UNITED NATIONS DEVELOPMENT GROUP | Delivering Together for Development

ECOSOC Dialogue on the "longer-term positioning of the UN development system"

UNDG Perspectives on Funding, April 20, 2015

> *"Sustained development financing for longer-term support, which enables pooling of resources and brings together development and humanitarian financing, will be critical, as will more coherent United Nations funding mechanisms that unite rather than fragment the development policy framework."* UN Secretary-General's Synthesis Report[1]

1. Introduction

This paper presents initial "UNDG perspectives on funding" developed in advance of draft papers on funding currently being prepared by UN DESA and by independent consultants. The paper will be provided as an input to the UN DESA background paper, and serve as "UNDG perspectives on funding" for the second ECOSOC workshop on funding to be held on 8 May 2015.

2. Definitions

For the purposes of this paper, funding includes the financial resources available to the UN development system at the global, national and regional level, from all sources. Both sources and definitions of funding differ widely among UN Development System (UNDS) agencies. Agencies receive assessed contributions in addition to core/unrestricted funding from governments and non-state private sources, non-core/restricted contributions from government and non-state donors, via vertical and pooled funds, host country contributions (sometimes called co-financing or Government cost-sharing), as well as income from cost-recovery, fees, individual bequests and donations, and so on. For the purposes of this paper, core (unrestricted) funding refers to voluntary contributions that are not specified/earmarked, while non-core (restricted) contributions refers to voluntary contributions that are specified/earmarked[2].

3. Principles

In order to be "fit for purpose" for the post-2015 development agenda, funding must better align with the functions of the UN development system, in particular the role that the UNDS will need to play in supporting countries to implement the new post-2015 agenda and the SDGs, and must also help to facilitate greater coherence, effectiveness and efficiency of the UNDS at all levels.

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[1] A/69/700

[2] For a more detailed discussion on definitions and sources of funding see Multi-Partner Trust Fund Office (MPTF) and Dag Hammarskjold Foundation (DHF) (2015) "Financing the UN Development System: Getting it right for a post-2015 world – overview of Financing Instruments in the UN Development System" pp. 7-10. See also http://www.un.org/en/ecosoc/qcpr/pdf/technical_note_on_funding.pdf for a list of different terms used by UNDS entities for "core" and "non-core" resources.

For the UNDS to most effectively support a universal, transformative, integrated, rights-based post-2015 agenda, predictable, sustainable, flexible multi-year funding is an absolute prerequisite. Short-term, project based, tightly earmarked funding can contribute to fragmentation, competition for resources, and overlap, including at the country level[3]. While continued earmarked funding can help organizations achieve their strategic goals, for example in meeting immediate needs in emergencies, a better balance of core and non-core funding is needed.

The UNDS will also need to adjust to the changing funding context, including the increasing trend of private sector (and private actors) engagement in development cooperation, the emergence of new financial institutions and development banks, the rising importance of remittances, the changing profile and focus of ODA, as well as greater use of innovative funding sources and approaches. In this context, key principles for future financing of the UNDS could include:

- **Clear alignment** of funding contributions with "purpose" and impact, including the post-2015 agenda and the SDGs, and the potential future functions of the UNDS, as discussed at the first ECOSOC workshop on functions, on 17 April 2015.
- **Coherence –** funding helps facilitate increased system-wide coherence, and donor funding practices are themselves coherent and coordinated.
- Funding that is **predictable, sustainable**, and **flexible** including multi-year core financing and soft-earmarked/pooled non-core contributions.
- **Equitable and needs-based –** in line with principles established in the SDGs and the zero draft of the FfD3 outcome document, financing of the UNDS should be pro-poor and pro-equity, and should prioritize the most vulnerable and disadvantaged.
- **Differentiated approaches** – no one size fits all and financing of the UNDS, as well as UNDS support to countries, will need to be differentiated based on demand and need, and adapted to different country contexts.
- **Diversification** – of the funding base including broadening and deepening contributions of Member State and non-state donors, host country contributions, innovative financing, and so on.
- **Transparency and accountability –** open data and increased transparency including at the country level, and financing that is linked to results based frameworks that demonstrate value for money.

4. Global context and trends

Financing of the UNDS

A comprehensive overview of the financing of the UNDS is presented in the 2015 QCPR report[4]. As this analysis shows, overall contributions to UN operational activities for development amounted to

[3] Also important, though beyond the scope of this paper, is the way the UNDS is assessed, which is directly linked to the funding agencies receive. At present agencies are largely assessed individually, with many (overlapping) bilateral assessments and reviews. Joint assessments such as MOPAN are very important in this regard. Further, most donor assessments, including MOPAN, focus primarily on individual agencies, and not on interagency collaboration for results.

[4] A/70/62 – E/2015/4

$26.4 billion globally in 2013 - 63 percent of all UN system-wide activities. The remaining 37 percent includes peacekeeping, and global norms, standards, and policy and advocacy activities[5].

Of the contributions to UN operational activities for development, in 2013, 63 percent had a longer-term development focus, and 37 percent was for activities with a shorter-term humanitarian focus. Just 10 agencies account for 88 percent of all contributions, and 75 percent of contributions were made by governments in 2013.

The UNDS accounts for 29 percent of direct multi-lateral funding, and 17 percent of overall official ODA flows. Growth in humanitarian assistance related funding has been more rapid than for development related funding. Further, increasingly, UNDS support is most significant in countries with economies in transition: in other low and middle-income countries UNDS assistance accounts for less than 10 percent of ODA.

As is well documented, the proportion of non-core resources for operational activities for development has increased significantly from 56 percent in 1998 to 75 percent in 2013. 92 percent of non-core funding in 2013 was from single donors, and project specific. Further, while pooled funding mechanisms are an important modality for improving the flexibility and predictability of non-core resources, just 8 percent of non-core funding was allocated through pooled funding arrangements in 2013, including 1 percent for "One United Nations" funds that support "Delivering as One" countries.

