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Financing the UN Development System
Getting it right for a post-2015 world

Overview of Financing Instruments in the UN Development System

Multi-Partner Trust Fund Office

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Overview

The purpose of this report is to familiarize the reader with the financing instruments of the UN Development System (UNDS) and their possible evolution as part of the post-2015 development agenda. In 2013, overall contributions to the entirety of the UN system amounted to around $44.6 billion, with some $27 billion for operational activities (including both development and humanitarian activities but excluding peacekeeping and normative activities). In the UN system there are primarily five types of financial instrument: assessed contributions; voluntary core contributions; negotiated pledges; earmarked funding and fees. The instrument relates to the conditions that are applied to the provision of the contribution.

The majority of UN organisations are financed with hybrid arrangements, although their respective importance substantially varies. For example, some 90% of WIPO's (World Intellectual Property Organization's) income comes from fairly predictable core non-state sources in the forms of fees paid for WIPO's services in granting patents. Contrary to the perception that they are earmarked, non-state contributions can constitute reliable and predictable sources of regular un-earmarked income for some agencies. However, the rapid growth in earmarked contributions has characterised the financing of most UN development agencies for the past twenty years. In some respects this is the expression of a development aid increasingly focused on clear goals and measurable targets. The efforts to rebalance core and earmarked resources have led to a number of initiatives, including the consolidation of all resources into integrated budgets and the establishment of thematic trust funds.

The financial architecture for development continues to evolve at a rapid pace. Today, three aspects are of particular relevance to the UNDS: the growth of issue-based multi-agency pooled financing; the challenge of leveraging Official Development Assistance (ODA); and the role of innovative finance.

Issue-based financing: Issue-based multi-agency pooled funding mechanisms have been a growing feature of the global financing architecture in the health and climate sectors for the past two decades. They have been transformational with respect to scale, partnerships principles, financing models and investing for impact and measurement of results. The development of the Sustainable Development Goals as the anchor of the new development agenda is likely to continue to attract multi-partner financing mechanisms that are issue-based. The success of issue-based UN pooled financing instruments will depend on professionalisation and excellence at three levels: fund design and administration, fund operations and fund implementation.

The role of ODA: Over the last 20 years, the global economy has tripled in size to over $75 trillion. This enormous expansion is impacting the role of ODA. While there continues to be a group of countries in which ODA plays a critical role, in many countries, the key challenge has become the ability of the public sector to enable the most productive development of private assets. The issue of leveraging ODA is particularly central to climate finance today and is likely to become a core feature of the post-2015 development finance landscape in most areas. In this context, it will be important to be able to measure the volume of resources that are leveraged by the UN system to support UN goals but which are not channelled through the UN.

The role of innovative finance: Innovative sourcing and spending instruments are expected to grow in importance as they can leverage larger private flows and provide new and predictable resources for sustainable development. With respect to its impact on the UN system, this report highlights three specific dimensions: innovative spending (leveraging and result-based financing instruments), innovative sourcing at the interface of the public and private sectors, and new sources of financing within the public domain. Designing and implementing innovative instruments can be complex and fraught with pitfalls. It will be critical for the UN system to establish a knowledge-sharing platform on innovative financing to prioritise its engagement with these instruments. Work on innovative sourcing within the public sector should build on broader public finance reform.

The acceleration of globalisation calls for a strengthened role of the UN system in developing global norms. In this respect, the critical role of assessed contributions needs to be highlighted. These can be further complemented with a range of instruments.

The alignment of the UN development system behind a set of clear Millennium Development Goals had radical implications for the way it was financed over the past 15 years. The need for the UNDS to reposition itself at the interface of the world of grants and the world of private sector flows to respond to the post-2015 development agenda is likely to have similar implications.

Introduction

The challenge of financing sustainable development has been analysed by the Intergovernmental Committee of Experts on Sustainable Development Finance. It proposes a basket of more than 100 options for consideration at the Addis Ababa Conference and recognizes that all sources of finance will need to be employed: public and private, national and international. It will get high visibility at the Finance for Development Conference to be held in July 2015. No doubt this challenge will also feature in the final post 2015 development framework to be adopted in September 2015 and in the negotiation of the new climate change agreement in Paris in December 2015.

Issues related to the financing of the UN development system constitute a subset of the broader challenge. At the intergovernmental level, discussions on the subject of financing in the UN General Assembly (UNGA) and the Economic and Social Council (ECOSOC) have for years been dominated by the political pressures to exercise cost containment over assessed budgets while at the same time reflecting concern over the growing imbalance between core and non-core resources.

As a complement to these discussions, this study attempts to shine light on the full range of financing practices and mechanisms currently in use in the UN development system, some of which may not be well-known. These include the development of a new model of integrated budgeting to increase the flexibility of earmarked funding practices; the mobilization of individual private contributions; the use of digital technology in income generation; the practices of fee-based organisations; the participation in Advanced Market Commitment schemes; and system-wide pooling arrangements.

The study also discusses the way different financial instruments have evolved historically in response to emerging functional requirements. Analysis of the full range of innovative instruments currently being used and their evolution might stimulate the UN development system and partners to explore additional approaches to financing.

The Dag Hammarskjöld Foundation and the Multi-Partner Trust Fund Office (MPTFO) have prepared this study jointly. It is important to note that this report uses existing financial data as provided by the UN System Chief Executives Board (CEB). There are some flaws in this data and these are commented on as appropriate. In particular between 2011 and 2012 there were some changes in accounting principles with the introduction of a new accounting methodology that makes comparisons between these years difficult to assess.

The study is divided into two parts:
Part I of the report analyses existing financing instruments in the UN development systems, providing an overview of total income sources and expenditures of UN entities. It also successively reviews non-earmarked and earmarked sources of funding, before focusing on non-state contributions.

Part II discusses in greater detail three emerging trends that are likely to influence UN financing options in the coming years. It reviews the emergence and evolution of UN Pooled Financing Mechanisms and describes the role of issue-based global funds in the health and climate sectors. It concludes with a discussion of innovative spending and sourcing instruments.

PART I

Overview of Existing Instruments and Sources of Finance

Part I provides an overview of total income sources and expenditures of UN entities. It distinguishes conceptually five types of financial instrument and three sources of finance. It further discusses the growth in earmarked resources and in non-member state contributions over the past two decades.

Section 1.1 The financing landscape

In the UN system there are primarily five types of financial instruments -- assessed contributions, voluntary core contributions, negotiated pledges, earmarked funding and fees. The instruments are defined by the conditions that are applied to the provision of the contribution**. *Assessed contributions*** refer to arrangements whereby countries are assessed a fixed amount calculated by means of an agreed formula which represents the cost of membership. ***Negotiated pledges*** refer to an agreement, which is legally binding on the countries that agree to the particular scale in question, as practiced in the International Fund for Agricultural Development (IFAD), the World Bank (International Development Association - IDA). ***Voluntary Core contributions****,* as the name implies, are strictly voluntary contributions that are non-earmarked. These are sometimes referred to also as 'core' or 'regular resources' or 'voluntary non-specified resources'. ***Earmarked funding****,* sometimes called 'non-core resources', refers to voluntary contributions that are earmarked, either to a certain use or theme or to a country/region. In addition, there is a growing collection of separate ***fees*** for knowledge, management and product services.

Five types of financial instruments

Funding for the United Nations and its agencies comes primarily from five sources.

Assessed contributions are payments made as part of the obligations that nations undertake upon signing of the treaty. Assessments on member states provide a reliable source of funding to core UN functions through the UN regular and peacekeeping budgets, based on each country's ability to pay.

Voluntary core contributions are left to the discretion of each individual member state.

Negotiated pledges are legally binding on the countries that agree to the particular scale in question.

Earmarked funding refers to voluntary contributions that are earmarked, either to a theme or a country/region.

Fees are sources of funding stemming from charges for additional services such as knowledge, management and product services.

Table 1 presents a spectrum of financing instruments. While the table gives a framework for defining the financing instruments discussed, in reality, most UN organisations are financed through a hybrid of such instruments. Even the most rigid financing mechanisms often give way to the practical necessity of responding to specific needs on the ground.

Understanding the trade-offs at different points along the spectrum is an important exercise to undertake. For instance, there is a fundamental trade-off between the discipline provided by the overall framework and the possibility of greater flexibility within the framework and a very partial framework with highly earmarked financing alongside it. Assessed contributions and budgets are typically subjected to considerable scrutiny by the entire membership regarding the core functions to be financed. Voluntary core funds are often scrutinized in practice with greater attention by the major funders. At the other end of the spectrum, earmarked funding tends to be more opportunistic in character and there tends to be less attention to respecting the discipline of focusing on core functions and organisational mandates.

In looking at burden sharing among donors, it is important to distinguish between burden sharing that characterises the financing of a particular entity and the informal burden sharing arrangements between donors across the range of multilateral instruments. Highly unbalanced burden sharing within a particular entity might be balanced in another entity.

In looking at the imbalance between regular and earmarked funding, it is important to recognize that in many cases earmarked funding that is channeled through the UN system has already been earmarked within the budgetary processes of the donor government. The only choice available to the UN is whether to accept the earmarks or whether to take the multilateral instrument away from donor governments seeking to find the most effective way of disbursing their earmarked funds.

Another aspect to keep in mind is that some earmarked funds have already been delegated by the donor to the country level so that when they come to the attention of the UN, they have already been earmarked to a specific country. From the point of view of the recipient country, however, they may often appear very ‘core-like’.

Table 1: The spectrum of financing instruments

Type of Contribution	Assessed	Core voluntary	Negotiated pledge	Earmarked funding	Fees
What is the central characteristic of the financing instrument?	Price of membership	Voluntary, annual pledges	Allocation of responsibility of participating member states defined	Funding is earmarked to theme, country or project; (not earmarked to procurement)	Collection of separate knowledge, management and product fees from both state and non- state actors
How is burden shared?	Formula	No burden sharing mechanism; purely voluntary	Allocation of responsibilities formalized	No institutionalized burden-sharing formula	Flat or negotiated fees
How are resources allocated?	Established in budget	Established in budget	Established in budget	Allocated in negotiations between donor, UN entity and recipient	Various
What is the decision making process?	Overall membership	Overall membership	Participating membership	Specific parties concerned	Various

Sources of financing

The UNDS receives its funding from a number of sources: direct government contributions to UN organisations, non-state contributions and contributions from intermediary organisations (either other international organisations or hybrid entities such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFTAM)).

Direct government contributions can come from central ministries or sectorial ministries. The source within governments may well influence the selected funding instrument. Public funding may come from the collection of separate taxes or levies. To date these are channelled through governments, but it would potentially be possible for the UNDS to receive income generated from global taxes to be directly allocated to the UN. While this is possible, at this time it is improbable that such a system would be agreed.

Non-state contributions come from a myriad of sources: corporations, civil society, individuals, foundations, universities, regional and local authorities. These contributions can be either voluntary core contributions to the overall budget of the entity or earmarked funding. Another source of contribution is income generated by the charging of fees for services provided. As management fees charged on public funds, this in practice generates income streams for the overall budget of the entity.

Furthermore, it is important to distinguish between the mobilisation of resources through the UN system and the leveraging of resources outside the UNDS to support UN goals. A substantial amount of resources are leveraged by the UN system to support investments in UN goals, which are not channeled through the UN. Over the last decade, it has become important to capture and measure the volume of resources leveraged in this way.

Section 1.2 Resources of UN entities

This section provides an overview of total income sources and expenditures of UN entities. In 2013, overall contributions to the entirety of the UN system amounted to around $44.6 billion. Some $2.6 billion in assessed contributions was provided for the UN's regular budget and another $7.3 billion for peacekeeping. $7.0 billion was allocated to normative and standard setting activities. The remaining $27 billion funds covered operational activities. The definition of operational activities includes both development and humanitarian activities but excludes peacekeeping and normative activities. This section breaks down these contributions by agency and types of funding instruments. This information is summarized in four tables:

The data used for tables 2 through 6 and table 8 has been extracted in large part from the United Nations systems Chief Executive Board (CEB) "Budgetary and financial situation of the organisations of the United Nations System" released in the years 2014 and 2012 and encompassing financing information from 2006-2013[1]. Figures used for in-text analysis will have been derived from the updated tables provided in this document.

Table 2 provides total revenue by organisation and by revenue category for the year 2013. This table differentiates between assessed, voluntary non-earmarked, earmarked and revenues from other sources. In general, revenues from other sources refer to amounts that do not meet the definitions used for the main categories (fees, private voluntary core contributions, etc.).

Table 3 relates only to total assessed contributions for the years 1975-2013 (every 5 years). Figure 3 compares the growth in assessed contributions in nominal and real terms, both in respect of the UN regular budget as well as for all UN system assessed budgets in total (excluding peacekeeping; also refer to note on methodology).

Caution is need in interpreting this data. On the one hand one could focus on the fact that over this 40 year period, total assessed contributions have almost doubled. On the other hand, the increase in real terms since 1995 has amounted to barely more than 10%. From this perspective one might focus on the fact that in the two decades that have seen a threefold increase in global GDP and a transformation of the global economy of historic proportions, there has only been a marginal increase in assessed contributions. If the UN system was being called upon to support the strengthening of the normative and standard setting agendas that the acceleration of globalization calls for, one might have expected to see significant investment in the capacity of the UN system to perform these functions.

