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Financing the United Nations Development System

- Current Trends and New Directions

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The UN Development System (UNDS) has a considerable task ahead: playing its part in fulfilling the 2030 Agenda for Sustainable Development. Adequate, long-term and predictable financing is at the very heart of realising Agenda 2030, which strives to achieve 17 universal Sustainable Development Goals (SDGs). This will require both traditional and new approaches to be leveraged, catalytic connectors across the UN system to be strengthened, and an openness to innovative financing.

In 2014 the resources of the UN system amounted to \$48 billion from a wide spectrum of sources and through different financing mechanisms. Analysing the characteristics and potential of these contributions and mechanisms is critical to ensure a better and smarter resourced UNDS in the implementation of Agenda 2030.

This paper tackles this endeavour and is the Executive Summary of the full report with the same name, available at www.daghammarskjold.se.

Scope of the Report

The second annual report on Financing the United Nations Development System shines a light on current trends and challenges, as well as identifying interesting new directions in the financial landscape of the UN Development System. It provides an overview of sources and instruments of financing, analyses the implications of financing trends, and through a collection of essays, including from a number of senior UN officials, highlights some new thinking around financing the UNDS.

The report analyses the profile of UN sources of financing which include assessed contributions, core and earmarked contributions, as well as multilateral and non-state sources of income. This analysis shows that the majority of UN organisations remain dependent on earmarked funding and this continues to have critical implications on how budgets and fundraising are planned and executed. Underscoring the crucial importance of pursuing innovation and imagination in the field of UN financing, the report provides concrete examples of trends and innovation currently underway in the system.

Shifts in UN financing

As pointed out last year, the world of UN finance has virtually in its entirety been about the mobilisation and disbursement of grant funding. In its earliest phase, the system was financed predominantly by secured grants in the form of assessed contributions, which are contributions made by means of an agreed formula to secure membership to a community of interest or organisation. In a subsequent phase assessed budgets were supplemented by voluntary contributions to support development activities. During the '90s, there was yet another important shift in the character of the contributions made for development purposes from core (voluntary contributions that are not assigned) to earmarked contributions (project or program assigned funds).

Over the last twenty years, the extraordinary growth in the world economy and the related trebling in world Gross Domestic Product (GDP) to over \$75 trillion today, has increased the significance of major financial flows going through markets. This has led to a shift of the relationship between public and private financing for the global development agenda, as reflected in the increasing importance and relevance of innovative financing instruments.

The global picture

In the second half of 2015 we witnessed a number of significant events which present major challenges and opportunities for the UN Development System. These include the adoption of Agenda 2030, the adoption of the Addis Ababa Action Agenda, the Paris Agreement on Climate, penetrating reviews of the international

community's response to the Ebola outbreak, major UN reports on the future of peacekeeping and peacebuilding and the World Humanitarian Summit.

What emerges from this evolution of significance for the UNDS are two distinct tracks. The first relates to the challenges confronted in many Least Developed Countries (LDCs) and especially crisis-affected countries. For these countries, Official Development Assistance (ODA) remains extremely important. The challenge of integrating or linking interventions focusing on peace operations, humanitarian imperatives and development needs is critical in many of these countries.

The second track is central for the great majority of middle-income countries. These countries recognise that they are entering a post ODA phase. Volumes related to Foreign Development Investment, trade, and above all domestic resource mobilisation far exceed grant assistance. For these countries, public resources need to provide levers to get access to the market, with the UN supporting the leveraging of resources outside the UNDS to support UN goals.

Against this background, there is a broad consensus that the UNDS has a clear role in providing leadership in normative and standard-setting work. In a rapidly changing world, the web of normative frameworks that lie at the foundation of so many of the processes of an inclusive globalisation need to be nurtured, perhaps adapted and certainly strengthened. Repeatedly, in many different fora, the international community has stressed the unique role the UN has to play in this sphere. The Sustainable Development Goals (SDG) framework itself is a foremost example of this function.

Key findings:

Sources of finance and funding mechanisms

Through an analysis of UN sources of finance, this report shows that in 2014 over half of UNDS funding is tied to specific projects or programmes. These earmarked contributions have quintupled since 1995 while core funding has overall continued to decline, a trend that has characterised the financing of most UN development entities in the last 15 years of the "Millennium Development Goal (MDG) era."

This growth in earmarked contributions has in turn led to efforts to rebalance core and earmarked resources. A number of agencies have focused on developing thematic funding lines that introduce greater flexibility than project earmarks allow for. One approach has been the attempt to consolidate all resources into integrated budgets, promoting flexibility through greater transparency in the total funding available to an organisation to deliver on its strategic plan. This makes it easier to

identify funding gaps and priorities. Another approach has been to expand system-wide funding through new pooled funding arrangements, which pools resources from donors.

Meanwhile, after a decade of being a political no-go area, consideration of the potential for assessed contributions has recently been given high profile in the discussions around UN financing, despite a modest growth in real terms. The discussion has been particularly active around assessed contributions for normative and standard-setting activities and development activities that are integral to peacebuilding and peace operations. It would appear that the time might be ripe for a more in-depth analysis around the alignment between functions and financing through assessed budgets.