Within the UNDS, while there is significant variation between Agencies in regard to sources of funding, the non-core component exceeds core funding for almost all entities. Ensuring the sustainability and predictability of core resources, and the flexibility and predictability of non-core funding is a common challenge and critical priority for the UNDS going forward. Predictability, sustainability and flexibility are vital to enable Agencies to plan ahead, prioritize effectively, and deliver efficiently. Member States have recognized in the QCPR that while non-core resources represent an important contribution to the overall resource base of the UNDS, predominance of small, project based, tightly earmarked funding can lead to distortion of priorities, undermine longer term planning, and fragment delivery[6].

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[5] See A/70/62 – E/2015/4 paras 11-12. The main source of data on the financing of UN system-wide activities is the CEB. See http://www.un.org/en/ecosoc/qcpr/pdf/technical_note_on_funding.pdf and http://www.unsceb.org/content/statistics for more detail. Development assistance includes activities with the specific purpose of promoting sustainable development in developing countries. Humanitarian assistance reflects the support provided by the UN for humanitarian purposes with a short term focus. Global norms, standards and policy and advocacy activities include work not linked to specific national development plans, relating to the standard setting, knowledge creation, and normative work of UN agencies.

[6] A/RES/67/226, para 28. See also the discussion in JIU 2014 *An Analysis of the Resource Mobilization Function within the United Nations System.* A 2007 JIU study on the impact of voluntary contributions found that while some degree of competition for funding is perceived as healthy, it comes at a price. This includes the high transaction costs associated with small earmarked contributions, the way in which donor priorities can distort UN programme priorities when, for example, significant funding is attached to high-profile themes, diversion of resources to fund-raising activities, increase in the number of staff on short-term contracts associated with specific project funding, and fragmentation of delivery of large scale initiatives when these are supported through multiple funding sources. The independent evaluation of Delivering as One identified competition for funds as a significant challenge at country level, whereby decentralization of funding responsibilities by some donors to country level, and stagnating UN core resources put pressure on UN agencies to mobilize resources for country programmes, leading to increased competition between agencies, and perceived "mandate creep". https://www.unjiu.org/en/reports-notes/archive/JIU_REP_2007_1_English.pdf http://www.un.org/en/ga/deliveringasone/pdf/mainreport.pdf

The SDGs and financing for sustainable development

While negotiations are still ongoing, as highlighted in the zero draft of the outcome document for the Third International Conference on Financing for Development (FfD3), it is clear that huge investments will be required to support implementation of the post-2015 development agenda and the SDGs. Some key implications of the SDG negotiations and FfD3 discussions include:

- While the volume of ODA has increased, ODA is declining in *relative* importance as a source of development funding. Nevertheless, it remains an important source of financing for developing countries, complementing other sources of funding and playing a catalytic role in mobilizing additional resources. The outcome document calls on developed countries to increase their ODA with a view to meeting their commitment to allocate 0.7 percent of GNI as ODA.
- Further, the zero draft highlights that ODA will remain a critical source of funding for LDCs and conflict affected countries, and calls on developed countries to target 0.15-0.20 percent of GNI to ODA for these countries.
- Much greater diversification of funding sources will be required to implement the SDGs – public, private, domestic and international investments will all be needed.
- Public-private partnerships, in line with sustainable development objectives and the principles of transparency and accountability, will be increasingly important.
- Blended and pooled finance will be a key mechanism for financing sustainable development priorities.
- A broader metric than GDP is required as a measure of sustainable development, with important implications for country classification and eligibility for financing.
- Integrated management of all funding flows, including mobilization of local resources, will be key to financing for sustainable development in all countries in a universal agenda.
- Accelerated efforts to achieve more effective development cooperation, building on the progress made to date, will also be key.
- With regard to domestic resources, the zero draft highlights the need to increase tax collection and recovery efforts, to ensure revenues of 20 percent of GDP; combat illicit financial flows, tax evasion and corruption; and ensure improved planning and budgeting to deliver the SDGs, including investments in essential public services and social protection.
- All financing flows will need to be aligned with the three dimensions of sustainable development, with much greater integration of financing needs across development, climate change, humanitarian, and peace and security priorities.

Implications for financing of the UNDS

At present, financing of the UNDS is not mentioned in the draft FfD3 outcome document, nor is financing of resilience and the humanitarian-development nexus. Implications of the post-2015 development agenda, the SDGs, and FfD3 for financing of the UNDS require further consideration and will be explored in more depth in the context of the second round of ECOSOC dialogues.

However, initial implications may include the following:

i. Traditional ODA will remain important, in particular for the least developed countries, and fragile and conflict affected countries. Yet ODA to the poorest countries continued to fall in 2014[7]. The UNDS has a critical role to play in advocating for the allocation of ODA by donors - and in ensuring UN funding is directed - to where it is most needed to target the most vulnerable and disadvantaged and to ensure no-one is left behind. This includes not only better targeting of funding to LDCs and fragile/conflict affected settings, but also, and as importantly, targeting resources to the most vulnerable and disadvantaged[8], in line with the FfD3 zero draft which emphasizes "a new basic social compact to invest in people"[9] This is particularly critical given the continuing high levels of poverty and inequality in middle-income countries.

ii. Greater diversification of funding for the UNDS will be a key priority going forward. The proportion of non-government funding to the UNDS increased from 8 percent in 1997 to 23 percent in 2013. Agencies are increasingly prioritizing broadening and deepening the resource base. Agencies such as UNICEF and WFP derive a significant proportion of their funding from non-government sources including foundations and philanthropic organizations and individuals, the private sector and individual donations. Fees are an important source of revenue for entities such as WIPO and IMO, while UNOPS finances its core through management fees. Government cost-sharing is becoming more important in particular in middle-income countries. In 2014, 17 agencies reported to their governing bodies in 2014 on measures to broaden the donor base.

iii. Issues based coalitions and global partnerships[10] and financing will assume greater importance. As some commentators have argued, where the MDGs represented an era of goal-setting and earmarking of contributions to specific goals and targets, the SDGs will usher in an era of issues-based coalitions and global partnerships, and issues-based financing in support of the new generation of development goals. In this context, vertical, thematic and pooled funding mechanisms are likely to assume greater significance. Given that the SDGs are much more horizontal than were the MDGs, it will be important to consider how to avoid siloing and ensure much greater inter-linkages across vertical and thematic funds in a post-2015 era[11].

