Both these sources of financing are likely to grow significantly in the coming decades and it could become important for the longer-term positioning of UN entities to achieve a strong foothold in these areas.

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<sup>22</sup> This may also be particularly important in the context of some uncertainty regarding the future role and destination of ODA flows.

#### 4. The post-2015 agenda will require greater use of integrated financing mechanisms

An important characteristic of the post-2015 development agenda are the interlinkages between the proposed sustainable development goals and targets. This means that the implementation of many of the proposed SDGs will be most effective if pursued in combination rather than individually, or one at a time. There is also growing consensus that addressing development, humanitarian and climate change challenges in vulnerable countries will require complementary approaches in order to be effective. Furthermore, such an approach would enable development and humanitarian actors to work more closely together, including through integrated and outcome-driven multi-year planning, to manage the risks of humanitarian crises, address vulnerability and build resilience. For this there is a need for donors to allocate a greater proportion of funding in a risk-informed manner, including in fragile and conflict-affected countries and in settings of chronic vulnerability and protracted displacement

The post-2015 development agenda will also place greater emphasis on the capacity of the UN development system to integrate normative, policy and operational support at the country level. This will call for greater use of inter-agency pooled or joint funding mechanisms at both global and country levels, underpinned by strong capacity of entities in the efficient design and operationalization of such instruments. Agency-specific thematic funding will also need to be scaled-up and become a key element of the funding architecture of the UN development system in the post-2015 era. Vertical funds will also be an important instrument in responding to important global development challenges. Vertical funds in support of specific SDGs that consolidate a number of smaller instruments into broader UN facilities and ensure a stronger future UN normative role should similarly become an important part of the overall funding architecture of the UN development system in the post-2015 era.

## 5. Selected discussion questions

The below questions have been prepared to facilitate deliberations of Member States on the implications of the post-2015 development agenda on funding of operational activities of the UN system:

1. How can better use be made of existing UN funding mechanisms which provide for core-like/loosely earmarked resources? How can the UN development system better incentivize these mechanisms and core resources in general?
2. How to ensure that UNDS is sustainably, predictably and flexibly funded? Could wider application of a voluntary indicative scale of funding or voluntary negotiated pledges stimulate more flexible voluntary contributions to UN entities? What are the lessons to be drawn from recent initiatives of WHO, IFAD, UNEP, etc.
3. What are some ways to incentivize system-wide funding instead of tightly earmarked, programme and project-specific contributions in order to promote better UN-wide focus and strategic positioning?
4. How is the post-2015 development agenda likely to impact the diversity of the funding base of the UN development system?
5. How can the UN development system best tap the funding potential of the private sector and foundations in support of intergovernmentally-agreed objectives and strategies?
6. What financial instruments lend themselves best to promote South-South cooperation?
7. Would a robust, transparent system-wide information system on funding needs and gaps be required to support a better funding architecture?
8. How could funding be better focused with greater coordination and coherence to the most at-risk and vulnerable countries, including fragile, protracted and recurring crisis countries?