Underlying the interpretative framework one choses to use lies the reality that the role of assessed contributions in the overall financing architecture of the UN system has evolved. The

[1] Reports A/69/305 & A/67/215

UN system was designed around the concept of communities of practice that would create the building blocks to peace through their pursuit of common goals and interests. Each of the agencies that were established was financed through assessed budgets. Countries, as the cost of membership, were required to invest in organisations whose purpose was to build communities of interest that would create the building blocks for peace and help bind countries together. Purpose came together with financial instruments in support of a multilateral vision.

With the acceleration of globalization that took place in the early 90s, the architecture of the financing system changed shape. Assessed budgets for core functions became supplemented by extra-budgetary funding for technical cooperation and development activities. As we explore in the section on 'Earmarked Funding', the relative weights of assessed and earmarked contributions underwent a major transformation over the next decade. The UN system needs to absorb the implications of the transformation that has occurred and to develop a strategy that builds on the legacy it has inherited.

Table 4 relates to total expenses by organisation for the years 2006-2013 and **Table 5** relates to total expenses by organisation and by expense category for the year 2013. This last table differentiates between development and humanitarian assistance, peacekeeping operations, technical cooperation and normative activities. This presentation does not use the category of 'operational activities', which would normally include development and humanitarian assistance. A substantial portion of what is included is listed as technical cooperation. While the table provides a useful overview, it is clear that different agencies are reporting expenditures using different definitions (for example WHO reports all its expenditures as technical cooperation).

Table 2

Total revenue by organisation (2013)

(in millions of US dollars)

Organisation	Revenue categories				
	Assessed contributions	Voluntary contributions, not specified	Voluntary contributions, specified	Revenue from other activities	Total
United Nations	2,606		1,440	79	4,125
UN peacekeeping	7,258		30	47	7,335
FAO	512		744	79	1,334
IAEA	452		227	4	683
ICAO	82		132	15	229
IFAD		379	97		477[2]
ILO	431		281	15	727
IMO	50		8	20	78
IOM	43	7	1,066	113	1,229
ITC	39	17	26	1	84
ITU	124		19	79	222
PAHO	106		954	7	1,068
UN-Habitat	12	9	173	13	207
UNAIDS		235	46	3	283
UNDP		933	3,897	316	5,146
UNEP	185		440	5	631
UNESCO	359		370	56	784
UNFPA		460	504	49	1,013
UNHCR	39	716	2,389	20	3,165
UNICEF		1,106	3,588	158	4,853
UNIDO	106		157	1	264
UNITAR		0	20	2	22
UNODC		34	282	3	319
UNOPS			6	711	717
UNRWA		573	548	57	1,179
UNU			46	37	83
UN-Women	8	157	118	5	289
UNWTO	17	1	3	4	24
UPU	40		21	9	70
WFP		286	4,095	155	4,536
WHO	475	132	1,929	79	2,614
WIPO	20		10	368	398
WMO	74		33	4	111
WTO	220		24	56	300
Total	**13,254**	**5,046**	**23,725**	**2,571**	**44,632**

[2] IFAD's core programme of loans and grants of $1,066 million in 2013 is not fully captured in the UN statistical tables.

Table 3

Assessed contributions by organisation (1975-2013) (in millions of US dollars)									
Organisation	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**	**2013**
United Nations	268	510	618	888	1,135	1,089	1,828	2,167	2,606
FAO	55	120	157	267	311	322	377	507	512
IAEA	27	75	77	161	203	217	278	392	452
ICAO	13	17	26	32	49	49	59	77	82
ILO	37	114	128	179	233	234	265	409	408
IMO	3	9	11	21	27	30	36	43	50
ITC						17	26	35	39
ITU	19	41	42	67	107	84	98	135	124
PAHO						85	92	98	106
UNESCO	59	140	79	145	224	272	305	377	327
UNIDO			40	90	123	66	91	103	106
UNWTO						7	11	16	16
UPU	19	11	9	17	28	21	27	37	40
WHO	112	205	226	340	408	421	429	473	475
WIPO	2	10	10	19	19	11	13	18	20
WMO	8	18	19	41	41	39	48	66	74
WTO						72	128	202	220
Total	**1,415**	**1,414**	**1,591**	**2,634**	**2,907**	**3,311**	**4,522**	**5,749**	**5,654**[3]

[3] 2013 Total does not include contributions to UN Peacekeeping ($7,335 million)

Figure 1: Nominal vs. real

Assessed contributions through the years (UN, All Agencies Total) 1975-2013

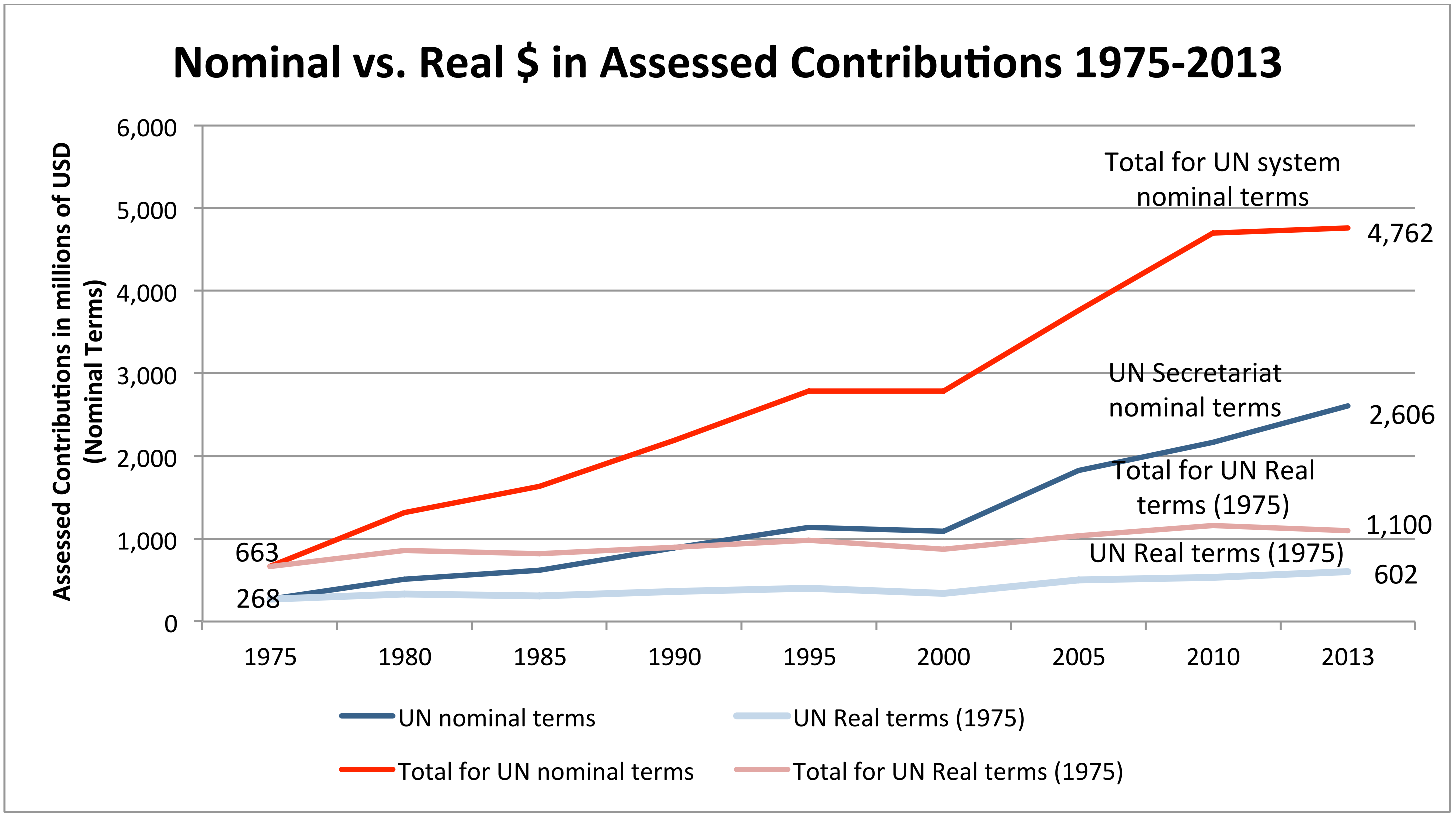


Table 4	Total expenses by organisation (2006-2013) (in millions of US Dollars)							
Organisation	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
United Nations	2,977	3,868	4,139	5,136	3,953	4,357	4,205	4,310
UN Peacekeeping					7,616	7,574	7,544	7,273
FAO	887	887	1,095	1,095	1,415	1,500	1,343	1,380
IAEA	468	527	534	570	585	522	592	606
ICAO	223	276	189	245	235	213	220	249
IFAD	133	152	162	157	784	936	186	187
ILO	444	519	504	587	587	635	629	724
IMO	56	63	59	58	68	71	80	77
IOM	733	784	44	1,027	1,359	1,310	1,231	1,233
ITC	62	66	66	71	71	87	76	79
ITU	129	133	128	140	193	208	215	213
PAHO	177	197	236	243	927	836	908	1,070
UN-Habitat	142	127	149	170	201	226	180	168
UNAIDS	200	241	245	279	284	321	280	295
UNDP	4,777	4,775	5,388	5,527	5,750	5,516	5,244	5,244
UNEP	252	290	139	231	449	611	479	602
UNESCO	575	562	494	535	797	938	806	814
UNFPA	537	629	702	800	824	825	811	913
UNHCR	1,101	1,342	1,597	1,754	1,878	2,181	2,306	2,704
UNICEF	2,337	2,767	3,081	3,279	3,631	3,794	3,613	4,082
UNIDO	197	227	222	246	225	246	315	318
UNITAR	13	14	18	17	20	22	21	21
UNODC	114	150	212	243	211	239	266	258
UNOPS					65	76	677	704
UNRWA	605	704	807	772	555	617	664	711
UNU	38	42	91	65	60	55	62	67
UN-Women						198	236	264
UNWTO	17	22	23	25	22	23	24	24
UPU					50	57	74	76
WFP	2,876	2,966	3,694	4,228	4,315	4,181	4,450	4,768
WHO	1,798	2,312	1,706	2,159	2,078	2,515	2,080	2,261
WIPO	214	255	276	295	324	341	353	369
WMO	85	82	77	92	88	83	93	84
WTO	164	180	190	188	226	231	263	297
Total	**22,331**	**25,158**	**26,268**	**30,236**	**39,847**	**41,544**	**40,528**	**42,446**[4]

[4] Peacekeeping expense data was not available for years 2006-2009

Table 5	Total expenses by organisation, by expense category (2013) in millions of USD					
Organisation	**Development assistance**	**Humanitarian assistance**	**Peacekeeping operations**	**Technical cooperation**	**Normative, treaty-related or knowledge-creation activities**	**Total**
United Nations	446	987	76	197	2,605	***4,310***
UN-Peacekeeping			7,273			***7,273***
FAO	648	391			341	***1,380***
IAEA				98	508	***606***
ICAO				125	123	***249***
IFAD	187					***187***
ILO				253	471	***724***
IMO				19	57	***77***
IOM	40	614		572	7	***1,233***
ITC	79					***79***
ITU					213	***213***
PAHO				1,070		***1,070***
UN-Habitat	26	16		103	24	***168***
UNAIDS				295		***295***
UNDP	5,244					***5,244***
UNEP	516				86	***602***
UNESCO	488			163	163	***814***
UNFPA	913					***913***
UNHCR		2,704				***2,704***
UNICEF	3,078	1,004				***4,082***
UNIDO	318					***318***
UNITAR					21	***21***
UNODC				258		***258***
UNOPS				704		***704***
UNRWA		711				***711***
UNU					67	***67***
UN-Women	264					***264***
UNWTO				4	20	***24***
UPU				47	29	***76***
WFP	453	4,314				***4,768***
WHO	139	186		263	1,673	***2,261***
WIPO	78				291	***369***
WMO				84		***84***
WTO	269			29		***297***
Total	**13,187**	**10,927**	**7,349**	**4,283**	**6,699**	**42,446**

Section 1.3:
Earmarked contributions through the years

The rapid growth in earmarked contributions to the UN system has characterised the financing of the entire UN development system for twenty years. Table 6 provides a historical overview of earmarked funding in the UN system by agency over the last decade.

It is important to understand the growth of earmarked funding in historical context. In the early 1990s, the international development community anticipated enormous growth in aid budgets as a result of the 'peace dividend' that would accompany the end of the Cold War. In reality, the end of the primary foreign policy rationale for foreign aid led to its rapid decline – by 2000, global aid in nominal terms was almost exactly the same as it had been around 1990 (namely $54 billion). This meant a substantial decrease in real terms to be compared to a doubling of resources each decade during the Cold War.