The UNDS will have a critical role to play in managing and leveraging such mechanisms, building on experience and lessons learned to date with existing global partnerships in support of MDG achievement, and in close partnership with other actors including IFIs, regional development banks and private foundations. Discussions are already underway on how existing global partnerships can be leveraged in support of the SDGs[12]. Ensuring such partnerships are undertaken in accordance with normative standards, and that all partners are held accountable for commitments and delivery will be key.

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[7] See http://www.oecd.org/newsroom/development-aid-stable-in-2014-but-flows-to-poorest-countries-still-falling.htm

[8] See also the discussion in http://www.un.org/en/ecosoc/newfunct/pdf15/un_improving_oda_allocation_for_post-2015_world_policy_briefing.pdf

[9] Zero draft, FfD3 outcome document, 16 March 2015, para 31.

[10] Issues-based coalitions and global partnerships will be discussed further in the context of the workshop on capacity, impact and partnership approaches. "Issues based partnerships and coalitions" is typically used to refer to partnerships and coalitions that seek to address a specific sectoral issue or specific disease. See for example the discussion in http://www.who.int/bulletin/archives/78(5)699.pdf It is important to note that these coalitions are multi-stakeholder, broadly based partnerships across sectors, rather than 1-2 agencies teaming up with a single donor.

[11] See http://www.un.org/en/development/desa/policy/wess/wess_current/2012wess_overview_en.pdf pp-25-26

[12] See for example the discussion in: http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9594.pdf

The UNDS currently plays a significant role in global thematic and vertical funds. For example, the Global Environmental Facility (GEF), established by UNDP, the World Bank and UNEP, today partners with 14 implementing agencies, having provided nearly $19 billion over its 23-year history. The Ebola Response Fund established in 2014 to support the UN response to the spread of Ebola was able to quickly capitalize $140 million to complement resource mobilization efforts by individual Agencies, and provide critical response support. To be launched at the FfD3 Conference, the Global Financing Facility (GFF) in support of Every Woman Every Child will contribute to global efforts to end preventable maternal, newborn, child and adolescent deaths by 2030, with the support of the H4+ agencies (UNICEF, UNFPA, WHO, UNAIDS, UN Women and the World Bank) and in collaboration with a broad range of stakeholders. The Joint UN Programme on HIV/AIDS (UNAIDS) is the only co-sponsored joint programme in the UN system with 11 co-sponsoring UN agencies. An entirely voluntarily funded programme, with a modest but catalytic budget of $485 million for 2014-2015, representing just over 1 percent of overall development assistance for HIV, 90 percent of its funding is core.

Agency thematic pooled funding mechanisms have also emerged as an important strategy for increasing the predictability and flexibility of funding. For example, UNICEF receives soft-earmarked pooled funding to support outcomes or results outlined in its Strategic Plan 2014-2017. These funds are earmarked at the outcome level, and can also be specified at the regional and country level. Thematic funds help ensure more predictable, flexible, multi-year funding, while also reducing transaction costs including the costs associated with donor reporting.

iv. The UNDS will need to play a much greater leveraging role to generate resources for sustainable development priorities – resources in support of sustainable development that are not necessarily channeled through the UN. The need to leverage resources, including domestic public resources, remittances, and other capital flows, to achieve common commitments will be key. Already Agencies are explicitly recognizing and prioritizing the importance of leveraging resources for key development priorities and normative commitments. For example, UNICEF has identified as an overall goal the need to not only increase direct revenue for UNICEF supported programmes, but also to leverage public and private resources in support of the realization of children's rights. Building on an approach based on shared responsibility and global solidarity, and characterizing resources as investments rather than expenditure, UNAIDS has supported countries to increase domestic public investments in the AIDS response. Between 2009 and 2013, 78 of 128 low and middle-income countries reported an increase in domestic spending on HIV. Of these 46 countries reported an increase of more than 50 percent.

Also critical will be developing national capacities for accessing, programming and executing the many financial channels and instruments available. With new sources and channels of funding emerging – such as the Asian Infrastructure Investment Bank and the BRIC Bank - the UNDS will increasingly play a role in building capacity to help countries access and utilize these sources of funding, and in so doing ensure greater equity between countries in accessing these resources. Ensuring the necessary ODA is directed to the highest risk investments will also be key.

v. Innovative financing strategies will be vital and can be significantly scaled up. Agencies are increasingly adopting innovative funding approaches, including innovative public-private partnerships. For example, UNITAID - which provides sustainable funding in order to tackle inefficiencies in markets for medicines, diagnostics and prevention for HIV/AIDS, Malaria and Tuberculosis in developing countries – is an international solidarity levy on airline tickets collected in nine out of 29 member countries. Current proposals include expanding the successful UNITAID model to the issue of nutrition, through new government micro-levies on extractive industries, and the Global Financing Facility for RMNCH discussed above. Grant based UN agencies such as the UNCDF could in principle support the development of a regulatory framework to facilitate the issuance of green bonds[13]. Looking forward, it will be critical that the UNDS has the agility, flexibility and capacity to accept and use innovative sources of funding, in line with UN values and principles.

vi. Sustainable, predictable, flexible financing is critical to enable the UNDS to effectively support implementation of the SDGs and is a critical priority for the UNDS going forward. A number of agencies have developed new resource mobilization strategies for presentation to their governing bodies, in line with the requirements of the 2012 QCPR, and in the context of the new post-2015 development agenda and the SDGs, with a specific focus on improving the sustainability, predictability and flexibility of funding. Agencies are also prioritizing a shift away from traditional donor relationships to more strategic partnerships based on shared priorities and objectives. For example, WHO's financing dialogue aimed at ensuring a much better match between the Entity's priorities and the resources available to achieve them, whereby the Organization established clear priorities and focus as a pre-requisite for achieving greater flexibility of non-core resources[14]. Exploring the use of replenishment systems, such as are currently used in funds such as the GEF, could also help ensure greater predictability of financing.

