

Background Note

Funding situation of the UN development system

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1. Introduction

The aim of this background note is to provide a brief overview of some of the main funding-related issues in the UN development system (UNDS) and how these issues were created over time.

Funding for UN activities totaled some \$46.2 billion in 2014. These activities consist of peacekeeping operations, development and humanitarian-assistance activities as well as global norm and standard-setting, policy and advocacy functions. This note will be focused only on the funding for UN operational activities for development, which covers both development and humanitarian operations (see Box 1 for the definition of some key terminology used in this note).

Funding for UN operational activities for development (UN-OAD) reached \$28.4 billion in 2014, the highest volume ever. The majority of these resources were voluntary in nature, while some were assessed. These funds came in the form of both core and non-core resources (see Box 1). Core resources are non-earmarked which means that the UN entity receiving them can use them to finance any programme within their strategic plan. Non-core resources have restrictions on where and/or how they can be spent, as determined by the donor. For example, the donor may make a contribution for a specific project in a particular programme country.

Box 1: Key terminology used in this note

Assessed contributions: These are mandatory financial contributions that countries pay in order to be a member of the United Nations organization. It can be thought of as a membership fee. The amount that each Member State must pay is determined by the General Assembly and dependent on the country's wealth, stability and population.

Voluntary contributions: These are contributions that countries and other donors make to the Organization on a voluntary basis. In other words, they are contributions which are not assessed. Over the past 25 years, voluntary contributions have increased as an overall percentage of the funding that the UN receives.

Core contributions: These contributions are resources provided to UN entities which are commingled without restrictions and whose use and application are directly linked to the multilateral mandates and strategic plans that are approved by the governing bodies of individual UN entities as part of an established intergovernmental process. All assessed contributions are core by nature; however voluntary contributions can be either core or non-core, depending on whether the donor places any restrictions on their contribution.

Non-core contributions: These contributions are earmarked and thus restricted with regard to their use and application. Since the use of non-core resources are at least partly determined by the donor, 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. All non-core resources are voluntary in nature.

Operational activities for development: This is defined as those activities carried-out by UN entities for the promotion of development and the welfare of developing countries as the primary objective. They cover both longer-term development-related activities as well as those activities with a humanitarian assistance focus.

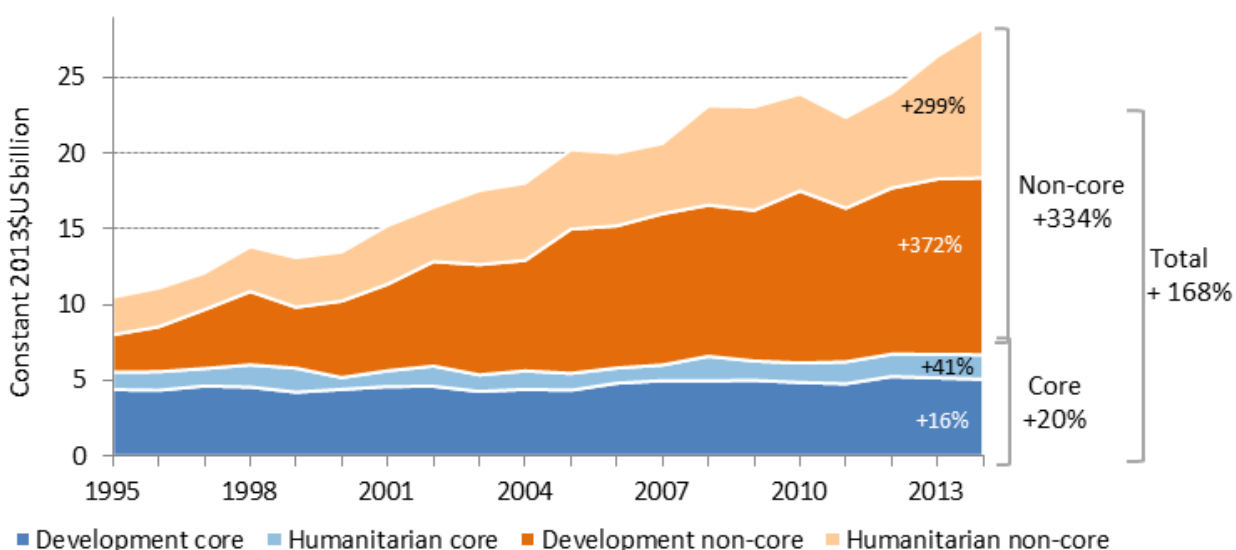
UN development system: This comprises of those UN funds, programmes, specialized agencies, departments and offices, or simply 'UN entities', which have a specific mandate to carry-out operational activities for development.