Table 6

Earmarked funding (2006 – 2013)

(Voluntary specified funding in millions of USD)

Organisation	2006	2008	2010	2012	2013
United Nations	899	1,347	1,361	1,388	1,440
UN Peacekeeping			33	68	30
FAO	481	637	891	775	744
IAEA	129	127	202	209	227
IFAD	50	138	80	75	97
ICAO	185	235	129	113	132
ILO	191	245	248	271	281
IMO	17	17	11	13	8
IOM	707	812	1,051	1,089	1,066
ITC	33	34	40	20	26
ITU	12	17	12	11	19
PAHO	137	165	741	779	954
UN-Habitat	126	155	166	136	173
UNAIDS	38	37	34	30	46
UNDP	3,637	4,156	4,311	3,857	3,897
UNEP	56	121	174	371	440
UNESCO	344	308	323	391	370
UNFPA	216	376	357	534	504
UNHCR	1,072	1,588	1,521	1,712	2,389
UNICEF	1,713	2,294	2,718	2,703	3,588
UNIDO	94	148	229	190	157
UNITAR	12	18	19	20	20
UNODC	125	288	238	321	282
UNOPS					6
UNRWA	566	767	13	376	548
UNU	24	35	37	51	46
UN-Women				94	118
UNWTO	3	7	8	5	3
UPU	6	6		21	21
WFP	2,354	4,304	3,845	3,552	4,095
WHO	1,497	1,309	1,442	1,573	1,929
WIPO	4	8	10	11	10
WMO	15	27	25	27	33
WTO	24	25	31	24	24
Total	**14,770**	**19,751**	**20,298**	**20,808**	**23,725**

Table 7: Change over time of funding for UN-OAD (Operational Activities for Development), 1996-2011

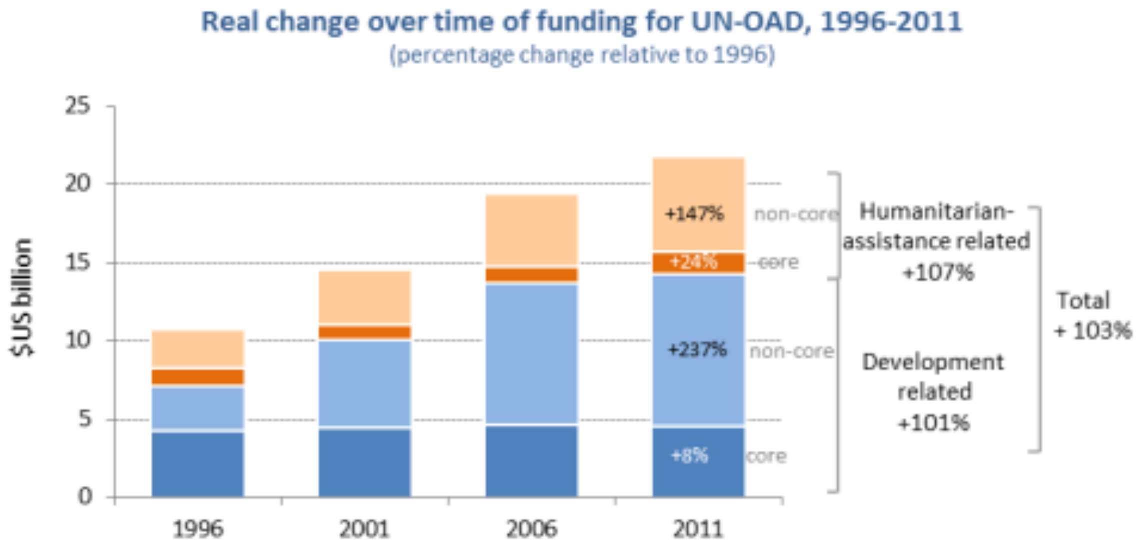
Table 7 illustrates the impact of this growth on the overall funding of UN operational activities for development (UN-OAD).

Table 7

Change over time of funding for UN-OAD, 1996-2011

		Current US$ Billion				Percentage change 1996-2011	
		1996	**2001**	**2006**	**2011**	**Nominal terms**	**Real terms**
Total operational activities for development	Core	4.2	3.6	5.0	6.4	53	12
	Non-core	4.1	6.1	12.3	16.4	300	195
	Total	**8.3**	**9.7**	**17.3**	**22.8**	**176**	**103**
Development related	Core	3.2	2.9	4.2	4.9	51	8
	Non-core	2.2	3.6	8.1	10.3	369	237
	Total	**5.4**	**6.6**	**12.3**	**15.2**	**179**	**101**
Humanitarian-assistance related	Core	0.9	0.7	0.9	1.5	62	24
	Non-core	1.9	2.5	4.2	6.1	221	147
	Total	**2.8**	**3.1**	**5.0**	**7.6**	**169**	**107**

Figure 2: Real change over time of funding for United Nations operational activities for development, 1996-2011



Development cooperation through goals

Against this background, the mission and rationale for development cooperation had to be radically redefined. The series of global conferences held during the 1990s culminated in the 2000 Millennium Summit, which crystallized the emergence of a new common development agenda. The most important element that bound together the conferences in the 1990s was the desire to define clear goals and objectives, to which the international community of states would commit. The shift to defining clear goals and setting measurable targets was the inevitable consequence of the need to provide a new rationale for development cooperation.

The alignment of the system behind a set of clear goals had radical implications for the way it was to be financed and the UNDS's institutional shape. In the mid-1990s, earmarked funding took off. This was the logical expression of a rationale for aid that focused on clear goals and measurable targets. If the case for aid was going to be constructed around achieving specific goals, it was inevitable that the system of financing the achievement of those goals would measure success against the stated goals.

In less than a decade, the funding base of the UN development system was transformed from reliance on core contributions to a strong bias to earmarked financing. This reorientation fit well with the emerging 'goals' and 'results' culture that put pressure on each organisation to identify its specific comparative advantage and value proposition. Insisting on value for money from each institution made absolute sense. The value of development cooperation was to be measured against specific benchmarks and targets. Donors would go to their parliaments and secure budgetary provisions for aid on this basis.

The explosion of earmarked funding has led to fragmentation within UN organisations, which has led to a sense of loss of control over overall budgets and a serious decline in the willingness of the international community to invest in the overall purposes of individual organisations.

Moreover, the lack of balance between core and earmarked funding, combined with the lack of flexibility in the allocation of earmarked funding, exacerbates the probability of misalignments between supply and demand. Empirically, there is a marked concentration of non-core funding in certain themes/countries.

As the negative implications of fragmented earmarked funding have increasingly received attention, there have been attempts to develop new instruments that would have the effect of softening those effects and rebalancing core and earmarked resources. Two such mechanisms are **integrated budgets** and **thematic trust funds**.

Integrated budgets

The mechanism of integrated budgets is premised on the view that a significant growth in core resources is unlikely to materialize in the forseeable future. The key issue being addressed is the need to compensate for the lack of balance between core and earmarked income by finding ways of increasing core-like qualities in the allocation of earmarked resources.

The starting point is to consolidate all available and projected core and non-core resources within an integrated budget, based on the priorities established and agreed in each of the strategic plans adopted. The integrated budget is adopted by the Member States, even though all resources have not yet been committed. The approval of the framework does not constitute a commitment. It implies on the one hand that governments have approved its contents and, on the other hand, that the agency concerned must remain within the parameters of the approved framework and should not engage in external efforts to mobilize resources.

The anticipated trade-off is greater rigour and discipline in the priorities and focus areas of specific agencies and greater confidence and trust established with donors around those priorities leading to more scope for flexibility.

The policy basis for integrated budgets is provided in paragraphs 40 to 45 of the UN General Assembly's 2012 landmark resolution 67/226, on the Quadrennial Comprehensive Policy Review. Paragraph 40 refers to the need for increased predictability and quality of funding. It argues that increasing the quality of non-core contributions can contribute to greater predictability that will exist for any specific area within the integrated budget based on greater flexibility and room to allocate resources across specific budget lines.

Increasing the quality of earmarked contributions can be made either by increasing the level at which the earmarking is done or simply by introducing more flexible provisions. The idea here is that within the assurance provided by an approved structure of an integrated budget, donors might be willing and able to introduce such flexibilities.

An extremely important component for improving the quality of non-core contributions is greater transparency in allocating non-core resources in all areas of the integrated budget. In order to increase a donor's understanding of these benefits, a completely transparent online reporting system is important – one that captures in real-time both surpluses and shortfalls in the allocation of non-core income within the budgetary framework.

In addition, establishing a disciplined and rigorous budgetary framework should make it possible to streamline reporting, monitoring and evaluation processes leading to considerable increases in efficiency[5]. In particular it should enable an increase at the level of some of the reporting that would eliminate multiplication and duplication.

Case study: The WHO experience

WHO's financing dialogue began in January 2010, when WHO convened an informal consultation on its future financing. The second such meeting was held in Geneva on 25d 26 November 2013, and brought together 265 representatives from 90 member states and 12 nond member state partners.

According to WHO's website, the financing dialogue "aims to ensure a match between WHO's results and deliverables as agreed in the Programme Budget and the resources available to finance them, with the ultimate objective of enhancing the quality and effectiveness of WHO's work."

The website goes on to report that during the Financing Dialogue meeting, the Secretariat reported that 61% of the $4 billion required for the 2014-15 programme budget was now available. For the first time, member states and other contributors provided funding projections to enable better planning for the new biennium. These projections, totaling just under $1 billion, brought the proportion of programme budget funding that is available or projected to around 85%.

The outcome report indicates that significant progress was made, and this was substantiated through informal consultation both with government representatives and the WHO Secretariat. What lessons can be learnt, however tentative, from the experience to date?

Perhaps the first interesting point to note is that there was a big focus on the quality of funding. WHO faces a situation where only about 25% of its financing comes from assessed budgets. The result was a level of unpredictability and a misalignment between supply and demand that was impacting the overall effectiveness of the organisation. The likelihood of significant increases in assessed resources did not seem realistic. Focus, therefore, was on the need for increased flexibility of non-core resources so that they could be deployed in a way that better matched supply with demand.

This, in turn, required a robust strategic framework that established clear priorities and a real sense of focus. Approval by the World Health Assembly (WHA) of an such a strategic framework was the precondition for greater flexibility. Greater discipline regarding the focus areas that WHO would work in was the trigger for exploring greater flexibility in the use of earmarked resources.

A specific challenge that WHO faced was the issue of how to recognise and include the role of non-state actors, who represented a significant percentage of earmarked resources, while not diminishing the prerogative of member states to set overall priorities.

[5] See para 44 of resolution 67/226.

WHO established a number of important principles that created enough political space to ensure some progress. Demonstrating their overall political support for the strategic framework, member states approved an integrated budget comprising both assessed and non-core contributions. This was in part an unfunded budget framework and it set limitations on the areas in which WHO could mobilise resources, but it firmly established the programme's multilateral credentials paving the way for increased flexibility.

The World Health Assembly, consisting only of member states, set the priorities. This protected the prerogative of Member States to establish the strategic framework without interference of any specific non-state interests. However, it was agreed that the financing dialogue, which followed the establishment of the framework, would be open to all interested in making financial contributions. This ensured a more inclusive process - one able to accommodate the non-state sector without whose participation the idea of flexibility would have been much more limited.

Perhaps the last critical piece in the jigsaw puzzle was the principle of online, real time, transparency. For donors to become more flexible in their allocation of non-core resources, they had to be able to see the problem for themselves. In other words, they need to see mismatches between supply and demand and why they were being asked to reallocate funds from areas of over-supply to areas of strong unmet demand. The website that WHO is constructing will make the information easily available and is seen as a critical element needed for the system to work.

In 2015, the New York-based UN funds and programmes have been mandated to explore models similar to WHO's, for their own budgetary frameworks.

Thematic funding

Thematic funding has become a major feature of the broader global financial landscape. Within the UN system, this has become reflected by a number of initiatives to develop thematic funding lines that would provide for greater flexibility. Nonetheless, thematic funding mechanisms remain quite limited in scope, amounting, for example, to some 7% of overall funding in UNICEF. In other agencies, such as the United Nations Development Programme (UNDP), the bulk of thematic funding is provided at the country level.

Thematic funds benefit from being aligned with specific strategic goals of an agency, while allowing for long-term planning and sustainability. Thematic funds vis-à-vis other earmarked funding modalities have lower transaction costs and less burdensome reporting needs. On the downside, thematic funding can lead to distortions in priority setting and to an approach to programming that reinforces a silo mentality. They are useful instruments but remain relatively marginal within the UN Development system's overall financial architecture.

Section 1.4:
Non-state sources of income

This section elaborates on the importance and evolution of non-state resources for the UN Development System.

Table 8 below provides an overview of all sources of non-governmental income. There has always been something of an implicit assumption that non-state contributions are earmarked for specific purposes. In line with this implicit assumption, the methodology adopted by the UN excludes non-state sources from its statistics on non-earmarked contributions. Non-earmarked resources from non-state sources are therefore not included in Table 8 (note, however, that Table 2, on overall sources of income, captures this type of funding in the column on "other sources of income").

There are two sources of non-state income that constitute reliable and quite predictable sources of regular non-earmarked income. These are individual donations, as evidenced by UNICEF's extremely successful experience, and fees, as evidenced by WIPO's financial model. In both cases, income from these sources include significant regular (non-earmarked) contributions. We explore briefly below the issue of individual contributions based on the case of UNICEF as well as the issue of fees based on the cases of WIPO, IMO and UNOPS.

A number of observations can be made from these different case studies:

- Different organisations pursue different approaches for good reasons and they relate to the character of their constituencies and their historical experience. There is no single model to be followed and, in that respect, it is quite logical that different governing bodies provide variations in the intergovernmental guidance which they give.

- The sources of income vary enormously and require different governance arrangements. Sources of non-state funding include regional authorities, specific companies, broad multi-stakeholder partnerships, civil society, foundations and individuals.

- Non-state contributions are likely to grow. A number of agencies have engaged in dialogues with their governing bodies and developed extensive non-State resource mobilization strategies within the framework of their next programming cycles (e.g. UNICEF, WFP and WHO).

