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Operational activities of the United Nations for international development cooperation: follow-up to policy recommendations of the General Assembly and the Council

Implementation of General Assembly resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system: funding analysis

Report of the Secretary-General*

Summary

The present report, submitted pursuant to General Assembly resolution 67/226, provides an overview of the progress made in addressing the funding-related challenges encountered in the implementation of that resolution, with a focus on 2015. Given that 2015 marked the end of the Millennium Development Goals era, the report also presents some key trends in the funding of operational activities for development of the United Nations system over the past 15 years.

* The present report was submitted late owing to the delay caused by Umoja in receiving the funding data for 2015.

I. Background

1. The present report focuses on the 34 funds, programmes and agencies of the United Nations system that received funding for operational activities for development in 2015. For the purposes of the present report, those entities constitute what is referred to as the United Nations development system.[1]

2. Operational activities for development of the United Nations system are activities that United Nations system entities carry out with the primary objective of promoting the development and the welfare of developing countries. They cover activities with longer-term development objectives, as well as those with a short-term humanitarian assistance focus. With regard to the distinction between development-related and humanitarian assistance-related activities, no harmonized system-wide classification exists. For the purposes of the present report, and pending the introduction of a harmonized classification system, all activities of the Office of the United Nations High Commissioner for Refugees, the United Nations Relief and Works Agency for Palestine Refugees in the Near East,[2] the Office for the Coordination of Humanitarian Affairs of the Secretariat, the emergency operations of the United Nations Children's Fund (UNICEF) and the humanitarian operations of the World Food Programme (WFP) are considered to be humanitarian assistance-related.[3] Accordingly, all other operational activities are treated as being development-related.

3. The statistical data used as the basis for the presentations and analyses in the present report are contained in a detailed statistical annex, which is available on the quadrennial comprehensive policy review website (www.un.org/ecosoc/en/oas-qcpr). Most of that information was obtained from the United Nations System Chief Executives Board for Coordination (CEB) financial statistics database and reporting system.[4] The CEB data are supplemented by financial reports produced by individual United Nations entities and the inter-agency pooled funding database managed by the Multi-Partner Trust Fund Office of the United Nations Development Programme (UNDP). The online technical note to the present report contains further details on the sources of information and is available on the quadrennial comprehensive policy review website.

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[1] There is no commonly agreed definition of the terms "United Nations development system" and "operational activities for development". For the purposes of the funding analysis, the definitions include those entities and activities linked to contributions in line with the definition of official development assistance provided by the Organization for Economic Cooperation and Development. This is not intended to imply that entities listed as part of the United Nations development system for the funding analysis are part of it for other purposes. For example, the Office for the Coordination of Humanitarian Affairs is not part of the United Nations development system for purposes other than those for the funding analysis in line with its non-operational humanitarian coordination mandate.

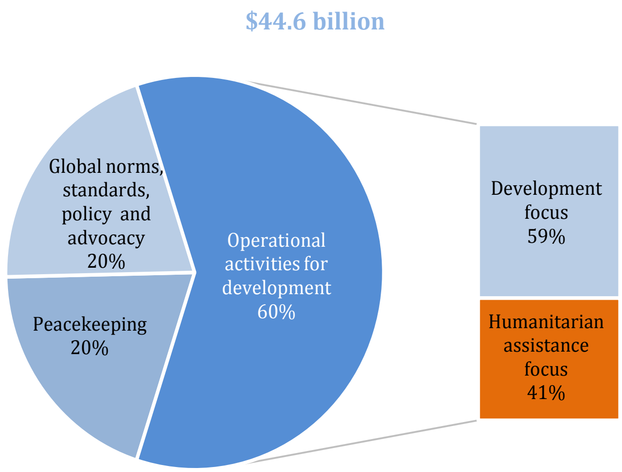
[2] The Agency's mandate encompasses both humanitarian assistance and human development services, the latter in the areas of education, health, social protection and human rights for refugees.

[3] Emergency operations constituted 33 per cent of the total funding of UNICEF in 2015, and humanitarian operations constituted 94 per cent of the total funding of WFP in 2015.