2. Evolution of funding the UN development system

Up until the 1990s, the vast majority of funding for UN-OAD was core/non-earmarked in nature. This was true for specialized agencies where the core funding was in the form of assessed contributions as well as for the UN funds and programmes which relied almost exclusively on voluntary contributions. In the early 1990s, funding began to increase rapidly, however this increase was almost entirely due to a significant increase in non-core/earmarked resources. 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 when viewed in real terms¹. The stagnant growth in the level of core funding applied not only to the UN entities that rely entirely on voluntary contributions but also to the UN specialized agencies that receive assessed contributions.

The arrival of the MDGs in 2000 further accentuated the trend towards non-core funding of the UN development system as donors exhibited greater preference to earmark their contributions to specific development goals. 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. Non-core funding therefore continued to increase rapidly while core funding grew very slowly (see Figure 1).

Figure 1: Real change over time of funding for UN-OAD, 1995-2014
(with percentage change relative to 1995)



3. Challenges arising from the trends in funding

The funding trend over the past two decades can largely be described by two prime attributes: i) quantitative growth, and ii) qualitative change. This has led to a number of funding-related challenges, in particular the need to ensure flexibility and predictability of resources as well as to reduce the fragmentation of resources.

¹ The growth rates in real terms takes into account both inflation and exchange-rate fluctuations.

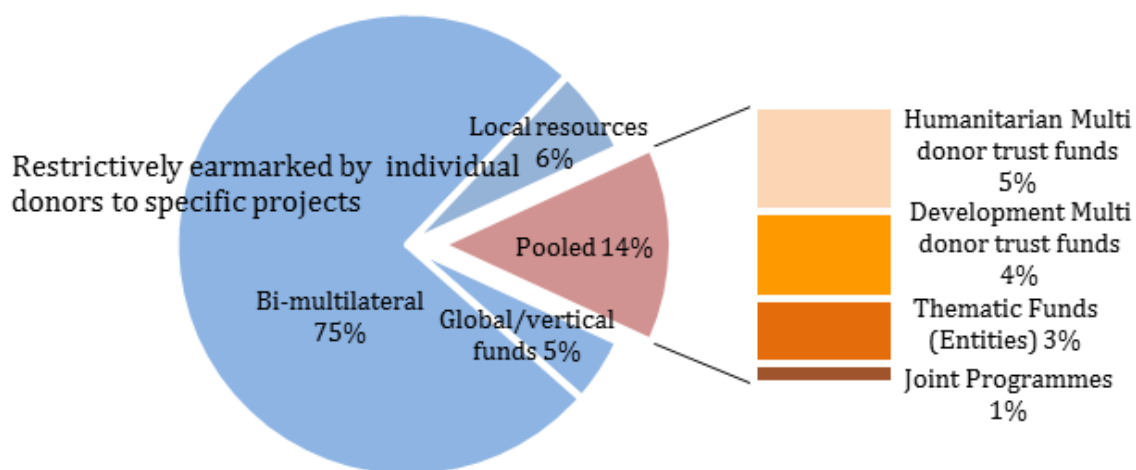
(a) Review of flexibility of contributions to the UN development system

Currently over three-quarters of resources for UN-OAD are in the form of non-core funding. Such funding tends to be earmarked by single donors to specific projects, thereby limiting the flexibility that UN entities have on the use of the funds they receive. Mobilizing flexible resources is important as it allows a UN entity to distribute its resources evenly across priority areas identified in the strategic plan adopted by their governing body. Highly flexible resources therefore facilitate the ability of entities to allocate resources towards under-funded programmes. Furthermore, contributions which are tightly earmarked by donors can sometimes finance programmes which are at the margins of an entity's mandate. This can have the effect of stretching an entity's mandate to the point where it increases overlap and competition with other UN entities.

Pooled funds have been created in an effort to try to mitigate the effect of the trend towards increasingly more earmarked resources by enhancing the level of flexibility generally associated with non-core resources. Most pooled funds can be categorized under one of two types: 1) multi-donor trust funds (MDTFs), which are multi-entity operations designed to support a clearly defined broad programmatic scope and results framework, and 2) entity-specific thematic funds which aim to attract resources that are softly earmarked to broad outcome levels of an entity's strategic plan. With pooled funds, the UN takes the lead in making fund allocation decisions as well as fund implementation, and thus these types of funds are a more flexible and higher quality form of non-core contributions.