- It is striking that the two organisations with the highest percentage of private sector to other contributions, WIPO and UNICEF, have an impressively high volume of non-earmarked contributions coming from the private sector. Their experiences suggest the need to revise the definitions used by the UN association of the concept of regular non-earmarked funding with government contributions.

- There is an interesting question as to the extent to which opportunities and constraints to pursue different financing models are heavily influenced by the characteristics of different sectors. The role of the Gates Foundation, for example, in the financing of multi-stakeholder partnerships in the health sector is noteworthy. The success of UNICEF in attracting contributions in the form of donations is unique to UNICEF in terms of its scale, however, it stretches the imagination to believe this is unique to fundraising for children. The WIPO model of income generated through fees raises the question as to whether the issuance of patents is the only service for fee product delivered by the UN, which can yield significant income.

Table 8 **Voluntary contributions, specified, received from certain non-member state donors, by organisation (2013)** (in millions of US dollars)				
Organization	**European Commission** *(2013)*	**United Nations organisations** *(2013)*	**World Bank and other monetary institutions** *(2013)*	**Foundations, corporations and civil society** *(2013)*
United Nations	19.2	74.8	4.8	478.7
FAO	115.0	79.6	24.1	48.7
IAEA	10.6	2.4		1.8
ICAO	0.4	1.6		0.6
IFAD	48.1		0.8	
ILO				
IMO	0.1	1.2	0.0	0.5
IOM	89.3	92.7	2.7	216.5
ITC	6.4	4.7		0.2
ITU		0.2		13.2
PAHO	3.6	0.9	0.1	6.4
UN-Habitat	26.1	26.6	2.2	20.7
UNAIDS	0.1	2.4	3.3	1.5
UNDP	221.3	143.3	48.7	65.2
UNEP	55.7	17.3	74.7	9.5
UNESCO	12.1	13.7	21.1	64.2
UNFPA	14.6	74.2		10.9
UNHCR	315.0	136.6		190.6
UNICEF	431.4	280.4	2.8	1,368.7
UNIDO	9.6	71.3	0.0	2.4
UNITAR	0.5	2.6	0.4	6.8
UNODC	25.3	15.1	1.6	12.3
UNRWA	216.6	44.9		30.1
UNU	0.8	1.0	0.0	7.6
UN-Women	5.9	30.8	0.1	5.6
UNWTO	0.2	0.6		0.6
UPU	17.7		0.0	3.8
WFP	338.7	221.4	4.2	80.5
WHO	43.9	246.2	8.5	670.7
WIPO	0.3			
WMO	4.6	0.0		0.8
WTO	2.8	4.4		
Total	**2,036**	**1,591**	**200**	**3,319**

Individual contributions

In the case of UNICEF, total income from individual contributions, businesses and foundations is expected to reach some $1.7 billion by 2017 according to UNICEF's strategic objectives. The target for 2017 is to reach 5.9 million active pledge donors. Individual contributions are expected to reach $1 billion, and of this amount, some 87% is targeted as core (non-earmarked) contributions. The revenue to be raised through digital channels is projected to reach $500 million. Both the UN High Commissioner for Refugees (UNHCR) and the World Food Programme (WFP) have also significant private income. In 2013, UNHCR had $110.5 million in individual contributions, which represented 58% of private sector income. Overall, private sector income for WFP amounted to $85 million.

Two points relating to private sector financing and the role of multi-stakeholder partnerships emerge from this analysis of individual contributions. There is a need to differentiate between partnerships that bring income into the UN system and partnerships that create new hybrid institutions which are effective mechanisms for pursuing UN goals and values. Much of the focus of debate has been on issues relating to the impact on the UN receiving significant amounts of private sector financing. We revert to this issue below. However, from a strategic perspective, the transformational impact which multi-stakeholder partnerships can aspire to relates not to the income received by the UN but the scaling up and commitment entered into by its partners. This is without question the greater challenge. The critical opportunity is for the UN to be able to impact on business practices and investment flows in a way that supports the goals and values of the international community, and generally speaking this is not contingent on private sector income flowing into the UN. We address this in the final section of this report on the topic of "Leveraging".

Another point relates to the vibrant controversies around the potential for conflicts of interest arising from the UN receiving substantial resources from private companies. There is no doubt that conflict of interest issues could arise and there is unquestionably a need for strong institutional governance mechanisms to ensure proper control and accountability. For instance, each organisation needs to have an approval authority that is independent from the sponsor of specific partnerships. At the same time, the overall context needs to be borne in mind. If one separates out income received from for profit companies from that received from individuals, multi-stakeholder entities and foundations, the volume of resources is with few exceptions very limited.

Fees

Although not reflected in Table 8 for the above-mentioned methodological reasons, fees from the private sector can also play a critical role in the financing of UN operations. Fees cover a collection of services, including product, knowledge and management fees.

Some 90% of WIPO's income came from non-state sources in the forms of fees paid for WIPO's services in granting patents in 2012, representing approximately $280m out of a total income of some $310m. It should be noted that this income is not earmarked and is relatively predictable due to the low degree of volatility of WIPO's volume of business.

In the case of the International Maritime Organization (IMO), revenue from private sources relates to an item in the budget that is identified as commercial activities, such as the sale of publications, catering and conference services. Commercial activities account for 20% of IMO's annual revenue, of which 95% consists of the sale of publications (2012 data).

IMO describes their main role as the creation of a regulatory framework for the shipping industry that is fair and effective, universally adopted and universally implemented, from which 20% of their annual (2012) revenue is derived.

Table 9: Agencies deriving income from fees in 2012

Revenue by millions of $USD and %

Agency	Type	Type of Revenue	2012	2012%
WIPO	Contributions	Assessed	18	5.16%
		Voluntary	8	2.27%
	Fees	PCT System	254	73.89%
		Madrid System	52	15.13%
		Hague System	3	0.89%
	Other	Publications, Investment, Other	9	2.66%
	Totals	**Sum of Fees**	**310**	**89.91%**
		Sum of Contributions	**26**	**7.43%**
		Total Funds	**344**	**100.00%**
Agency	**Type**	**Type of Revenue**	**2012**	**2012 (%)**
IMO	Contributions	Assessed	29	59.43%
		Voluntary	8	16.34%
	Fees	Commercial Activities	11	23.52%
	Other	Other	0.349	0.72%
	Totals	**Total Fees**	**11**	**23.52%**
		Total Contributions	**379**	**75.77%**
		Total Funds	**49**	**100.00%**

Management fees are another major type of fees. As a service provider for the UN System, governments and other partners, the United Nations Office for Project Services (UNOPS) finances its core through management fees, charged on implemented projects. UNOPS recovers its cost by applying a limited indirect cost fee (3-7%) and by breaking down direct costs separately. The fee rate is variable depending on required central support, risk and complexity of the operations.

The direct costs are broken down in project budgets and not covered by the management fee. They can also be pooled between different projects to leverage economies of scale. Costs are related to the service that is actually provided. This, in principle, allows for discussions with donors on the actual value for money of each UNOPS implemented project. Applying a project management fee to support its core budget makes UNOPS very dependent on its level of project capitalization per year. Over the last five years, the UNOPS overall budget has fluctuated between $70 million and $90 million.

Management fees are growing in importance as a source of finance for UN agencies. A number of UN agencies have established dedicated units to service global funds or to provide operational services to state or non-state actors on a full cost recovery basis. Concerns have been raised about the influence of this financing model and the availability of financial resources from a limited number of stakeholders on the selection of UN programme priorities and activities at the global and country levels. On the other hand, this performance-based financing has also been credited for enhancing the responsiveness of UN agencies to client expectations and a continuing effort to streamline institutional procedures to improve the value proposition of UN services.

PART II

Emerging Trends in Financing Mechanisms

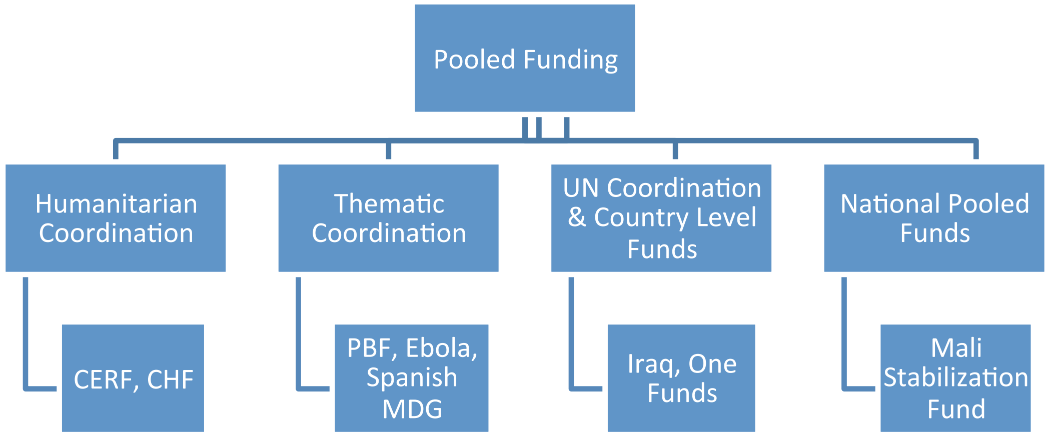
Part II discusses in greater detail three types of financial instruments that are expanding and are likely to influence UN financing options in the coming years, namely UN Pooled Financing Mechanisms, issue-based global funds in the health and climate sectors, and innovative spending and sourcing instruments.

Section 2.1:
The concept and practice of UN pooled funding

Donors cannot contribute core resources to the UN Development System as such. Multi-Partner Trust Funds (MPTFs) establish a UN system-wide window so that donors can contribute to a UN system-wide program without having to decide which specific organisation within the UN to partner with. The need for such an instrument arose in immediate post war situation in Iraq in 2004. There was an interest in using the UN as a financial instrument, but this was conditioned on the UN having a credible way of operating as a system. Hence, the rationale in setting up an MPTF for Iraq was to make it possible for donors to contribute to the UN system as a whole and to rely on internal distribution mechanisms to allocate the resources in alignment with program priorities and needs. This system allowed for different types of contributions, ranging from highly earmarked to flexible funding. The interesting point is that a new dimension of flexibility was achieved, because the contributions were not all earmarked to specific agencies or themes, which allowed for strategic allocation within the system where the resources were most needed to secure program effectiveness.

From a financial point of view, the UN-Iraq Multi-donor Trust Fund performed above expectations. Its architecture was highly innovative and paved the way for the large number of funds that have been established in the past decade. Figure 3 presents a categorisation of different types of pooled funding arrangements used in the UN system. They are characterised by differences in their origins and history, their governance arrangements and their operating systems.

Figure 3: Types of pooled funding in the UN system



Most UN Inter-Agency Pooled Funds are administered either directly by the UN Secretariat or by the Multi-Partnership Trust Fund Office that was originally established to set up the Iraq Recovery Trust Fund. The importance of inter-agency pooled financing mechanisms to finance UNDS has dramatically grown over the past 15 years, in line with the increased focus on issue-based financing and system coherence. Starting from a marginal base at the turn of the century, UN inter-agency pooled financing mechanisms together channel about $ 1.5 billion per year today.

Examples of existing pooled funding arrangements in each category

Table 10 below provides some examples of existing UN pooled funding arrangements in each category. They are discussed briefly below. In most cases, the majority of funding is provided by governments. The table reflects a significant level of capitalization of funds. Many of the funds have been in existence for an extended period of time and have demonstrated the potential to raise the capital needed to finance under-funded priorities in an efficient and accountable manner.

Table 10
Examples of Types of Pooled Funding

Type of Fund	Fund	Total Commitments in Millions of USD
Thematic Coordination	Peacebuilding Fund	635
	Ebola Response Fund	136
	MDG Achievement Fund	706
Humanitarian Coordination	Sudan CHF	1,102
	Afghanistan CHF	91
	Central African Republic CHF	95
UN Coordination & Country Level Funds	UNDG Iraq Trust Fund	1358
	Vietnam One Fund (Part 1,2)	130
National Pooled Fund	Mali Stabilization Fund	45

Description of the main categories of different UN pooled funds

Humanitarian coordination

Humanitarian pooled funding through the UN system is estimated to have represented around 7-8% of total humanitarian funding.

The Humanitarian Response Review, an independent review commissioned by the Emergency Relief Coordinator (ERC) in 2005, submitted recommendations on the adequacy, timeliness and flexibility of humanitarian financing for existing and new humanitarian emergencies, including the problems of tightly earmarked funding and "forgotten emergencies or neglected needs". Based on the recommendations of the review, the ERC initiated the "humanitarian reform" to improve the effectiveness of humanitarian response. It was in this context that the General Assembly, in its resolution 60/124 of December 2005, addressed the issue of the structure of pooled funding in the humanitarian sector.

