

# Funding Compact 2.0 holds potential for improving development outcomes

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## Introduction

Over the last five years the United Nations has been working systematically in building the right financial framework and infrastructure to support Member States towards the successful implementation of the 2030 Agenda for Sustainable Development.

The United Nations Funding Compact which was launched in 2019 and revitalised in 2024 represents commitment to a shared responsibility between Member States and the United Nations.<sup>1</sup> Its primary aim is to secure predictable and flexible financing for UN development initiatives in support of the 17 Sustainable Development Goals (SDGs). The Funding Compact commits Member States to provide more core, predictable non-core, and flexible funding, while the UN pledges to strengthen transparency, visibility and accountability and to invest in shared analyses, evaluations and strategic dialogue. However, despite its ambitious goals, progress has been uneven.<sup>2</sup>

In 2024, the renewed Funding Compact was launched to address these challenges with the aim of reinforcing set commitments, streamlining processes and enhancing funding flexibility.<sup>3</sup> In order to gauge progress in this regard, the Dag Hammarskjöld Foundation in collaboration with the UN Development Coordination Office (DCO), carried out an independent qualitative assessment from November 2023 to May 2024 to identify key factors driving country-level progress of the Funding Compact commitments.<sup>4</sup>

During this period over 50 interviews were conducted with government representatives, UN agencies and Member States in 15 countries across Africa, South America and Europe.<sup>5</sup> The preliminary findings are summarised into five categories, namely (1) awareness; (2) the interplay between Member State dynamics and funding decisions; (3) funding instruments and the transformational potential of pooled funding; (4) transparency and visibility; and (5) leveraging private sector partnerships.

## 1. Awareness

In probing the level of general awareness about the Funding Compact, the interview results showed that there is greater awareness with most of the participating respondents in most countries. Although the extent of explicit knowledge varied widely among stakeholders, whilst many are showing strong alignment with its principles. Even though this number was higher than initially expected, the intra-group knowledge varied between government officials, donors, and UN representatives. The latter generally showed more knowledge, particularly those directly involved in joint programming and pooled funding initiatives.

Some respondents initially perceived the Funding Compact as irrelevant to their context. This can perhaps be interpreted as having less understanding about how the UN financing architecture is operating and it could also be signal that there is an underutilisation of global benchmarking. Yet, discussions often shifted to a strategic and proactive stance when focusing on identifying common priorities and addressing complex problems requiring collaborative solutions.

## 2. Interplay between Member State dynamics and funding decisions

Respondents raised a general expectation that the UN should be more strategic, deliver at scale, and support countries in achieving the SDGs. They lifted that the current context of the diverse nature of donor support with regards to flexible funding makes it difficult to achieve financial stability in programme or project funding. This situation is made more challenging when facing negative competition among UN agencies for project funding which exacerbates the problem. Hard earmarking of resources limits the UN's ability to meet Member State expectations.<sup>6</sup> In addition, the UN often appears to be unprepared to deal with a high degree of funding flexibility.

The interviews indicated that the key issues include a lack of preparedness and advance knowledge of funding availability, practical difficulties in implementing pooled

funds, significant administrative burdens and inefficiencies that often outweigh the benefits.

There is a notable preference for earmarked funding due to perceived inefficiencies and lack of visibility in core funding. Coordination among UN agencies and resource mobilisation strategies are frequently insufficient, with high competition for limited resources and a lack of joint strategic planning. Donors express frustration over the lack of strategic partnerships and inadequate communication about flexible funds, indicating a critical need for improved mechanisms and strategies within the UN to handle flexible funding more effectively.

The crucial role of national leadership and the importance of Resident Coordinators (RC) as the Funding Compact requires coordinated efforts from the UN, Member States, and host governments were highlighted. Respondents called for effective collaboration and alignment of funding priorities with national strategies as essential for optimising the use of funds. A shared view among the different groups is that the UN Cooperation Framework and national steering committees can be used to enhance government ownership together with the UN leadership.<sup>7</sup>

Respondents from multiple countries confirmed the relevance of the Funding Compact in upper-middle and high-income contexts. It was also acknowledged that the Funding Compact supports combining national resources with policy expertise to maximise impact.

### **3. Funding instruments and the transformational potential of pooled funding**

The transformational potential of pooled funding, such as Multi-Partner Trust Funds (MPTFs), is widely recognised, and an increasing number of countries reported working with country-level pooled funds. The respondents emphasised how prioritizing core and pooled funding ensures that the UN can deliver cohesive and high-quality support to Member States, addressing complex global issues through a coordinated and transparent approach.