vii. Integrated financing. As the risks and shocks associated with climate change, disasters, forced displacement, and successive economic crises become more complex and interconnected, and as more countries experience protracted crises, there is a clear need to better integrate humanitarian, development and climate change financing including through the use of pooled financing mechanisms in support of recovery and resilience in fragile and conflict affected settings. A much more integrated and coherent approach to recovery that addresses short, medium and longer-term needs is required in order to support fragile and conflict-affected states to find longer-term, sustainable solutions to crises. Humanitarian, development and climate financing all contribute towards recovery efforts - creating synergies between these three sources of finance can increase the effectiveness and impact of these investments. Strengthening the linkages between humanitarian, development and climate financing can help to ensure that the international response has access to better information for planning and decision-making, a broader range of expertise and perspectives to ensure more comprehensive understanding and management of risks, and greater operational capacity on the ground. Country-led pooled financing mechanisms, where appropriate, efficient and effective, can play a key role in this regard, by acting as "centers of gravity" to improve aid effectiveness and promoting a common theory of change and alignment among a wide range of actors[15].

For example, WFP's Food Security Climate Resilience Facility (FoodSECuRE) seeks to bridge humanitarian and development financing. A multilateral fund dedicated to supporting community-based programmes that build climate resilience, FoodSECuRE provides a global platform for accessing global reinsurance and capital markets, including contingent finance and weather index insurance, to increase the scale and duration of funding for disaster response. FoodSECuRE can release funds based on climate forecasts to reinforce community resilience before a shock occurs, and provides multi-year financing to

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[13] See these and other examples cited in MPTF and DHF (2015) "Financing the UN Development System: Getting it right for a post-2015 world – overview of Financing Instruments in the UN Development System".

[14] See http://www.who.int/about/who_reform/en/

[15] See MPTF 2014 "Financing Recovery for Resilience: Enhancing the coverage, capitalization and coherence of pooled financing mechanisms for recovery to strengthen synergies between humanitarian, development and climate finance"

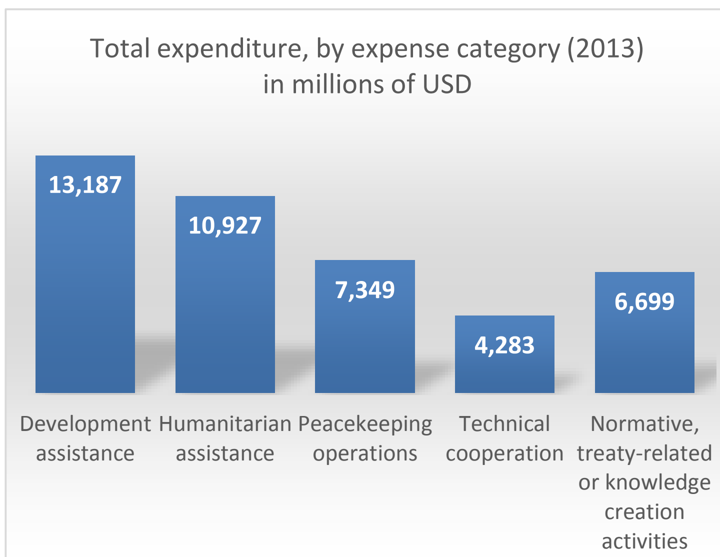
support recovery from natural disasters so that affected populations can quickly get back on the path to sustainable development.

viii. Accountability and funding must go hand in hand. Looking forward, it will be more critical than ever that the UNDS is able to more consistently and transparently demonstrate value for money, effectiveness and efficiency, through comprehensive planning and reporting frameworks that provide a clear link between investments and results. For example, the UNAIDS Unified Budget, Accountability and Results Framework (UBRAF) is comprised of a business plan that captures the contributions of Joint Programme members, based on their comparative advantages, together with a results, accountability and budget matrix. A web-based reporting tool enables data from the country level to be collected in a uniform way.

ix. Funding must be aligned to functions. As highlighted in the first ECOSOC workshop on functions, the functions of the UNDG will need to evolve to support implementation of a universal, transformative, rights-based post-2015 development agenda. Demand for capacity development and technical cooperation to help countries to implement the SDGs is likely to increase significantly. For the UNDS to be more "fit for purpose" to support the implementation of the post-2015 development agenda, it must be funded for "purpose" as well as for "fitness". It will therefore be critically important that future funding arrangements support the key priority functions of the UNDS, including with the appropriate participation of non-resident agencies. Also, and equally critical, will be to ensure that the structures and systems of the UNDS, collectively and individually, enable the UNDS to receive, use and leverage funding as effectively, efficiently and innovatively as possible, and that UN staff have the capacities required to do so[16].

At present, it is not possible to identify what the UNDS invests in key functions including in these critical areas. Currently, the following categories are used by the CEB[17], as shown below: development assistance, humanitarian assistance, peacekeeping operations, technical cooperation, and normative, treaty-related or knowledge creation activities. This categorization will need to be modernized and updated, including to reflect the changing nature of operational activities that encompass normative, policy, and knowledge related work as well as service delivery.

Implications for greater alignment of funding with functions are discussed briefly in Section 6 below, and will be explored in more depth in the context of the second round of ECOSOC dialogues.



Source: *CEB data cited in MPTF/DHF "Financing the UN Development System: Getting it right for a post-2015 world" p.16*

[16] Staff capacities needed for the UNDS to effectively respond to and manage new financing mechanisms and arrangements will be discussed in a later "UNDG perspectives" paper on capacity, impact, and partnership approaches.