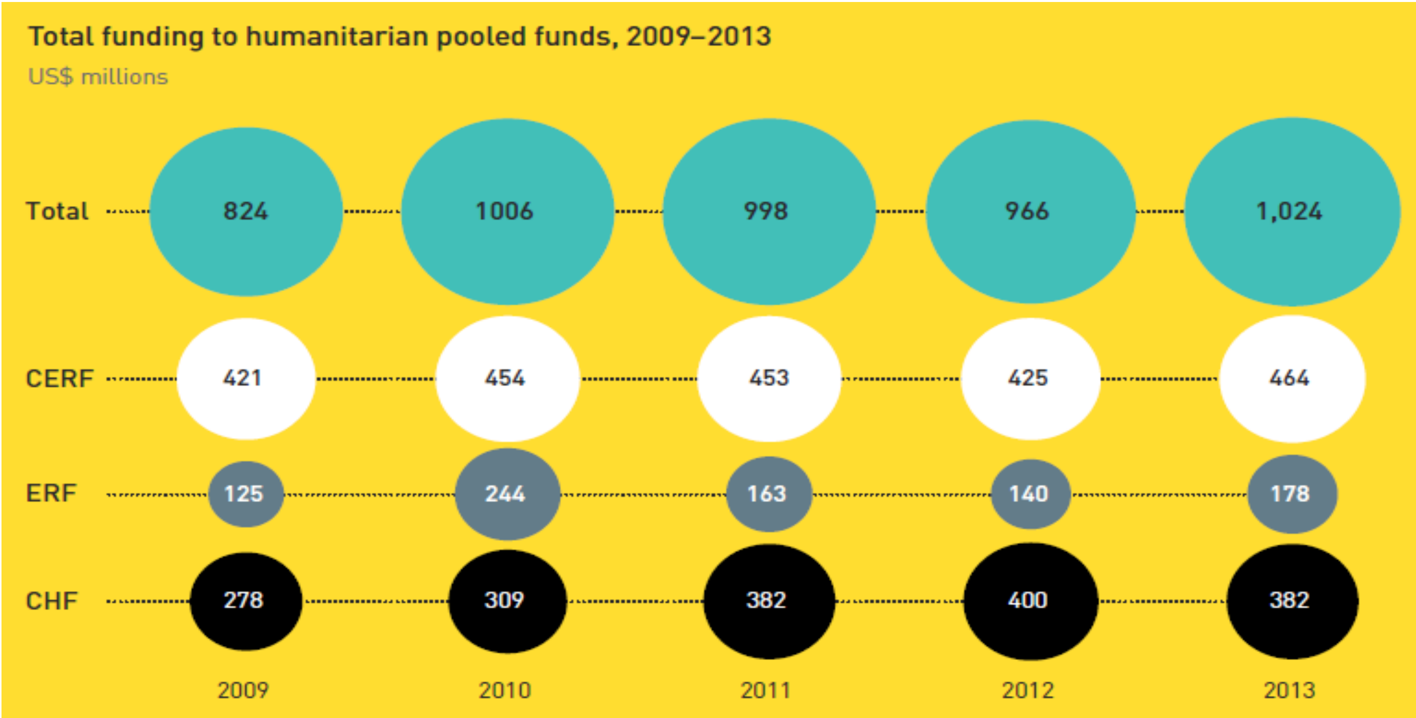
Accordingly, it upgraded the Central Emergency Revolving Fund to the Central Emergency Response Fund (CERF), adding a grant element with an annual target ceiling of $450 million based on voluntary contributions, to the $50 million target level of the original loan facility component. If strategically managed, CERF, which includes non-earmarked contributions from States, Non-Governmental Organisations (NGOs) and private philanthropic donors, is capable of funding any type of unmet needs of time-critical emergencies, depending on the specific context and filling/ complementing gaps in existing funding mechanisms. Contributions to the CERF have averaged around $450 million annually over the last five years; in 2013 the contribution level was $464 million.

The humanitarian reform also led to the establishment of Emergency Response Funds (ERFs) and Common Humanitarian Funds (CHFs) at the country level based on voluntary contributions from governments and private donors. These are inter-agency pooled funds (i.e. Multi-Donor Trust Funds (MDTFs) to which multiple donors contribute.

CHFs typically support projects outlined in UN coordinated response plans. They aim to align international emergency response around shared priorities. ERFs aim to fill unforeseen needs outside of UN-coordinated response plans. They are designed to disburse smaller grants, predominantly through NGOs, which received 58% of ERF funding in 2013. In 2013, $178 million was disbursed through ERFs compared to $382 million channelled through the CHFs.

Overall, humanitarian assistance channelled through UN agencies amounted in 2012 to some $7.6 billion. Of this, 78% went to four agencies: WFP, UNHCR, UNICEF and UNWRA. More than 50% of this was provided through WFP. By being the channel for close to 13% of overall humanitarian assistance to the UN system, the UN Humanitarian funds represent UN centres of gravity able to coordinate international assistance in line with a shared strategic framework.

Figure 4: Total humanitarian funding by type of fund



Thematic Coordination

The Peacebuilding Fund (PBF)

The PBF was established by the UN Secretary-General in 2006 on the joint request of the General Assembly and the Security Council. The PBF is a global fund designed to address needs in countries emerging from conflict by supporting activities of immediate relevance to the peacebuilding process. The fund supports country needs to address peace building gaps. It focuses in countries lacking donor support and targets initiatives with a vision of avoiding a return to conflict. To date, the PBF has received some $502 million from 55 financial contributors, from which it is funding close to 200 projects in some 22 countries.

In addition to the PBF, transition funds focus on countries that are in the stages of transitioning from a state of crisis (wars) to recovery. Such situations require that life-saving priorities be addressed in parallel with state-building capacity and peace promotion. The UN has administered over $2.3 billion in transition funding since 2004, supporting activities that range from recovery and reconstruction, to promoting peace, stabilization and building stable state structures.

The Ebola Response Fund

The Ebola Response MPTF was established in 2014 at the request of the UN Secretary-General to support the UN response to the spread of Ebola. The Fund is guided by the strategic priorities set out in the OCHA Overview of Needs and Requirements (ONR), totalling almost $1 billion. It is designed to complement resource mobilization efforts by individual UN agencies and finance under-funded ONR priorities to ensure a coherent UN system-wide contribution to the overall

Ebola outbreak response. The Fund seeks contributions from governments, businesses, foundations and individuals. To date, the fund has capitalized $140 million to which 33 countries and government agencies have contributed. The rapid fund capitalisation in the wake of the outbreak was necessary in order to fulfill the Fund's goal of providing critical response support.

The Ebola Response MPTF developed a common results-based management system to enable monitoring of the Fund's contribution to the Ebola response.

The Spain-UNDP MDG Achievement Fund

This instrument was established in 2006 as a result of a $720 million contribution from the Spanish Government. Spain was seeking a major partnership with the UN with the aim of making a significant impact on the achievement of the MDGs. In order to do this they wanted to entrust the resources to UNDP as the manager of the coordination of operational activities. They were insistent on the need for a credible and single management partner. UNDP was confronted with the need to develop a new instrument that would meet the Spanish requirement of a single credible management partner while at the same time being acceptable to agency partners. The Spanish Government initially was perhaps not fully aware of the challenge they were posing the UN as their proposal revealed the vacuum that a system-wide vision would inevitably encounter. The dual structure created by UNDP, consisting of a political-level strategic steering committee limited to Spain and UNDP, and thematic agency-led steering committees to actually allocate resources, represented a significant innovation

The MDG Achievement Fund was particularly valuable in supporting cross-cutting issues while encouraging UN organisations to work together. The MDG Achievement Fund broke some new ground, but it remained largely the initiative of a single donor made possible largely by a one-time source of revenue. The Spanish Government provided some additional funding to establish a successor Sustainable Development Goals (SDG) Fund. In a first phase, the objective of the Fund is to build on and scale up some key results of the Spain-UNDP MDG Achievement Fund. The MDG Achievement Fund leveraged the capacity of the UN system to support policy change to achieve transformative results. It also mobilised complementary domestic and bilateral resources to scale it its activities.

UN coordination and country level funds

The "One UN" Fund

The rationale behind the idea of providing resources centrally at the country level to be managed by the resident coordinators was that this would drive greater coherence at the country level. By providing some flexible financing to complement the funding already secured by each agency within the framework of the One UN Program, the new One UN Fund was meant to provide incentives to support and work within the overall framework. It was also intended to strengthen the incentives of working as a team under the broad leadership of the resident coordinator. Like the MDG Achievement Fund, the One United Nations Trust Fund model is particularly valuable in supporting cross-cutting issues and in achieving transformative change through policy support.

However, just a few years after its inception, this financing instrument is now drying up. It was, in essence, residual funding to support those components of the One UN Program that remained underfunded. The challenge with the concept of a residual fund is that it requires a very high level of confidence in the overall framework such that there is agreement that those pieces of the program that have not been picked up financially still strongly deserve to be funded. In effect, in a financial scenario where three types of funding were running side by side – core agency funding, earmarked funding and the One UN Fund the One UN Fund would never be more than a residual source. This has made it unlikely to be politically sustainable as a major funding source. The success of a new generation of One UN funds will depend on its capacity to leverage its key added value and enhance cross-sectoral policy coherence at the country level.

National Pooled Funds

These funds are set up at the request of a specific country government in order to support a national strategy, giving national authorities the authority to implement activities directly using national systems. The UN is to provide technical assistance in the design and in the administration of the funds, and the government-designated coordination entity is held accountable for fund implementation. Almost all of the funding for National Pooled Funds come from government and government agency contributions. The funds can thus be defined as an enhanced direct budgetary support mechanism, where result-based and risk management systems are introduced through a strategic allocation process controlled by a Funding Board.

An example of a National Pooled Fund is the Mali Stabilization Fund, which was established to address the need for a flexible fund structure amid protracted political instability and crisis. With the help of the UN, the Malian government agreed to a joint management structure of the fund. The fund is managed by a Funding Board chaired by the Ministry of Economy and supported by a joint technical secretariat. This allows the Malian government to assume an active role in fund management. The funding is allocated on the basis of result-oriented proposals submitted by Ministries and implemented using National System, fully on budget and on treasury. To date, the Mali stabilization fund has capitalized $41.5 million in funding.

The transaction costs and the institutional development efforts associated with the establishment and operation of a new National Pooled Fund are substantial. A complementary option is the earmarking of resources to national institutions within UN country funds, whereby the UN System acts as a pass-through mechanism, without assuming accountability for the resources earmarked to national entities by financial contributors. Fund allocations are based on a fund architecture common to both UN and national entities. This enables the Fund to put in place a results-based and risk management system that can report to the Government and donors on value for money (economy, efficiency, effectiveness) across all thematic areas and agencies.

Trends

Experience with existing MPTFs suggest that well-designed, capitalised and operationalised pooled funds can act as gravity centres to increase alignment among a wide range of actors and improve aid effectiveness. They can fill critical gaps and support under-funded priorities to ensure a coherent implementation of a transformative initiative. They can reduce transaction costs for donors, governments and implementing partners. They can serve as an effective and efficient tool to mobilise funds from the different financial flows; domestic public sources, domestic private sources, international public sources, and international private sources.

However, the success of UN-pooled financing instruments will depend on professionalisation and excellence at three levels: fund design and administration, fund operations and fund implementation. Moving forward, it is vital for the UN system to engage in better defining the fund allocation architecture from design to implementation through a rigorous results-based management system in which fund performance will be closely monitored to achieve desired fund goals. High quality fund allocation architectures will need to be based on robust theories of change (TOC). A clear and shared theory of change articulates the underlying beliefs and assumptions considered critical for producing change. Upfront investment in fund design will reduce delays and transaction costs associated with individual project development and approval as well as facilitate fund management and reporting. It will also facilitate cooperation and joint financing between UN pooled funding mechanisms and other multilateral and bilateral financing instruments. Incentives will need to be aligned in the system to ensure the sustainability of this model.

Furthermore, it should be noted that the multiplicity of MPTF-like instruments, from global thematic funds to country level transition funds, is both an opportunity and a source of greater fragmentation. To address this constraint, SDG issue-based multi-agency pooled funding mechanisms that consolidate a number of smaller funds into broader UN facilities and ensure a stronger future UN normative role are likely to become an important feature of the emerging global financial architecture. The synthesis report of the Secretary General on the post-2015 sustainable development agenda calls for *“more coherent United Nations funding mechanisms that unite rather than fragment the development policy framework”.*

Section 2.2:
The emergence of pooled funding mechanisms
- The case of global health

The emergence in 2000 of global vertical health funds has had a major impact on the global health financing architecture. The cases of the Global Fund against AIDS, Tuberculosis and Malaria (GFATM) and The Vaccine Alliance GAVI are often cited as examples of a new more effective type of financing instrument.

When GFATM was established over ten years ago, it reflected a shared global commitment to fight three of the world's most deadly epidemics – HIV/AIDS, tuberculosis and malaria. It has helped to fund a rapid scale-up in the prevention, treatment and care of these diseases in 150 countries, approving over $25 billion. The GFATM has become a leading funder of international health. It has been transformational with respect to its scale, partnership principles and inclusiveness, as well as its "investing for impact" model and system for measuring results.

The origins of this partnership lie in the convergence of three critical elements. Firstly, public health experts identified a number of highly effective interventions to prevent and treat these three diseases; secondly there was a global movement to reduce the cost of essential medicines making these more accessible; thirdly, there was real international leadership. The G8 leaders at Okinawa, African leaders in Abuja in 2001, and the Secretary-General at the UNGA's special session on AIDS in June 2001, all played major roles in shepherding the establishment of a new fund.

The GFATM is a partnership that includes governments, UN agencies, civil society, the private sector, local media, professional associations and communities living with or affected by the diseases. Since its inception, the Global Fund has had a close relationship with the UN. The Fund adopted a formal statement in its relations with the UN, which stressed its commitment to support goals set by the UN. "In so doing, the Global Fund respects the norm-setting functions of the UN as the broad policy reference for its work in health and development, providing legitimacy, credibility and technical guidance for its work".