In the analysis of trends, the report notes that much of the growth in UNDS expenditure in recent years is related to humanitarian aid and other expenditures connected to countries experiencing fragility and protracted crises. The 13 fragile states with largest country level expenses accounted in 2014 for one third of the UN's global expenses.

The report also emphasises that given the prominence of the UN's normative function in the SDG era this should translate into better UN financial data on expenditure for this function and the financial instruments used. The UN system could agree on a sharper, more refined definition of 'normative activities', which would then provide better guidance to UN entities for identifying the actual expenditure to be reported against the normative function. Further, UN agencies could more systematically link the outcomes and budgets of their strategic plans to their normative function. The report includes a proposal on how this work could be pursued.

Key findings: Innovative trends and emerging challenges in UN financing

The report discusses a number of topical areas that will be high on the UN financing agenda over the coming years. The collection of essays from guest authors go into greater detail on some of these issues, and are included in the report to promote new thinking rather than stated policy.

Financing for Sustainable Development Goals

The ambition of the 2030 Agenda for Sustainable Development challenges the UN System to unite its efforts and provide integrated support to countries delivering on the SDGs. For the UN system to be fully fit-for-purpose, this ambition will require more integrated normative policy and operational support and far less fragmented financing.

Olav Kjørven from UNICEF argues that what is required is "a funding model which enables and supports a multi-

year horizon, the forging of innovative partnerships, more results-based programming, improved coherence across agencies, of moving beyond output monitoring towards impact measurement". Meanwhile, John Hendra from UN "Fit for Purpose" for the 2030 Sustainable Development Agenda, argues that "opening up national budgetary processes for more effective, transparent and accountable SDG financing will be a critical universal priority going forward".

Pooled Financing

Exploring the sphere of pooled funding, it is clear the UN has accumulated a wealth of experience over the past decade with system-wide development, humanitarian and transition pooled funds. This experience has highlighted that as part of a portfolio of financing instruments, pooled funds can be powerful mechanisms that better positioning the UN system to deliver the 2030 Agenda. Funding propels change and well-designed collective funding can spur collective action and UN reforms. At the same time, the potential drawback of pooled funds is that they could create new inefficiencies, and this should be mitigated by strong theories of change, design and risk management systems that are now known to anchor highly performing pooled funds.

On humanitarian pooled financing, Gwi-Yeop Son from OCHA argues that "pooled finance can play a catalytic role in improving the way humanitarian response is financed"; while Adriana Dinu and Oliver Waissbein from UNDP in the area of climate financing suggest there is "growing demand for the UN system to help developing countries navigate the variety and complexity of financial instruments available to address climate actions".

Financing for Sustaining Peace

The report underlines that financing for peacebuilding remains scarce, inconsistent and unpredictable. The lack of consensus around the concept of peacebuilding has undermined the ability to measure success and, in turn, to persuade donors to commit any significant amounts of funding. Resources that are provided are typically granted with one or maximum two year commitments, often with preference for covering fixed costs rather than recurring ones and are rarely channelled through pooled instruments.

The UN cannot succeed at revitalising and strengthening its ability to sustain peace without significant changes to the way in which peacebuilding is financed. Oscar Fernandez-Taranco from the UN Peacebuilding Support Office, suggests the UN system could consolidate funding requests for conflict-affected countries, covering as one the short, medium and long-term outcomes in humanitarian, development, mediation, reconciliation and peacebuilding sectors.

Innovative Financing and Leveraging

This report also shows there are innovative financing instruments that can complement traditional resource flows such as aid, foreign direct investment and remittances. By addressing specific market failures and institutional barriers, innovative financing can mobilise additional resources to eliminate poverty, raise living standards and protect the environment. For example, the Pandemic Emergency Financing Facility that is currently under development is an illustration of risk-based innovative financing that also demonstrates the potential UNDS has for a significant leveraging role working in concert with the World Bank.

The Global Fund, as explained by Patrik Silborn, has deployed a myriad of innovative financing platforms, such as social impact bonds and blended finance, and the African Risk Capacity initiative as outlined by Mohamed Beatogui has transformed the disaster risk financing paradigm. These novel instruments point to

the importance of unique UN “guarantee” functions – financial, substantive and political – to leverage the confidence of investors for transformative change especially in medium and high risk settings, which can enhance the UN’s impact in Agenda 2030.

Conclusion

Changing financing flows, sources and trends, coupled with the demands and expectations placed on the UN development system by the ambitious 2030 Agenda for Sustainable Development, requires the UNDS to rethink and redo its approaches to financing. There is much to build on from what is already underway within the different UN entities, but also needed is the boldness to challenge outdated systems and procedures and a willingness to test new approaches. With this report, we aim to contribute to current debates on the future of financing for the United Nations, and also to stimulate more innovative approaches and, as the title of the report says, new directions.



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