[17] As noted earlier, these are the categories used in the CEB Financial Statistics database, a comprehensive source of financial statistics for organizations of the UN system, including data for 33 UN organizations. For a definition of these terms see: http://www.unsceb.org/content/un-system-financial-statistics-definition-terms

5. Country perspective

Funding trends and challenges

$26.4 billion is a significant figure. According to the 2015 QCPR report, in 2013, UN operational activities as a share of official development assistance represented more than 40 percent of total ODA (excluding local resources) in 19 countries, between 20-40 percent in a further 38 countries, between 10-20 percent in 38 countries, and less than 10 percent in 51 countries, a majority of which were classified as middle-income countries. Almost one fifth (18 percent) of all country level UN expenditure on operational activities (both development and humanitarian) expenditure was concentrated in the 19 countries where the UN's contribution represents more than 40 percent of overall ODA. At the other end of the spectrum, 11 percent of all UN country-level expenditure was in the 51 countries where UN support accounted for less than 10 percent of ODA.

Of the $17 billion expended on development activities in 2013, 64 percent was allocated at the country-level, 16 percent at the regional and global level, 15 percent to management and programme support, and 5 percent cannot be attributed. Development-related funding is relatively highly concentrated: 10 countries received 37 percent of UN development-related expenditure (both core and non-core) in 2013. Overall 57 percent of UN development-related expenditure was in LDCs, and 61 percent in fragile states (as defined by the OECD). 51 percent was in low-income countries, while 49 percent was in lower-middle income and upper-middle income countries.

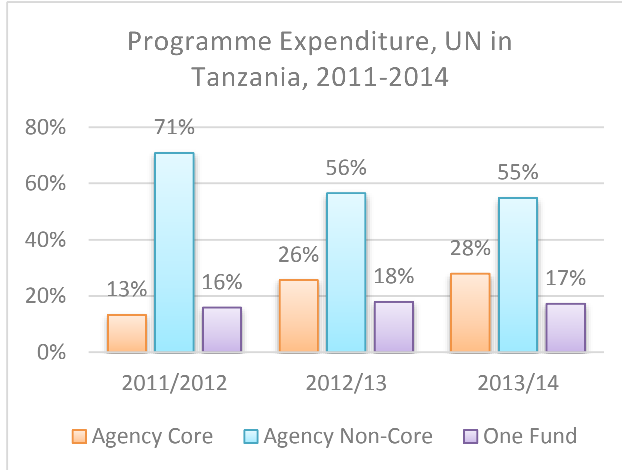
At the country level, UN Country Teams face a number of critical funding challenges[18], including:

- Shifting donor priorities and behavior including changing interest in, and resources for, specific countries and sectors.
- Reliance on single donor, project based non-core, and competition for non-core resources at country level.
- The decline in relative importance of ODA in middle-income countries, in the importance of the UN's contribution in many of these countries vis a vis other sources, and in funding available to the UN at country level – while at the same time UN support to these countries remains important including in the context of persistent poverty and inequality.
- Siloed funding for development and humanitarian action at the country level which undermines the ability of the UNDS to more effectively promote resilience and ensure greater continuity and synergies between humanitarian response and mid to longer term development initiatives to strengthen recovery and resilience.
- In countries which are well funded and where there is significant UNDS investment, challenges remain in effective prioritization and coordination of these investments including between development and humanitarian initiatives and actors.
- Difficulties harmonizing processes and procedures in support of joint resource mobilization efforts.

As experience shows, these trends often lead to fragmentation, challenges in effective focus and prioritization by the UNCT, duplication and overlap, competition for available resources and high transaction costs for UN agencies and partners. This includes the costs associated with donor reporting, as

[18] See also JIU 2014 *An Analysis of the Resource Mobilization Function within the United Nations System.*

well as vertical annual reporting to agency HQs. Critically, hard earmarking and project-based funding undermines the capacity of the UNCT to better plan, jointly identify priorities and deliver results, better target those most in need, and give greater priority to underfunded issues, and ultimately impacts the credibility and relevance of the UNDS.



Source: http://dad.synisys.com/undaprms/

Delivering as One

The "Delivering as One" approach aims to address many of the challenges identified above, including through the One Programme and common budgetary framework, joint programmes, and, where appropriate, pooled funding mechanisms ("One Funds").

Integrated, strategic, and multi-year financing frameworks in support of resource mobilization including common budgetary frameworks at country level, are an important instrument in this regard. According to QCPR reporting, at present, 32 countries (25 percent of programme countries) have adopted a common budgetary framework that covers the UN funding situation at country level. Countries adopting the DaO approach are expected to provide a consolidated annual report that includes financial information reported against the common budgetary framework. 40 countries did so in 2014.

Pooled funding mechanisms were established in all eight pilot "Delivering as One countries, as well as in a number of countries that voluntarily adopted the DaO approach, specifically to provide un-earmarked or soft-earmarked resources to meet funding gaps in One Programmes as well as to facilitate working better together by ensuring greater coherence and reduced competition for resources at the country level. As noted in the Independent Evaluation of Delivering as One, "One United Nations" Funds were successful in driving greater coherence, and reduced competition and transaction costs associated with resource mobilization.

In 2013, pooled funding contributed 16.4 percent of all funding in the eight DaO pilot countries, and just 3 percent of all funding in so-called "self-starters". As the 2015 QCPR report notes, "One United Nations" fund expenditure declined by 37 percent in 2013 compared with 2010. Despite this decline, One Funds remain a significant source of funding in several of the pilots. In Tanzania, for example, where the UNCT's online Results Monitoring System http://dad.synisys.com/undaprms/ provides updated financial information as well as real time results monitoring data, the One Fund accounts for around 17 percent of programme expenditure, while agency non-core resources accounted for 55 percent of expenditure, and core resources for 28 percent of expenditure in 2013-2014. To give a more detailed perspective on the current funding situation at the country level, please see the additional example of the funding situation of the UN in Mozambique at Annex A.

Effectively, One Funds have to this point acted as a residual funding mechanism, which may help to explain difficulties with their replenishment over time. Further, while donors were willing to support coherence efforts in the pilot phase including through un-earmarked, pooled funding, over time funding declined due to changing donor priorities, together with an expectation that the DaO would shift from a focus on process to better demonstrating results and impact. Other challenges that contributed to undercapitalization of these funds included lack of a robust costing of the UNDAF/One Programme, and lack of a common underpinning theory of change for UN Country Team interventions at the country level.