GAVI is a transformational partnership because of its systemic impact on the vaccine market, pooling the demand from developing countries for new vaccines and providing long-term predictable financing to meet this demand. This approach helps attract new vaccine manufacturers, including an increasing number of suppliers based in emerging markets. GAVI has committed over $5.7 billion over the last decade, and donors pledged a further $7.5 billion in January 2015.

As with GFATM, the origins of GAVI lie in the convergence of a number of critical factors. By the 1990s, the progress that had been made with regard to child immunization had ground to a halt and had been overtaken by a number of other priorities. A clear challenge emerged as vaccination campaigns in developing countries were struggling and incentives to supply vaccines in the poorest parts of the world were drying up. It was against this background that a number of leaders identified immunization as a major challenge, leading to the launching of GAVI in 2000.

As a public-private partnership, GAVI capitalises on the comparative advantages of its members. The Gates Foundation pledged $750 million in 1999 for five years, providing the seed money to launch GAVI, a further $75 million per year up to 2014 and an additional $1 billion at the June 2011 GAVI Pledging Conference. At the January 2015 pledging conference, the Gates Foundation pledged another $1.5 billion over the next five years. Gates said that GAVI was the best investment he ever made because of its success in immunising 500 million children against multiple diseases.

WHO plays a key standard-setting and technical function, setting down technical specification for vaccines and prequalifying all vaccines employed in GAVI-supported programs. UNICEF has a core function as the world's biggest buyer and supplier of vaccines for developing countries. Working with WHO, UNICEF drew up the Global Immunization Vision which provided a strategic framework for raising immunisation coverage by 2015. The World Bank has taken a leading role in formulating GAVI's economic and financing strategies and is fiduciary agent for GAVI.

Partnership with the research community allows GAVI to tap into the latest information and thinking from the scientific, medical and product delivery communities. Civil society organizations (CSOs) help deliver vaccines to remote communities, implement vaccine programs and advocate for immunization. GAVI harnesses the technical expertise of the industrialised country pharmaceutical industry to ensure that new vaccines are available that address the needs of developing countries. Moreover, GAVI seeks to make vaccines more affordable for low-income countries by expanding the range of suppliers to include developing country manufacturers.

Trends

Issue-based pooled financing mechanisms have the capability of providing a dynamic ecosystem that can leverage and mobilise a mix of public and private resources. These types of pooled arrangements also have their weaknesses and critics, but it is probable that the emerging global financing architecture will include them as an important component.

In the recent study produced by Jeffrey Sachs and Guido Schmidt-Traub, these among others examples, are cited as to why issue-based pooled funding mechanisms will be an important feature of the emerging global financial architecture. They have proven to yield effective country-led programs, lowering transaction costs in the process. It is critical that they provide an effective mechanism for the mobilisation of private finance and leveraging. They stimulate innovation through providing a forum for private sector engagement. With their issue-focus, they encourage rapid learning and knowledge transfer. Pooled financing mechanisms are well-placed to co-finance technology transfer.

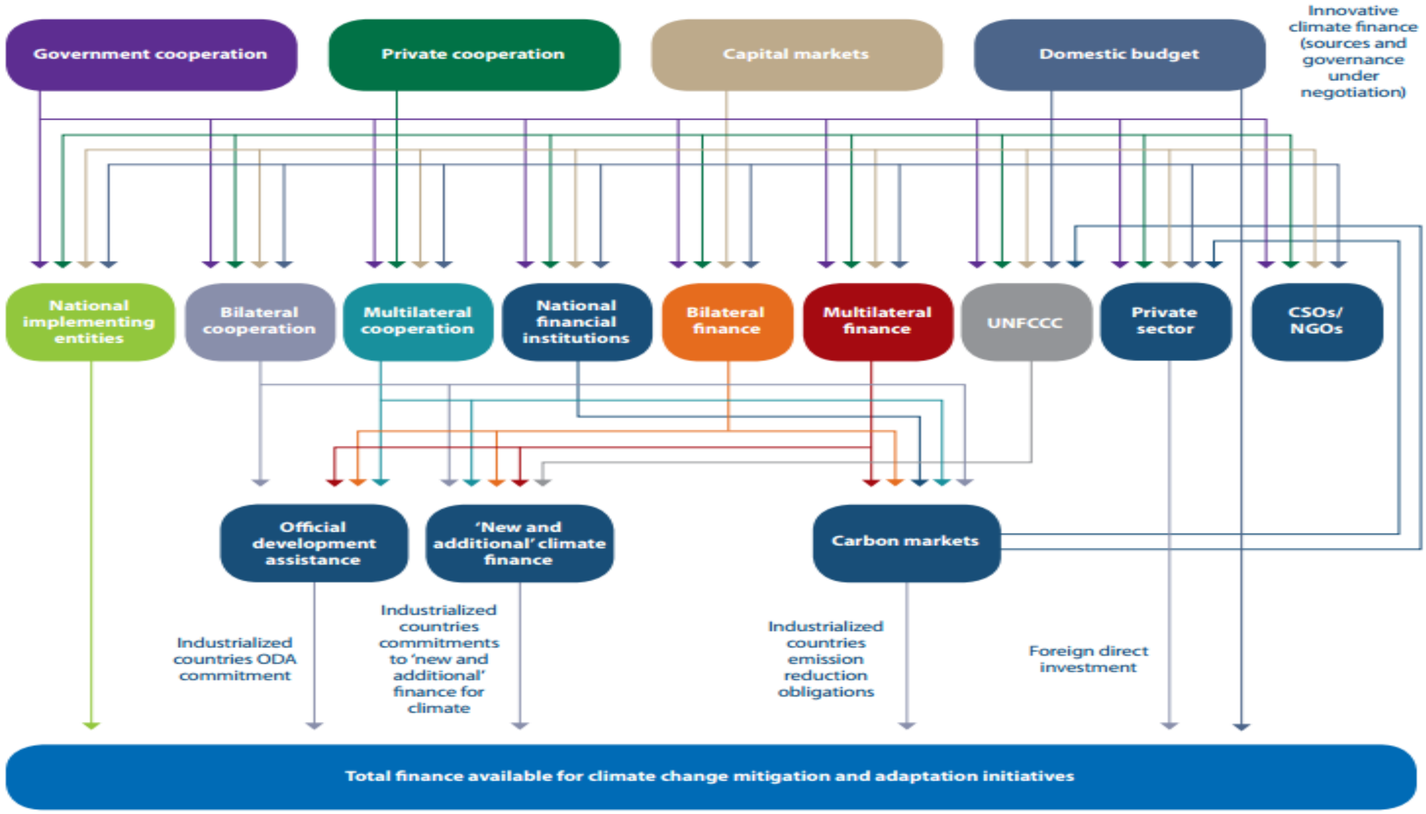
Section 2.3:
The emergence of pooled funding mechanisms - climate finance

There is no international definition of 'climate finance'. However, climate finance commonly refers to local, national or transnational financing, which may be drawn from public, private and alternative sources of funding, used to finance projects and initiatives that reduce emissions or help countries adapt and respond to the impacts of climate change.

At the Copenhagen Climate Change Conference in 2009, developed country governments committed to increase climate finance to $100 billion per year from public and private sources by 2020. This commitment reflects the principle of Common but Differentiated Responsibility (CBDR), which was explicitly formulated in the context of the 1992 Rio Earth Summit and is a cornerstone of the United Nations Framework Convention on Climate Change (UNFCCC). CBDR recognizes different historical contributions to global environmental problems and different country capacities to address these problems. In essence, the principle establishes a conceptual framework for an equitable allocation of the costs of global environmental protection.

A complex set of funding mechanisms has evolved to allocate and administer climate funding, including multilateral funds, bilateral climate finance initiatives within donor development institutions, and country-level funds in developing countries set up to receive funds. Climate finance may come in the form of grants and concessional loans, guarantees and private equity. It is channeled through a variety of multilateral, bilateral, national and non-governmental agents. These mechanisms are supplemented by a number of market-based mechanisms such as voluntary carbon offsets, mandatory emission trading systems and payments for ecosystem services. Figure 5 summarises this climate finance ecosystem.

Figure 5: Climate finance ecosystems



Global Environment Facility (GEF) and Green Climate Fund (GCF)

Issue-based funds or vertical funds have long been a major feature of climate finance. For example, the Global Environment Facility (GEF) was one of the first financing mechanisms established following the UN Framework Convention on Climate Change of 1992 to provide 'new and additional' climate finance resources. The GEF was founded by the World Bank, UNDP and UNEP and today partners with 14 different implementing agencies.

While the first generation of GEF climate change projects supported technological pilots to demonstrate the reliability of clean energy technologies, they increasingly focused on market transformation over the past decade. Private investment is critical in promoting climate compatible development. While developed countries committed in Copenhagen to increase climate finance to $100 billion per year from public and private sources by 2020, the actual transition to a climate-compatible economy will involve trillions of dollars of new investment annually, and the reallocation of many tens of trillions of dollars of existing assets that underpin today's unsustainable economy (UNEP, 2014). Given the magnitude of the financing needs, a key concern of climate finance is to use scarce local, national and transnational public resources strategically to catalyse much larger private financial flows. A number of climate-compatible investments are potentially profitable and can be catalysed through supportive environmental policies. Several UN agencies have assisted policy makers in developing countries in identifying and implementing cost efficient and effective public instrument portfolios to catalyse private finance (see case study GEF and the case of UNDP).

The GEF is replenished every four years. After six replenishments, the pilot phase has provided nearly $19 billion over the 23-year history of the GEF. In nominal terms, GEF replenishments have increased from about $1 billion during the pilot phase to $4.34 billion during GEF-5 (2010-2014) and $4.43 billion for GEF-6 (2014-18). The real value of replenishments (adjusted for inflation) has actually hovered around $500 million per year over the years, while at the same time additional focus areas (sustainable land management and persistent organic pollutants) have been added to the GEF mandate.

In 2010, the Parties established a Green Climate Fund (GCF) as an operating entity of the Financial Mechanism of the Convention under Article 11 and scaled up support provided by existing climate financing instruments. The GCF is expected to channel a substantial share of the $100 billion committed at the Copenhagen Climate Change Conference in 2009. Contributions to the Green Climate Fund are seen as a vital step towards countries agreeing on a new global climate deal in Paris next year. Pledges made in 2014 are slightly over $10 billion for the period 2015 to 2018.

Case study: GEF and the case of UNDP

The United Nations Development Programme (UNDP) has supported, with financing from the GEF, the implementation of over 230 clean energy projects in close to 100 developing countries since 1992. UNDP-GEF market transformation projects enhance the capacity of policymakers to identify an appropriate mix of public instruments to use scarce public funds to incentivise much larger private investment flows for clean energy development.

The UNDP and GEF approach to reducing risk involves creating an enabling environment under which elements, such as a national policy framework for energy markets, financing channels, administrative procedures and domestic technical expertise, are strengthened and aligned to support clean energy deployment. The leveraging ratio of such market transformation efforts can be extremely high.

With a GEF grant of $1 million from GEF, UNDP supported a wind energy market development project in Uruguay from 2007 to 2012. At the time the UNDP-GEF project began in 2007, Uruguay relied primarily on hydro-power and thermal power together with imports from Argentina and Brazil to meet its energy demand. Based on the policies developed with the support of the UNDP-GEF project, wind power accounted for 10% of its installed power capacity by 2014 and appears on track to reach 30% installed capacity by 2016. This may turn Uruguay into a regular net exporter of electricity by that time. The $1 million grant from GEF proved instrumental in catalysing a multi-billion USD wind energy market in Uruguay.

Trends

Two trends are likely to influence the role of the UN Development System in climate finance. First, environmental aid is increasingly coming from bilateral sources. In 2000, bilateral aid represented about half of the $10 billion (real $ 2000) categorised as environmental aid. By 2008, bilateral aid represented about two thirds of the $15 billion (real $ 2000) categorised as environmental aid. In other words, the volume of environmental aid from bilateral sources approximately doubled while the value of environmental aid from multilateral sources remained essentially constant.[6]

Second, the variety and complexity of policy and financial instruments catalysing climate finance is also likely to increase. Although the UN system has demonstrated the potential to catalyse climate finance through policy change, present discussions on climate finance tend to focus on the role of credit enhancement instruments (insurances, guarantees, concessional loans, etc.) to leverage private climate investment. Possibly as a result of this focus, the role of the UN system is modest in many of the recent climate funds established by consortiums of national institutions, bilateral aid agencies and multilateral development banks (such as the World Bank's Climate Investment Funds established in 2008). To date, UN Climate Trust Funds such as UN REDD (the UN's collaborative initiative on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries) accounts today for less than 2% of UN pooled financing mechanisms.

These trends point to the need to better document and disseminate the role of the UN system in catalysing climate finance through policy change and to forge strategic partnerships with national and transnational financial institutions that consolidate the respective strengths of technical and financial institutions to transform markets.