However, the success in attracting donor contributions to these pooled funding mechanisms has been somewhat limited. As shown in Figure 2, about 14 per cent of all non-core flows to the UN development system in 2014 were channeled through pooled funds. This implies that the vast majority of non-core resources are still strictly earmarked by single donors to specific projects.

Figure 2: Non-core funding channels: 2014



(b) Review of predictability of funding to the UNDS

The funding trends that have prevailed over the past two decades have also had a negative impact on the level of predictability associated with funding received by the UN development system. In

the case of assessed contributions quantities are known ahead of time within a certain degree of accuracy. Unfortunately, since 1999 there has been zero real growth in assessed contributions to the UN development system. As a result, UN entities are increasingly reliant on voluntary contributions. Voluntary core funding provides UN entities with the funding bedrock needed for them to engage with governments on projects with a long-term vision, but as illustrated above the growth in such funding has been minimal. The year-by-year, sector-by-sector, project-by-project nature of strictly earmarked/non-core funding weakens the ability of UN entities to engage in a long-term, predictable and strategic collaboration with governments. Furthermore, non-core funding tends to fluctuate from year-to-year considerably more than core funding as illustrated in the Secretary General's report on the QCPR².

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 their respective strategic plans. 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 UN 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 targeted outcomes of UN entities.

(c) Review of the donor base

In order to enhance the predictability and stability of funding it will be important for UN entities to diversify their funding base, thereby reducing reliance on a few donors. If entities continue to rely heavily on a particular donor country then a political or economic change within that country could have a significant negative impact on the entity's strategic plan. Expanding the donor base can also be seen as the most feasible way to increase the core funding base of the UN development system, since getting traditional donors to alter their funding policies has proved to be challenging.

Currently, over three-quarters of funding for UN-OAD are received directly from Government donors. Another 11 per cent comes from the European Commission and other multilateral organizations, including global funds³, while the remaining 12 per cent comes from non-governmental and private sources (see Figure 3).

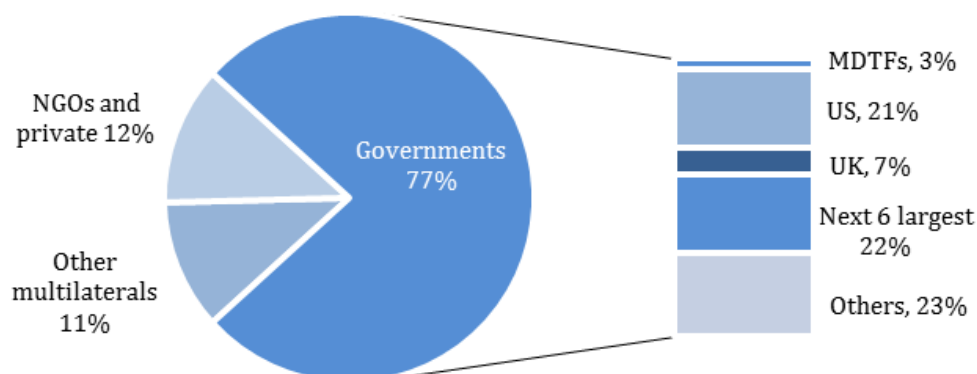
The portion of funding coming from non-governmental and private sources is considerably larger compared to 10 years ago when this group represented an estimated 3 to 4 per cent of total funding for UN-OAD. Despite this emerging source of funds, overall the UN development system remains heavily reliant on just a few Government donors. Some 39 per cent of all contributions received directly from Governments came from just two donors (U.S. and U.K.), while the top 8 Government donors accounted for over two-thirds of Government contributions and nearly half of the \$28.4 billion in total funding received in 2014.

² See A/71/63 paras 66-68

³ The main global funds are the Global Environment Facility (GEF), the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and the Global Alliance for Vaccines and Immunization (GAVI).

Figure 3: Main groups of funding sources

Total contributions: \$28.4 billion

**(d) Shift in funds from development to humanitarian**

Another increasingly noticeable trend in the funding of UN-OAD is the rapid increase in funding for humanitarian assistance activities compared to funding towards longer-term development objectives. Since 2007 funding for UN humanitarian activities has more than doubled in real terms, while development-related funding has increased by just 20 per cent. As of 2014 over 40 per cent of all funding for UN-OAD is spent on humanitarian assistance activities. This share is expected to increase even more given the on-going crisis in Syria and Iraq. This data poses the question whether the volume of funding for longer-term development-related activities is being negatively impacted by a surge in funding needs to address humanitarian crises.