A greater results focus in the design of pooled funding mechanisms will be important to reposition pooled funds as an integral instrument for country teams delivering together in support of SDG implementation. Clearer support from Agency headquarters for the use of such mechanisms will also be key, and will help to ensure that normative-operational linkages and interagency work prioritized at the HQ level can be effectively translated including through joint programmes at country level.

Increasingly, and in line with the guidance set out in the SOPs for Delivering as One, UN Country Teams are developing joint resource mobilization strategies which aim to address these challenges and increase and diversify the resource base, under the leadership of the UN Resident Coordinator[19].

Implications for UNCT funding

As this brief discussion indicates, UN Country Teams will need to continue to rely on multiple sources of funding, including agency core and non-core resources, thematic and vertical funds, pooled funding mechanisms, country-level non-core resources and government cost sharing. In this context:

- UN Country Teams need to move forward to accelerate implementation of the UNDG approved Standard Operating Procedures (SOPs) for Delivering as One, whereby all funding regardless of source, contributes to the achievement of commonly defined results.
- In line with the SOPs, it is important that all resources are captured in a common budgetary framework (CBF), and that expenditure is reported on annually. As specified in the SOPs, and in the standard template for country results reports available to UN Country Teams, country annual reports should replace individual donor reporting to the fullest extent possible, and be accepted by donors and agency HQs alike.
- Given the increasing importance of non-core contributions at country level, increased flexibility and soft earmarking against UN Country Team priorities will be key, in line with the principles of aid effectiveness.
- Increased transparency at country level is critical and a pre-requisite for encouraging more flexible funding practices among donors, including soft-earmarking of non-core resources. Transparent reporting on resource allocation and expenditure, as well as open data platforms which make this data available publically, as is now the case globally in a number of agencies, including UNDP, UNICEF, WHO, WFP and UNAIDS will be key. A priority going forward will be for all UN Country Teams to move towards full transparency, similar to what is currently done by the UNCT in Tanzania.
- Linked to this, the ability of UN country teams to more clearly demonstrate results and impact[20], as well as efficiency gains and value for money, is critical in continuing to make the case for increased,

[19] For example, in Botswana, an upper middle-income country, declining aid flows have limited funding available to the UNCT, which is primarily funded by agency core resources and Government contributions, as well as some contributions via vertical funds. As a DaO self-starter, the UN Country Team developed a joint resource mobilization strategy, with a strong focus on cost-sharing with government, development of new programme offerings tackling persistent and/or emerging development challenges (eradicating extreme poverty, eliminating gender-based violence), partnerships with the private sector and civil society, South-South cooperation, leveraging and innovation

[20] To be discussed in more detail in the “UNDG perspectives” paper on capacity, impact and partnership approaches.

predictable, sustainable and flexible funding. Increasing use of national systems for transparency and efficiency to better achieve the SDGs will also be key[21].

- Going forward, ensuring predictable, sustainable and flexible funding at the country level, linked to One Programmes in support of SDG implementation, will be critical. Soft earmarking of non-core contributions at country level, including through pooled funding mechanisms where appropriate, efficient and effective, will be an important component of an overall UNCT funding strategy going forward. Acting as a catalyst, pooled funds have proven to be an effective mechanism in conflict-affected and humanitarian contexts, and it will be important to learn from and build on these experiences as well as lessons from the DaO pilots to determine how to re-position pooled funds, and expand them to other areas, to be results focused and an integral rather than residual source of funding.
- Differentiated approaches will continue to characterize different country contexts, with, for example, greater emphasis on traditional core and un-earmarked funding in LDCs, and on partnership approaches and host-country contributions in low and higher MICs.
- Significantly accelerated horizontal learning and knowledge sharing between UN country teams in comparable country contexts, including with regard to resource mobilization and innovative financing, is required.

6. Implications for future financing of the UNDS.

Looking forward, this section briefly sets out some of the implications and considerations regarding the future funding of the UNDS, in the context of the new development agenda. This section will be further elaborated in preparation for the second phase of the ECOSOC dialogues.

- **Funding must support agreed priority functions of the UNDS, including at the country level.** For the UNDS to fulfill the key functions it will need to play in support of the future development agenda, strong support to core funding, as well as increased core and assessed funding is essential. This includes, for example, support to the UN's operational role – which will need to be redefined to encompass normative and policy work as well as service delivery - and footprint at the country level.
- **Possible funding approaches at the country level** will continue to need to be differentiated according to different country contexts as well as potentially to different functions. This could potentially include:
    - Agency core and/or assessed funding or negotiated pledges (depending on the agency) to support the overall "platform" of the UNDS in country, including its operational footprint, and core functions such as the normative role of the UN, support to the RC system (as the "backbone" of the system), capacity development, the UN's leveraging and convening role etc. Potentially, private sector funding and government cost-sharing could also support this function. In higher-income and middle-income countries, and in line with a universal post-

[21] In line with the principles of aid effectiveness outlined at successive conferences in Paris, Accra, Busan and most recently in Mexico. These principles – including national ownership, alignment, use of country systems, harmonization, results, and transparency and accountability, underpin the approach set out in this paper.

2015 agenda, host governments could increasingly finance the "platform". Funding for the "platform" would need to be greater in LDCs and fragile settings where the UNDS is engaged in support to implementation and direct service delivery and therefore has a larger "operational footprint".

    - Stronger emphasis on pooled funding, that provides "as if" core financing for integral parts of One Programmes in support of the SDGs, replacing the previous situation where pooled funding operated as "residual funding" to meet resource gaps in One Programmes (as is the main critique of some commentators[23]). This could include global pooled funding mechanisms with country-specific windows, and/or repositioned pooled funds at country level, in support of the UNDS role in supporting SDG implementation and monitoring at country level, as well as for critical functions such as normative and policy support, evidence and data, convening and consultation, with all activities to be captured in a comprehensive One Programme and associated common budgetary framework. Contributions to such pooled mechanisms could include soft-earmarked non-core contributions from donor countries, but also potentially host-country contributions, private sector funding, and so on. Specific additional windows could be opened for humanitarian-development transition funding, as well as for innovation, emerging issues that require a rapid response, and South-South cooperation, and potentially also for coordination efforts including Delivering as One.
    - Openness to different types of funding and the ability to use these resources effectively will be key, including both core, and non-core funding, as well as other financing options such as blended grant and non-grant funding modalities[22].
    - As noted above funding modalities will necessarily differ according to country context, with UN Country Teams in LDCs and fragile and conflict affected countries requiring a greater "operational footprint" than in middle-income and high-income countries. Middle-income and high-income countries would be more reliant on host country contributions, fees for service, and so on.