[6] Marcoux et al. (2013)

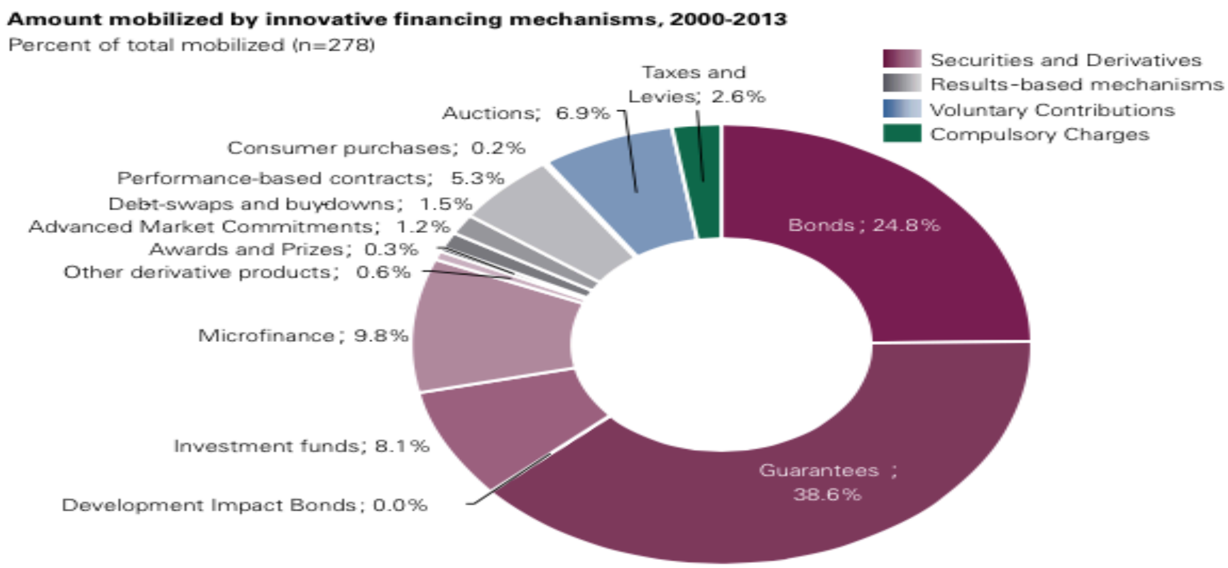
Section 2.4:
Innovative finance - leveraging and new approaches to sourcing

The extraordinary expansion and proliferation of overall resource flows that have accompanied the acceleration of globalisation over the last twenty years has led to a fundamental repositioning of the role of ODA in the great majority of countries. This is a reflection of the broader changes taking place in the respective roles of the public and private sectors. The concept of innovative finance is, in large part, a response in the sphere of development finance to these broader shifts. Innovative financing mechanisms have mobilized $94 billion since 2000. The Innovative Finance Initiative (Dalberg, 2014) conducted a survey of 350 financing mechanisms that have been recognised as innovative financing. Figures 6 and 7 below present Dalberg's findings.

Figure 6: Innovative financing mechanisms

	What is innovative?			How does it support development?		
	New Product	New Market	New Participants	Mobilize Resources	Financial Intermediations	Deliver Resources
Securities and Derivatives						
Bonds and Notes			X	X	X	
Guarantees		X	X		X	
Loans	X			X		
Microfinance Investment Funds		X	X		X	
Other Investment Funds		X		X	X	
Other Derivative Products	X	X		X	X	
Results-based Financing						
Advanced market commitments	X	X			X	
Awards and Prizes	X				X	
Development Impact Bonds	X					X
Performance-based contracts			X			X
Debt-swaps and buy-downs	X			X		
Voluntary contributions						
Carbon Auctions (voluntary)	X	X	X	X		
Consumer Donations			X	X		
Compulsory charges						
Taxes	X			X		

Figure 7: Amounts mobilised by innovative financing mechanisms, 2000-2013



With respect to its impact on the UN system, this report highlights three specific dimensions: innovative spending (leveraging and result-based financing instruments), innovative sourcing at the interface of the public and private sectors, and new sources of financing within the public domain.

Innovative spending

The largest category of innovative spending instruments aims to leverage larger private flows to maximise the development impact of scarce public resources. Guarantees constitute 39% of the amount mobilized between 2000 and 2013, ($36 billion), which reflects the importance of credit enhancement instruments to leverage capital in challenging credit environments. Innovative spending mechanisms can redistribute risk and increase liquidity and they play a pivotal role to address specific market failures and barriers that hinder investment. By leveraging complementary sources of finance, they increase value for money within international development, allowing donor agencies to achieve more with the same – or fewer – resources. Results-based financing is the second largest category of mechanism and includes recent innovations such as Advance Market Commitments and debt-swaps as well as more established mechanisms such as Awards and Prizes.

Case study: UNICEF and advance market commitments

Advance market commitments (AMC) developed a new approach to create incentives for commercial suppliers to bring their products to markets. Pneumococcal vaccines are new, complex vaccines that would normally reach low-income countries 10-15 years after first being introduced in industrialised countries. The pneumococcal advance market commitment sponsored by the Vaccine Alliance GAVI and supported by World Bank and UNICEF reallocated demand risk for pneumococcal vaccines in developing countries, which allowed pharmaceutical companies to produce more vaccines at scale and dramatically lower the vaccines' cost per dose.

Under the Pneumococcal AMC, donors pledged $1.5 billion to fund the subsidized purchase of 2 billion doses of pneumococcal conjugate vaccine (PCV) beginning in 2009. The Pneumococcal AMC's prices for PCV are over 90% lower than those in high-income markets. Since September 2010, Pneumo vaccines have been supplied to 28 countries for introduction in national programmes with funding from the AMC. More than 100m doses have been procured as of December 2012 with an expected procurement of more than 70m doses in 2013. In order to meet demand for the Pneumo Vaccine in GAVI-eligible countries, UNICEF issues and manages calls for supply offers.

Innovative sourcing in the market

Innovative sourcing in the market impacts on incentives, influencing investment flows and creating access to new resources for development purposes. The rationale is that the market enables actors to go to scale and ensure replicability in a way that is more difficult when there is complete dependency on public resources.

Thematic bonds, which dedicate resources to specific development goals such as low-carbon infrastructure, are currently the largest innovative sources of finance ($23 billion in 2013). However, thematic bonds account for only a minute share of the $83 trillion bond market. The bond market can provide much of the capital needed for sustainable infrastructure but remains chronically underutilised in financing development. Only 20 middle income countries have the ability to access private capital at the national level, several constraining the public provision of infrastructure (World Bank, 2013).

The UN and regulatory frameworks for innovative sourcing

Green bonds are a relatively new segment of the bond market, but one that investors are sure to hear more about in the years ahead. A green bond is a bond whose proceeds are used to fund environment-friendly projects. Examples include projects related to clean water, renewable energy, energy efficiency, river/habitat restoration, acquisition of land, or mitigation of "climate change." Many bond issues devote a portion of the proceeds to such causes, but green bonds are those specifically designated for the environment. Green bonds typically carry the same credit rating as the issuers' other debt obligations. Source: about.com

Kick-starting any new bond market requires government support, typically in the form of initial liquidity and trading volume from government-backed bond issuance, or through other forms of credit support, until investors become familiar with opportunities. Developing a corporate green bonds market will need the same. It will be particularly challenging in developing countries where it necessitates the simultaneous development of local-currency bond markets and green bond markets. Grant-based UN agencies can support the development of a regulatory framework to facilitate the issuance of bonds. The UN Capital Development Fund (UNCDF) is considering a similar support to the Bangladesh Municipal Development Fund (BMDF) to increase its capacity to plan, finance, implement and operate municipal infrastructure in a cost-effective and efficient manner.

Innovative sourcing within the public sector

The concept of innovative finance for international assistance in the public sector is most commonly used to refer to new forms of international taxes and levies. The aim of new forms of taxes and levies is to provide resources that are stable, predictable, and supplemental to official humanitarian, development and climate assistance (ODA) from donor countries. A broad rationale for this type of approach makes the case that the acceleration of globalisation requires the capacity to manage some of its consequences and the associated costs should be charged to some of the resources that it generates.

A variety of innovative financing mechanisms have already been established for the management of global pandemics (see example of UNITAID below) and climate change. Some climate finance funds are financed in part, or wholly, through innovative mechanisms. The Adaptation Fund, for example, is funded by a levy on international carbon market transactions and Germany's International Climate Initiative is funded in part through the sale of national tradable emission certificates. A number of additional climate sourcing instruments have been proposed, including carbon taxes. For example, a CO2 charge of $25/ton could raise revenues of around $250 billion from OECD countries in 2020, while costing less than 0.1 percent of GDP on average (if revenues are used productively).

The potential of crowd-funding instruments for grant giving, debt and equity financing is also significant. As mentioned in section 1.4, UNICEF expects to raise $ 500 million through digital channels by 2017. There is a growing number of online marketplaces that connects diaspora investors with opportunities back home. A 2013 World Bank infoDev study estimated that there are up to 344 million households in the developing world able to make small crowd-funding investments in community businesses.

However, actual revenues raised to date from innovative sources remain small. After a decade of efforts, taxes and levies account only for a few percents of the total innovative financing mechanisms. Most of these mechanisms have high start-up costs and low immediate returns. To assess their relative cost effectiveness, it is important to locate the discussions on innovative sourcing of finance for public action within the broader context of public finance reform. The tripling of the global economy over the last two decades to a GDP of some $75 trillion today has highlighted the importance of identifying income gaps and distortions that have a huge impact on the resources available to governments. Adequate regulatory frameworks and good policies can impact the capacity for resources mobilisation, beyond some of the traditional financial flows that have dominated development financing discussions.

Three aspects of development financing are receiving increasing attention. The first relates to tax capture in middle- and low-income countries. It is estimated that they account for 13% of GDP in low-income countries, compared to 22% in middle-income countries and 35% in high-income countries. The second relates to the $1 trillion of illicit funds that flow out of developing countries annually. Sub-Saharan Africa lost an annual average of $53 billion illicit financial outflows between 2003-2012.The third aspect relates to subsidies that provide incentives counter to stated development goals: the estimate of $550 billion in fossil fuel subsidies in 2013 is an example.

Another important aspect to consider relates to the allocation of resources for development purposes within the overall resources made available to governments. Much of the discussion around financing continues to assume that foreign assistance is a single pot of resources that gets allocated to that portion of a country's budget that is dedicated to foreign affairs. The concept of 'Global Public Goods' suggests a very different approach. What is needed is the horizontal internalisation of the financing of the international dimensions of producing public goods. In a globalised world national line ministries have to cope with both national and international dimensions in their areas of responsibility as a matter of effective national policy making. In that sense, every line ministry needs to have an internally - as well as an externally - oriented part of their budget. The challenge is no longer funding external relations but the international dimension of dealing effectively with a national issue.

In practice, many countries have global budget lines that are developed within national sectorial ministry budget lines. For example, in the US, at least 10 different government agencies allocate bilateral and multilateral ODA of which USAID (US Agency for International Development) and the State Department has been responsible for some 62%. In reality, the greatest expansion of funding for development cooperation is likely to occur through diffusing the responsibility of funding across broad segments of national budgets. This presents a critical change and opportunity for UN Development approaches to funding. The opportunity exists because powerful line ministries become advocates across government for global expenditures.

Case study: UNITAID

Established in 2006 by the governments of Brazil, Chile, France, Norway and the United Kingdom, UNITAID provides sustainable funding in order to tackle inefficiencies in markets for medicines, diagnostics and prevention for HIV/AIDS, Malaria and Tuberculosis in developing countries.

Hosted by the WHO in Geneva, the organization's principal strength is the negotiation of low prices for drugs and diagnostics on the basis of its strong financial means. UNITAID does not have its own programs for the distribution of medication but supports programs by its implementer organizations such as the Global Fund, the WHO, Medecins Sans Frontieres, and others.

UNITAID's key source of income is through an international solidarity levy on airline tickets (the air ticket levy) that is currently collected in nine out of 29 UNITAID member countries. In implementing countries, the air ticket levy is a small fee attached to all departing flights. Taxes are calibrated according to the type of flight and country context (i.e. income level). The air tax has generated more than EUR2.5 billion since its inception.

Trends

The innovative financing market is still evolving – some models have proven to be successful, some are ripe for scaling, and other are ideas in the testing stage. Based on the historic growth rates, Dalberg (2014) projects that innovative financing will grow to $24 billion per year by 2020. Designing and implementing innovative instruments can be complex, time consuming and fraught with political risks. Building the business case for the Pneumococcal AMC, for example, required an investment of more than $30 million. Since innovation design is a costly trial and error process, it will be critical for the UN system to establish a knowledge-sharing platform on innovative financing to prioritise its engagement with these instruments. Work on innovative sourcing within the public sector should build on broader public finance reform.

Concluding Remarks

The UN Development System is currently engaged in intensive discussions on its long-term positioning in the post-2015 development agenda. Financing is a critical dimension of this discussion. The direction financing policy takes will be a determinant factor in the positioning of the system. Based on the data analysed in this report, a number of observations can be made.

In order to understand the major elements in the current financial architecture, it is important to grasp the way different financial instruments have evolved historically in response to evolving functional requirements. Historically, the world of UN finance has been virtually in its entirety about the mobilisation and disbursement of grants.

In its earliest phase, the financing of the system was secured predominantly as grants in the form of assessed contributions. The UN system was established around communities of interest that together were designed to create the building blocks to peace and contribute to a new international system. Assessments were the price of membership to these communities of interest.

In a subsequent phase, reflecting the reality of decolonisation and the monumental development challenges faced by a large number of newly emerging states, assessed budgets were supplemented by voluntary contributions to support development activities. Assessed contributions continued to be paid as the price of membership in agencies that had core global functions and responsibilities. Funding for development was, from the beginning, voluntary in nature. It was at this time largely un-earmarked.

