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Renewal of the
UN development
system

Financing the UN Development System Key emerging trends

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Seventy years after the establishment of the UN, we have inherited a complex financial architecture – one that has, over the years, been pieced together to meet the ever-changing needs of the UN development system (UNDS).

This Development Dialogue paper draws attention to three key emerging and evolving financing trends that 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.

The release of the report -- Financing the UN Development System: Getting it right for a post-2015 world – produced by The Dag Hammarskjöld Foundation and the UNDP Multi-Partner Trust Fund Office and which serves as the basis for this paper, comes at a critical juncture as we ready for the Third International Conference on Financing for Development and the Post-2015 Summit, both this year. The report also feeds into the ECOSOC Dialogue on the longer-term positioning of the UN development system.



Getting it right for a post-2015 world

The post-2015 development agenda, now on our doorstep, will usher in a host of additional resource requirements as the UN stretches to meet the challenge of an ambitious set of universal, sustainable development goals (SDGs). The UN and its member states will need to be both bold and creative to ensure that adequate resources are identified. Achievement of the SDGs will fundamentally depend on the application of apt and innovative strategies and instruments that will leverage resource mobilisation for sustainable development.

The report, *Financing the UN Development System: Getting it right for a post-2015 world*, which is available online¹, presents an overview of financing instruments in the UN Development System (UNDS) and aims to familiarise readers with the financing instruments of the UNDS and their possible evolution as part of the post-2015 development agenda. It's our hope that this report will provide decision-makers and other development actors with useful information to make informed choices about the financial mechanisms available for the UN to meet its goals and ambitions.

Historical perspective

In order to understand the major elements in the current UNDS 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. The member states' assessments were essentially the price of membership into 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 as the price of membership in UN entities that had core global functions and responsibilities.² Funding for development was, from the beginning, voluntary and largely un-earmarked in nature.

During the course of the 90's, for reasons briefly analysed in the report, there was a dramatic shift in the character of the contributions made for development purposes from voluntary core to earmarked contributions. The core ratio for UN development activities declined from 50 percent in 1996 to 28 percent in 2011. 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, thereby undermining the strategic and long-term allocation of resources for individual organisations.

"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."

from the report *Financing the UN Development System: Getting it right for a post-2015 world*

The financing landscape

The financial architecture for development evolves at a rapid pace. In 2013, the 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 sources: assessed contributions; voluntary core contributions; negotiated pledges; earmarked funding and fees (see box on next page). The sources relate 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 varies substantially. 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. However, the rapid growth in earmarked contributions has characterised the financing of most UN development

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 treaties. The assessments provide a reliable source of funding to many specialised UN entities based on each country's capacity to pay.

Voluntary core contributions are “un-earmarked” funds provided to UN entities at the discretion of each member state.

Negotiated pledges are legally binding on the countries that agree to the particular scale in question and are often used to address a specific challenge.

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

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

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. Efforts to rebalance core and earmarked resources have led to a number of initiatives to improve the quality of non-core allocations, including the consolidation of all resources into integrated budgets and the establishment of thematic trust funds.

The alignment of the UN development system behind a set of clear Millennium Development Goals had radical implications for the way the system 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.

“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.”

from the report *Financing the UN Development System: Getting it right for a post-2015 world*

Financing the future

The UN Development System and its member states are 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.

The report draws attention to three key emerging and evolving financing trends that 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

1 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, partnership principles, financing models and investing for impact and measurement of results.

The synthesis report of the Secretary-General on the Post-2015 development agenda³ calls for more coherent UN 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.

The development of the SDGs as the anchor of the new development agenda, and the related emergence of global public goods (GPGs), is likely to consolidate the shift towards issue-based, earmarked resources as the need for collective responses to a number of global 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 to build some flexibility within issue-based financing, this might require the consolidation of a range of existing smaller UN financing instruments.

However, the success of issue-based pooled financing instruments will depend on professionalisation and excellence at the level of fund design and administration, fund operations and 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.”

from the report *Financing the UN Development System: Getting it right for a post-2015 world*

2 Leveraging Official Development Assistance (ODA)

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 continues to be a group of countries in which ODA still plays a significant role and will likely continue to do so. 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 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.

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 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 Investment.⁴ 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 channeled through the UN.

The role of innovative finance

3 As part of the shift in the role of ODA to align private investment with sustainable development, 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, the 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.

The UN system has played a key role in the design and implementation of a number of 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 prioritise its engagement with these instruments.

“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.”

from the report *Financing the UN Development System: Getting it right for a post-2015 world*

Concluding remarks

Concurrently and consistent with these three trends, the adoption of the SDGs and the emergence of GPGs has reinforced the view that the UN has a critical role to play in developing and 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 development 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 finance – as well as a strengthened focus on global norms, might appear to sit uneasily together. Fostering a coherent vision of how to bring them together in a reinforcing fashion is an urgent priority for policy makers. Developing flexible financing frameworks, in which different functions require different types of financing, merits more detailed exploration.

The report 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 forward-looking. 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 a world of traditional aid with grants as the central feature, and a world with increasing private resource flows. It is at this interface that the UN development system can play a significant role in supporting the transformative agenda in the post-2015 development framework. The UN has a real opportunity to position itself as a broker, capable of leveraging the huge range of resources globalisation 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.

End notes

¹ www.daghammarskjold.se

² UN entities which rely on assessed contributions include specialised agencies such as WHO, ILO, UNESCO and FAO

³ The Road to Dignity by 2030: Ending Poverty, Transforming All Lives, and Protecting the Planet, Synthesis report of the Secretary-General on the post-2015 sustainable development agenda; December 2014.

⁴ The UN's Global Compact
<https://www.unglobalcompact.org>



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