- **Increased importance of pooled funding mechanisms** including at the global, regional, country and thematic level. As outlined in a recent MPTF and DHF paper[23], and discussed briefly above, pooled funding can act as a vehicle for host-country, private sector, and individual giving, help pool and manage risks and ensure greater results focus, and help drive coherence, convene partners, and create communities of knowledge and practice. If, as this paper suggests, pooled funding is likely to be one key mechanism in support of multi-partner, issues-based coalitions and partnerships to implement the SDGs, the implications for the UNDS are (at least) fourfold, including as follows:
    - The need to identify when pooled funding mechanisms will add value. All issues-based coalitions need not be funded in the same way, but must be responsive to context-specific partnership opportunities including with the private sector.
    - The need to reinforce and reform existing capacities, for example, the Multi-Partner Trust

[22] Currently, only UNCDF and IFAD provide non-grant funding at the country level.
[23] MPTF and DHF (2015) "Financing the UN Development System: Getting it right for a post-2015 world – overview of Financing Instruments in the UN Development System".

Fund Office would potentially need to play an expanded role as fund manager for different types of funding mechanisms, at different levels, including global, country and thematic funds etc.

- The need to review existing thematic and pooled funding mechanisms including within agencies with a view to identifying and rationalizing duplication and overlap.
- The need to clearly identify the role the UNDS will play in new multi-partner, issues-based coalitions and global partnerships established in support of the SDGs, as well as to adjust capacities accordingly. While the role of the UNDS will necessarily vary from partnership to partnership depending on the context, sector, and UNDS comparative advantages, this could potentially include the following:
  - Providing normative, policy advice and advocacy to ensure these mechanisms align with UN principles and values, and playing a convening role within the partnership or coalition;
  - Providing fund management, in line with the principles set out in the MPTF and DHF paper – namely professionalism and excellence in fund design and administration, fund operations, and fund implementation.
  - Support for implementation in critical areas of constraint, based on country conditions, and with a specific focus on LDCs and fragile and conflict-affected settings.
  - Capacity development within the partnership.
  - Improved management of programmatic and fiduciary risks using a "pooled" approach.
  - Monitoring, reporting, and review.

- Integrated humanitarian – development – climate financing to promote recovery and resilience and better integrate **humanitarian and development efforts** at country level will be critical. The transition from emergency relief to post-crisis recovery and development is rarely linear. Just as effective emergency response, by meeting immediate needs during a crisis, can help protect hard won gains in health and poverty reduction, development planning must also be responsive to sudden changes in the needs of vulnerable populations. Investments in both humanitarian response and long-term development must be multi-dimensional and focused on enhancing the resilience of the most vulnerable populations. Looking forward, the UNDS will need to consider how to ensure greater synergies between, sequencing of and combining different financing mechanisms, as well as implications for the capacities and skills of UN staff and managers. "One Funds" at country level can offer opportunities for such sequencing, for example through the opening of "humanitarian windows" under these funds, creating efficiencies and reducing transaction costs.
- Greater priority needs to be given to **innovative funding approaches**, including at the country level, as well as to **leveraging resources and support** for global norms and commitments. Adapting successful mechanisms across sectors – such as from the health sector to climate change adaptation and mitigation and vice versa - and scaling up successful approaches, will be key. For example solidarity taxation systems, such as the international solidarity levy on airline tickets, have potential

and could be adapted to other sectors. This will also include support to ensure accountability and the centrality of UN values in innovative and non-ODA based financing arrangements. Looking forward, a measure of the success of the UNDS will be the level of funding it is able to leverage in support of normative and policy change.

- Financing **South-South and triangular cooperation** is a clear imperative in light of the priority functions discussed at the first ECOSOC workshop, and the stated expectations of Member States. In addition, there is a clear need to better ring fence financing for South-South cooperation (SSC) to more clearly demonstrate the role the UNDS plays and the impact of its support.

- The UNDS will also need to provide support to **higher income and potentially also to developed countries** in the context of a universal agenda. Innovative financing strategies in support of UN interventions in middle and high-income countries will also be key. For example, approximately one third of UNICEF revenue is generated from private individuals and the corporate sector through the fundraising activities of the UNICEF National Committees, and UNICEF offices, primarily in higher-income countries. Further, UNICEF's Executive Board recently approved official country programming in High-income Countries, to be supported by host country cost sharing arrangements[24]. UN Women is increasingly engaging cities from high income countries in the "Safe Cities" Global Initiative for women and girls, whereby these cities generate funding for their own programmes, and also support initiatives in cities from developing countries, with potential to increasingly capitalize on networks of sister cities. UN Women is currently exploring establishing a membership fee modality to help ensure financial sustainability of the global initiative. Looking forward, alternative financing models and instruments will be needed to support the UN's normative role, potentially including fees for services and knowledge products. Currently for example WIPO receives 90 percent of its income from non-state sources in fees paid for services in granting patents. Commercial activities account for 20 percent of IMOs annual revenue, primarily from the sale of publications[25].

- Finally, there are significant **inter-linkages between funding and other issues being discussed in the ECOSOC dialogues**. The sustainability, flexibility and predictability of funding is critical for the UNDS to successfully perform its key functions, deliver results and ensure greater impact, as has been stressed throughout this paper. Furthermore, governance is critical for both funding and functions. This includes not only governance of the UNDS, but also of multi-partner, issue-based partnerships. Inclusiveness is a key principle going forward. For example, in their financing dialogues, WHO and UNAIDS were able to ensure that while Member States continued to set overall priorities, all interested in making financial contributions could participate in the financing dialogue, including non-state and civil society actors [26].