Although there has been significant progress with the introduction of the Resident Coordinator system, joint

programming could still be improved in many countries. The governance models of most vertical funds, including the Global Environment Facility (GEF), do not enable the office of the Resident Coordinator to play its UN system role. Only the SDG Fund and the Peacebuilding Fund currently acknowledge the coordinating role of the RC. This poses a risk and can lead to the fragmentation of relations with the host government especially if there is weak institutional anchoring.

### **4. Transparency and visibility**

Transparency and visibility were elevated as critical for building trust and ensuring effective use of resources. While improvements have been noted, challenges persist when it comes to the provision of clear and comprehensive information on funding allocation and impacts.

Member State respondents emphasised the importance of visibility of their contributions and identified this need as a central reason for resource earmarking. While donors of earmarked funding are being acknowledged, contributions to core funding often remain invisible.<sup>8</sup> To address this, some UN Country Teams (UNCTs) have identified the need to bring the group of core contributors together and facilitate dialogue with the host government. This is an example of how visibility can be increased in a qualitative way. Such dialogues could incentivise other Member States to contribute. The host government will similarly get a better idea of what is being delivered with regards to the core funding pot.

### **5. Leveraging private sector partnerships**

The interviews revealed that to date, significant contributions and sustained engagement from the private sector have been limited. Some of the key challenges listed are: inconsistent due diligence criteria among UN agencies; differing expectations from private entities; and political complexities that can hinder collaboration. Another element brought up is that there is a general lack of understanding of the UN's value proposition among private sector actors which further complicates efforts.

Despite these hurdles, respondents also shared examples of successful public-private partnerships and platforms facilitating such cooperation, showcasing the potential benefits of these collaborations. Initiatives have focused on value-based partnerships, in-kind contributions, and the creation of ecosystems for joint financing.

## Conclusion

The overall initial preliminary findings reveal that the re-energised Funding Compact 2.0 holds significant potential for improving development outcomes by emphasising strategic country-level engagement, enhancing funding flexibility, and promoting transparency. However, despite progress, awareness remains inconsistent, particularly amongst Member States.

Respondents lifted the importance of the host governments and the role of the Resident Coordinator. The transformative potential of pooled funding and the importance of leveraging private sector partnerships were emphasised as critical components to achieving the Sustainable Development Goals (SDGs). The effective implementation of the Funding Compact requires improved communication, coordinated efforts, and innovative approaches to ensure comprehensive understanding and stable financial support.

## Endnotes

- 1 United Nations, 'Implementation of General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, 2019: funding compact, Report of the Secretary-General', (New York: United Nations, June 2024), <https://unsdg.un.org/sites/default/files/2022-10/N1909671.pdf>.
- 2 See also article and figure John Hendra on page 123
- 3 The United Nations Sustainable Development Group, 'Funding Compact for the United Nations' support to the sustainable development goals', (New York: United Nations Sustainable Development Group, May 2024), [https://unsdg.un.org/sites/default/files/2024-06/Funding%20compact\\_English.pdf](https://unsdg.un.org/sites/default/files/2024-06/Funding%20compact_English.pdf).
- 4 This review is a follow up of the 'The Way Forward: Fulfilling the Potential of the Funding Compact at the Country Level' (Uppsala: Dag Hammarskjöld Foundation, 2023), <https://www.daghammarskjold.se/wp-content/uploads/2021/11/dhf-funding-compact-2021-web.pdf>.
- 5 Countries included into the sample at this stage of the assessment were: Guatemala, Dominican Republic, Barbados, Chile, Brazil, Uruguay, Rwanda, Gambia, South Africa, Somalia, Liberia, Kenya, Cabo Verde, Moldova and Montenegro.
- 6 It is important to note that the Funding Compact is not against earmarking per se, it argues for 'smart earmarking' - a strategic approach to allocating funds that balances the flexibility needed for effective UN operations with the specific interests of donors. Smart earmarking directs resources to a common area of impact, combines local leadership, partnerships and integrates resources.
- 7 United Nations, 'Sustainable Development Cooperation Framework' (New York: United Nations, 2019 ) <https://unsdg.un.org/sites/default/files/2022-06/UN%20Cooperation%20Framework%20Internal%20Guidance%20--%201%20June%202022.pdf>.
- 8 Reard Part One of this report to learn more about how the UN funding system is currently operating.