During the course of the 90's, for reasons briefly analysed in this report, there was a dramatic shift in the character of the contributions made for development purposes from voluntary core to earmarked contributions. This reorientation reflected the 'goals' and 'results' culture that emerged from the series of global conferences held during the decade and which culminated in the 2000 Millennium Summit. The explosion of earmarked funding has led to fragmentation within UN organisations and a serious decline in the willingness of the international community to invest in the overall purposes of individual organisations.

The financial architecture for development continues to evolve at a rapid pace. Today, three significant trends seem to emerge: issue-based financing, the need to leverage of ODA, and innovative spending and sourcing instruments. These three trends are evolving alongside a consensus around the need for the UN to strengthen global norms.

The development of the Sustainable Development Goals (SDGs) as the anchor of the new development agenda and the emergence of Global Public Goods (GPGs) is likely to consolidate the shift towards earmarked resources for development finance. The need for collective responses to a number of challenges reinforces the attraction of financing mechanisms that are tightly focused on the global public goods in question. In order to reduce its impact in terms of fragmentation within the UN, and build some flexibility within issue-based financing (earmarked to a theme but not to a specific agency/project), this trend might lead to the establishment of a few large global facilities aligned to the SDGs. This might require the consolidation of a range of smaller existing UN financing instruments. The synthesis report of the Secretary-General on the post-2015 sustainable development agenda calls for *"more coherent United Nations funding mechanisms that unite rather than fragment the development policy framework"*. These global facilities could also pool a variety of contributions from state and non-state actors, including innovative sources of finance. However, the success of issue-based UN pooled financing instruments will depend on professionalisation and excellence at three levels: fund design and administration, fund operations and fund implementation.

The trend towards issue-based financing is further reinforced by the need in today's global economy to have mechanisms and instruments that can embrace private sector actors. The size of the global economy has tripled to over $75 trillion over the last 20 years. The enormous expansion in global private flows has had a significant impact on the role of ODA. There continue to be a group of countries in which ODA still plays a significant role. However in many countries, the key challenge has become the ability of the public sector to influence and provide the policy frameworks that enable the most productive use of private assets. The issue of leveraging is particularly central to climate finance today and is likely to become a core feature of the post-2015 development agenda in most areas.

The UN has a substantial legacy of exercising leverage through its work on strengthening national policy environments and its work in building the capacity of governments to access new financial sources. Another form of leveraging is to impact on the resources that could be made available for development through identifying income gaps and distortions that have a huge impact on the resources available to governments, for example by the elimination of subsidies or greater regulation of illicit flows. This can be in the form of influencing investment flows; a good example is the Global Compact's work with the Principles for Responsible Initiative. In this context, it will be critically important to be able to measure the volume of resources that are leveraged by the UN system to support UN goals, but which are not channelled through the UN, as well as deepening UN expertise in designing and implementing innovative spending instruments.

As part of this shift in the role of ODA, innovative sourcing and spending instruments are expected to grow in importance as they can leverage larger private flows and provide new and predictable resources and for sustainable development. The UN system played a key role in the design and implementation of some instruments. However, designing and implementing innovative instruments can be complex, time consuming and fraught with risks. It will be critical for the UN system to establish a knowledge-sharing platform on innovative financing to prioritize its engagement with these instruments. Furthermore, work on innovative sourcing within the public sector should build on broader public finance reform.

Concurrently and consistent with these three trends, the adoption of the SDGs and the emergence of GPGs have led to a strongly held view that the UN has a critical role to play in strengthening global norms. In many ways this suggests the re-emergence of the UN system as a family of functional communities of interest focusing on norms and rules of engagement within those communities. The financing of a universal agenda would suggest returning to the idea of assessments representing the price of membership in that community. The role of assessed budgets needs to be complemented with a range of instruments. The review of the full range of financing practices and mechanisms currently in use in the system reveals some instruments that could be more broadly adopted by the UN system to support global normative work including core private contributions.

These three major financing trends – issue-based funding, leveraging of ODA and innovative sources of finance – as well as the strengthened focus on global norms might appear to sit uneasily together. Developing a coherent vision of how to bring them together is an urgent priority for policy makers. Envisioning developing flexible financing frameworks, in which different functions require different types of financing, merits more detailed exploration.

The study brings to light a variety of innovative financing practices, some of which may not be well-known and fully captured in UN statistical information. The issue is not the availability of data; there is a wealth of statistical information available. It is to make it available in a form that it is accessible to policy makers. It needs to be provided in a manner that lends itself to making informed decisions that align finance to policy direction and positioning. Within these parameters, two specific challenges exist. The first is to review the way data is being reported within the system. Data sets need to be looking forward. Anachronisms in the data, that make it harder for policy makers to interpret it, need to be corrected. Secondly, the variety and range of experiences within the system is not broadly shared. A platform for learning from these different instruments could be useful.

Availability of such information will be critical as the UN repositions itself at the interface of the world of grants and the world of private sector flows. It is at the interface that the UN can play a significant role in supporting the transformative agenda set out in the post-2015 development framework. The key challenge for the future is to position the UN as a broker, capable of leveraging the huge range of resources globalization has generated for common purposes. The post-2015 financing architecture will need to embrace a culture of leveraging, reward the practice of partnerships and devise new ways to measure impact.

ANNEX: Sources and methodology

Table 2
“Budgetary and financial situation of the organizations of the United Nations. A/69/305. Table 2 (total revenue by organisation) found on page 46 of both documents were used (combined) for the above table).

Methodology: Data for this table has been extracted from the 2014 CEB report on the “Budgetary and financial situation of the organizations of the United Nations System”. The change made for this report has been to include only the 2013 portion of the CEB reports table on total revenue by organisation and category. Assessed contributions to peacekeeping have not been historically tracked by the UN reporting systems that were analysed. However, data for 2010-2013 peacekeeping contributions is provided in table 4.

Table 3
The United Nations “report of the committee on contributions: addendum” has been used to provide expanded data for each of the organisations outlined by the CEB report. This report has been used for the years 1975- 1990, with most calculations being derived form manual approximation of total assessed contributions per year. Data from this same report for 1990-2013 for assessed contributions to organisations was not released in addendum reports and could not be reconciled with CEB data for these years. The same assessed funding data was also extracted from the Global Policy Forums’ “Assessed Contributions to UN Specialized Agencies” compiled datasheet.

For 1975 data: A/31/11. "Report of the Committee on contributions: Addendum", 9 September 1977. Table Used: Cash Payments in each of the calendar years 1975 & 1976 in respect to assessed contributions.

For 1980 data: A/36/11. "Report of the Committee on contributions: Addendum", 24 September 1981. Table Used: Cash Payments in each of the calendar years 1979 & 1980 in respect to assessed contributions. Contributions form member + non-member states. (added)

For 1985 data: A/42/11. "Report of the Committee on contributions: Addendum", 6 August 1987. Table Used: Cash Payments in each of the calendar years 1985 & 1986 in respect to assessed contributions. Contributions form member + non-member states. (added)

For 1990 data: A/46/11. "Report of the Committee on contributions: Addendum", 9 September 1991. Table Used: Cash Payments in each of the calendar years 1989 & 1990 in respect to assessed contributions. Contributions form member + non-member states. (added)

For 1995 & 2000 data: A/57/265. "Budgetary and financial situation of the organizations of the United Nations system", 9 august 2010. Table 2 Used: Assessed contributions (1994-2003).

For 2005 data: A/65/187. "Budgetary and financial situation of the organizations of the United Nations system", 9 august 2010. Table 4 Used: Assessed contributions (1996-2011). Select data also used to fill in 2000 figures (CTBTO, UNFCCC, IOM, IFAD, ICGEB, UNEP)

For <u>2010-2013</u> data: A/67/215(2006-2011), A/69/305 (2012-2013). Table 4 (Assessed Contributions (2008-2013) & (2006-2011)) of both documents were used (combined) for the above table. Select data also used from A/65/187 to fill in 2010 figures for the agencies (CTBTO, UNFCCC, IOM, IFAD, ICGEB, UNEP)

<u>1975-2005 compiled assessed data</u>: Klaus Hüfner and Katarina Wahlberg, "Assessed Contributions to UN Specialized Agencies 1971-1990" Global Policy Forum, Globalpolicyforum.org, 20 February 2014.

Methodology: The 1995-2013 data used for table 3 has been extracted in large part from the United Nations systems Chief Executive Board (CEB) "Budgetary and financial situation of the organizations of the United Nations System" released in the years 2014, 2012 and 2010 and encompassing financing information from 1995-2013. (Reports A/69/305, A/67/215, A/57/265) Figures for ILO and UNESCO differ from those stated in table two as dictated by the source CEB data, an explanation for the discrepancy was not provided (all other figures align in both tables).

Table 3 and Figure 1
Figure 1 was formulated using the US Bureau of Labor Statistics CPI calculator to determine USD amounts in real terms using the year 1975 as a base. Assessed contribution data for the UN system and the total of all UN agencies was used in the figure. For the 'All UN Agencies Total' category certain agencies, for which no reported contributions data was found for certain dates between 1975 and 2013, have not been taken into account in the overall sum of assessed contributions. The excluded agencies were ITC, PAHO, UNWTO, UNIDO and WTO. Thus the totals for assessed funding to all UN agencies differ from those in Table 3. It should also be noted that only agencies receiving assessed contributions in 2013, as reported in the CEB report A/69/305, were examined in the analysis.

Table 4
A/67/215(2006-2011), A/69/305 (2012-2013). "Budgetary and financial situation of the United Nations System" Table 3A Total Expenses by Organisation.

Methodology: As with other tables, the data for tables 4 and 5 comes from CEB reports A/69/305 & A/67/215. The data has not been altered from that of the report, instead peacekeeping expense data provided in the same reports was added to table 4.

Table 5
For 2013 data: A/69/305 . "Budgetary and financial situation of the organizations of the United Nations system" 12 August 2014. Table 3: total Expenses by organisation, by expense category (2012-2013).

Table 6
"Budgetary and financial situation of the organizations of the United Nations system" A/67/215, A/69/305. Tables 2C (Voluntary Contributions, specified (2008-2013) & (2006-2011)) found on page 46 of both documents were used (combined) for the above table.

Methodology: The table provides a historical overview of voluntary specified funding by agency since 2006. Data from two CEB reports (A/69/305 & A/67/215) was extracted and combined in order create the table displayed. It should be noted that United Nations peacekeeping and UNOPS revenue for voluntary specified contributions is provided in Table 2. The documents from which the above data was extracted did not include UNOPS or Peacekeeing in the Voluntary Specified table, therefore data from Table 2 was added to Table 6. If a comparison between Table 6 and the source CEB tables is made, the discrepency will lie in the UN Peacekeeping and UNOPS data that has been added.

Table 7
1996-2011 figure & Table (which was updated to include 2012 data)- “A/68/71- E/2013/87, Analysis of funding of operational activities for development of the United Nations system for 2011, 24 June 2013” (Figure 1 and Table 3).

Table 7 does not account for contributions to technical cooperation, normative, treaty-related or knowledge creation activities or peacekeeping activities, therefore core and non-core totals for operational activities will not align with assessed or voluntary specified figures provided in tables 3 and 6.

Table 8
A/69/305. "Budgetary and financial situation of the organizations of the United Nations system", 12 august 2014, Table 2b (Voluntary contributions, specified, received from certain non-Member State donors, by organization

Methodology: (Table 8) The 2013 data used for table 8 has been extracted from the United Nations systems Chief Executive Board (CEB) “Budgetary and financial situation of the organisations of the United Nations System” released in the year 2014. (Report A/69/305) The data has not been altered; instead it has been reformatted from thousands of USD to Millions of USD.

Table 9
IMO 2012- "International Maritime Organization Financial Statements Year Ended 31.12.2012, Statement II-Statement Of Financial Performance for the year ended 31 December 2012, page 19)

Wipo (2012 & 2013) Financials 2012 & 2013- "Annual Financials Report and Financial Statements-Page 13 and Annual Financials Report and Financial Statements 2012 - Page 13".

Methodology: The data for this table has been extracted from publicly available yearly financial reports by both IMO and WIPO. The analysis done consists of determining the 2012 percentage values for each revenue category and the total percentage of overall funding that these constitute.

Table 10
MPTFO Gateway

Figure 3
Development Initiative, “Global Humanitarian Assistance Report 2014”, 2014.

Figure 4
Development Initiatives based on UN OCHA, FTS and CERF data. Note: Constant 2012 prices.

Figure 6 & 7
Dalberg, “ Innovative Financing For Development: Scalable Business models that produce economic, Social, and environmental outcomes”, 2014.

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- Section 1. 3: Paper on Integrated Budgets commissioned for the ECOSOC-led Structured Finance Dialogue 2013 (NYU / CIC)
- Section 2.1: On Pooled Funding. Materials provided by UNMPTFO.
- Section 2.2: Financing for Sustainable Development: Implementing the SDG's through Effective Investment Strategies and Partnerships. Sachs and Schmidt-Traub GSDN 2014.
- Section 2.3: Section on Climate Change. See Yannick Glemarec "Catalyzing Climate Finance" 2012
- Section 2.4: Innovative Financing for Development: Scalable Business Models that Produce Economic, Social and Environmental Outcomes. Dalberg et al 2014

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