This is not an exhaustive list and there are other elements to be considered, for example, how to mitigate the risks of global currency fluctuations, the need for further analysis of reporting and oversight costs, and so on.

[24] E/ICEF/2015/P/L.6
[25] MPTF and DHF (2015) "Financing the UN Development System: Getting it right for a post-2015 world – overview of Financing Instruments in the UN Development System"
[26] MPTF and DHF (2015) "Financing the UN Development System: Getting it right for a post-2015 world – overview of Financing Instruments in the UN Development System"

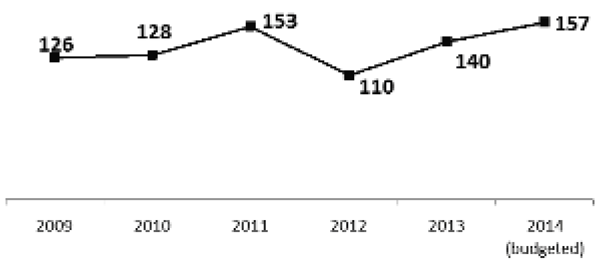
7. Questions for Member States

In light of the above analysis, and at this stage of the ECOSOC dialogue process, the following key questions are included for the consideration of Member States:

- *How can Member States collectively ensure that the UNDS is sustainably, predictably, and flexibly funded, including and critically, at the country level?*
- *What else can be done to ensure that donor funding approaches are more consistent and coherent?*
- *How can we ensure that funding aligns with agreed priority functions the UNDS will need to play in support of the post-2015 agenda?*
- *What additional strategies and approaches are needed to ensure that funding enhances integration of development and humanitarian financing - and facilitates greater coherence of the UNDS at global, regional and country levels?*
- *What financial instruments best lend themselves to South-South cooperation?*
- *How can pooled funding mechanisms best be pursued where appropriate, efficient and effective including in support of One Programmes at country level?*
- *What actions need to be taken to ensure that diversified sources and innovative funding are a hallmark of UNDS financing going forward, and that the UNDS has the agility and flexibility to receive and use such financing?*
- *How can the UNDS best use its capacity and normative mandate to leverage resources and partnerships for investments that are aligned with UN values, principles and global normative commitments?*

Annex - UN in Mozambique's Funding Situation

The United Nations in Mozambique is comprised of 22 UN agencies that signed the current UNDAF 2012-2016. UNICEF, WFP, UNFPA and UNDP are the largest in terms of delivery. The estimated budget for the first four years of the UNDAF was $723 million, or on average, $180 million per year. The highest annual delivery rate during the current UNDAF period has been $140 million in 2013 but it is expected to reach $150 million in 2014, once final figures are available.



Delivery ($US Million) UN in Mozambique 2009-2014

There was an evident over-budgeting in the UNDAF process (as is the case in other countries), due in part to the expectation that contributions to the One UN Fund would continue to be substantial. The UNDAF is divided into three focus areas, and in 2013, the Social area accounted for 57 percent, the Economic area for 38 percent and the Governance area for 5 percent of overall expenditure respectively.

The UN in Mozambique is one of the five largest international development partners in terms of volume, and the largest in terms of technical staff (total staffing is 650). UN expenditures account for around 7 percent of total ODA received by Mozambique. Despite the financial crisis, ODA to Mozambique has remained steady at about $2 billion USD in nominal terms, with some upwards fluctuations. ODA as a share of government revenue has dropped from 54 percent five years ago, to 27 percent in 2014 due to improved domestic revenues. The modality of ODA has also changed with a notable decrease in General Budget Support.

The UN in Mozambique collectively has seen increased expenditures over time; however some agencies have experienced decreasing budgets while others such as UNICEF and UN-Habitat, have expanded.

Overall, non-core resources accounted for approximately 85 percent of the UN's funding in 2012 and 75 percent in 2013. The UN is highly dependent on resource mobilization and resources are to a large extent project based (although this depends to some extent on definition).

UN in Mozambique: Sources of funding in 2013				
Bilateral donors	**UN Trust Funds**	**Private sector/foundations**	**Multi-laterals**	**Other**
CIDA SIDA Danida US (USADI, USG/PRM etc) Norway Spain Switzerland	Global Environment Facility (GEF) UN CERF UNAIDS Enhanced Integrated Framework (EIF) Trust Fund	Booyoung Bill and Melinda Gates Foundation Gucci Helen Keller International (GAIN) TEBA Caterpillar	EU WB	Government of Mozambique UNICEF National Committees

Australia (AusAid) Belgium DFID Netherlands Portugal Germany Brazil	Global Facility for Disaster Reduction and Recovery (GFDRR), Cities and Climate Change Initiative Cities Alliance			

As is the case in other DaO pilots, resources contributed to the One Fund as a funding mechanism for the UNDAF have decreased since the early years of DaO. A total of $93 million has been channeled through the One Fund since 2008. While in 2009, 20 percent of funding for UN activities was through the Fund, in 2013-2014 this had fallen to 6-7 percent of total UNDAF annual delivery. Joint programmes have continued to be important as a modality however, and represented 20 percent of UNDAF delivery in 2013[27]. The largest single contribution to the One Fund during the current UNDAF period was an MDG4&5 joint programme on MNCH funded by Canada for $20 million. 27 percent of the UN's delivery was through joint initiatives in 2013, an increase compared to 2009.

Looking forward, the UNCT is more actively promoting the One Fund, in particular joint results/areas/products within this framework, and as a mechanism for emergency funding; seeking closer collaboration with the World Bank, including on funding mechanisms; exploring Government contributions; and seeking contributions from non-traditional donors such as Korea. The UNCT is also improving use of the Common Budgetary Framework as a mechanism for joint reporting, monitoring and communication to strengthen resource mobilization and contribution management.

[27] Two food security joint programmes accounted for the bulk of joint programme resources, funded by the EU and Belgium. The EU did not channel resources through the One Fund at the time because there was as yet no agreement between the MPTF and the EU at that time. For Belgium the food security fund requires bilateral agreements.