(e) Expenditures and fragmentation

In 2014, total expenditure on UN-OAD was \$28.4 billion which represents about 18 per cent of total Official Development Assistance. About 71 per cent, or \$20 billion, of this amount went to operational activities at the country level. The other 29 per cent of expenditures related to: (a) programme activities at the regional and global levels; and (b) programme support and management/administration costs.

The \$20 billion in country-level expenditures were spread out across 149 programme countries and 34 UN entities. Figure 4 shows the expenditures in the 100 largest UN programme countries and the portion of expenditures that was financed from core resources. Table 1 shows that the 10 largest programme countries accounted for over 40 per cent of all UN country-level expenditures in 2014 while, at the other end of the spectrum, 9 per cent of UN country-level expenditures was spread-out across 79 programme countries. Given these numbers, it is not surprising that fragmentation of aid is an issue of growing concern, especially given that the majority of these funds are from single donors for particular projects which are carried-out by individual UN entities, as mentioned earlier.

Growing fragmentation of aid has the tendency to raise transaction costs since it reduces economies of scale. It also mitigates UN system-wide coherence which in-turn encourages competition and overlap among UN activities. Core funding and non-core pooled funding reduces fragmentation since these types of resources are combined, resulting in a larger pool of money.

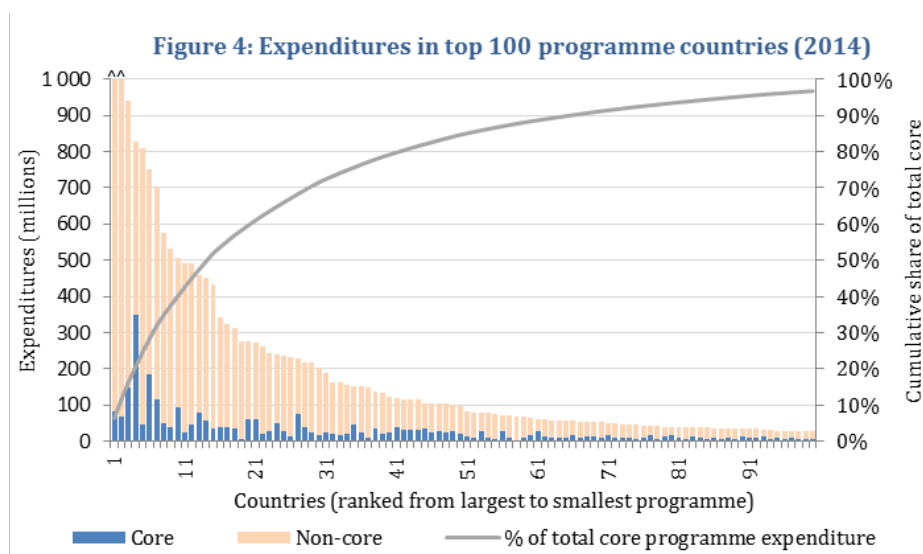


Table 1: Grouping countries by programme size

<i>Programme country expenditures (2014)</i>	<i># of countries</i>	<i>Share of total expenditures</i>
Over \$500 million	10	40.1%
B/w \$200 & \$500 mn	20	31.4%
B/w \$50 & \$200 mn	40	19.7%
Less than \$50 mn	79	8.8%

4. Sustainable, predictable and flexible funding will be essential if the UNDS is to be fit for the 2030 Agenda

The UN development system has a particularly important role to play in the new SDG era in strengthening global norms, providing integrated and evidence-based policy advice, support and address inequality through direct support and service delivery and strengthening capacity development to name a few essential functions. For UN entities to play this role effectively, including delivering demand-driven results at country level that are tailored to national needs, more flexible and predictable funding will be vital. As highlighted in this note, the current funding trends are for the most part moving in the opposite direction towards reduced flexibility, less predictability and more fragmentation of resources.

Increasing the quality of funding will be particularly important in the post-2015 era given the ambitious 2030 Agenda adopted last year. This can be achieved by taking steps to ensure an adequate base of core funding as well as either broadening the level at which the earmarking is done or by introducing more flexible provisions such as channeling more resources to pooled funding mechanisms. Ways to achieve this are being discussed at the structured financing dialogues which are taking place within a number of different UN entities. Another important mechanism which could help strengthen the current funding situation is the 2016 Quadrennial comprehensive policy review, or QCPR, which is a resolution currently being negotiated by Member States that provides system-wide guidance aimed at strengthening the UN development system's support to programme countries. This resolution is expected to be adopted in December of this year.