[4] Available from www.unsceb.org/content/un-system-financial-statistics.

4. As reflected in figure I, funding for operational activities for development in 2015 accounted for almost 60 per cent ($26.7 billion) of total funding for United Nations system-wide activities ($44.6 billion). Peacekeeping operations accounted for 20 per cent ($8.8 billion), and the global norm and standard-setting, policy and advocacy functions of the United Nations system accounted for the remaining 20 per cent ($9.1 billion). The present report concerns only the portion of funding used for operational activities for development.

Figure I
Funding of United Nations system-wide activities: 2015



II. Introduction

5. The longer-term trend in the funding of operational activities for development shows significant growth in the volume of flows but also a change in the character of those flows. The volume of funding has more than doubled since 2000 in real terms. The nature of those resources, however, has fundamentally changed. Contributions in the form of non-core resources have grown six times faster than core contributions during the past 15 years. This has resulted in an increasing share of non-core resources, with most of the resources earmarked strictly for specific projects and activities.

6. The growing imbalance between core and non-core resources has consequences for the multilateral nature of the United Nations development system, including a decrease in the flexibility and discretion that United Nations entities have in the use of their resources. The implications stemming from relatively slow growth in core funding are magnified, given that such funding is being spent to subsidize the non-programme costs of non-core projects, leaving fewer core resources available for core programme activities.

7. Notwithstanding repeated calls from the General Assembly in resolutions on the quadrennial comprehensive policy review for United Nations entities and contributing countries to address the imbalance between core and non-core

resources, reservations about increasing assessed contributions and the voluntary nature of remaining contributions make it unlikely that the core share will increase. Another factor making such an increase difficult is the legacy of supporting sectoral goals that shaped the current development landscape and led to more earmarking of contributions by donors.

8. Given the constraints to increasing core funding, it will be crucial for the United Nations development system and donors to improve the quality of non-core flows. The United Nations development system should also make full use of its absolute advantage to leverage additional international and national financial resources, including from innovative mechanisms, to be directed to the 2030 Agenda for Sustainable Development.

9. To date, innovative financing solutions have generated limited additional resources and have been, for the most part, narrowly targeted towards specific challenges, such as in the health and climate sectors, and further concentrated in specific projects within those sectors. The potential exists, however, to scale up such resource flows significantly so as to complement traditional mechanisms and help to address the need for additional and more flexible funding to achieve the Sustainable Development Goals.

10. The relevance and ability of the United Nations development system to respond to an increasingly interconnected set of global challenges and to support the implementation of an integrated 2030 development agenda require it to shift its approach from funding to an integrated financing strategy. The financing strategy would involve United Nations country teams identifying an appropriate mix of financial instruments that best complement and leverage other sources of development finance in the country, including private, public, external and national resources that may not flow through the United Nations development system. The country teams would assist Governments in enhancing their understanding of the various forms of development finance in the country and make recommendations to the Government and development partners on options for improving the efficiency and effectiveness of the country’s development finance.

11. The quality of non-core funding can be improved by encouraging contributions to well-designed inter-agency pooled funds and loosely earmarked (agency-specific) thematic funds. Inter-agency pooled funds have proved to be well suited to support integrated approaches to the delivery of operational activities for development, such as those expected for the implementation of the 2030 Agenda, by improving aid coordination and coherence and bridging the silos between development, humanitarian and peacebuilding assistance. Agency-specific thematic funds are not only, by definition, aligned to the strategic plan outcomes of entities but, like inter-agency pooled funds, also enable the flexibility to dynamically reallocate resources to underfunded priorities within a broader programmatic framework.

12. The approaches described in the present report are meant to complement ongoing efforts to secure an adequate level of core funding. Enhanced transparency on the use of core resources in order to strengthen accountability for results and to build trust between the United Nations development system and Member States could encourage contributors to provide adequate core funds. There will also be a need for a more logical attribution of costs in accordance with the principle of full cost recovery, as defined in General Assembly resolution 67/226, so that core resources are not used to subsidize non-core projects.

III. Quantity and quality of funding

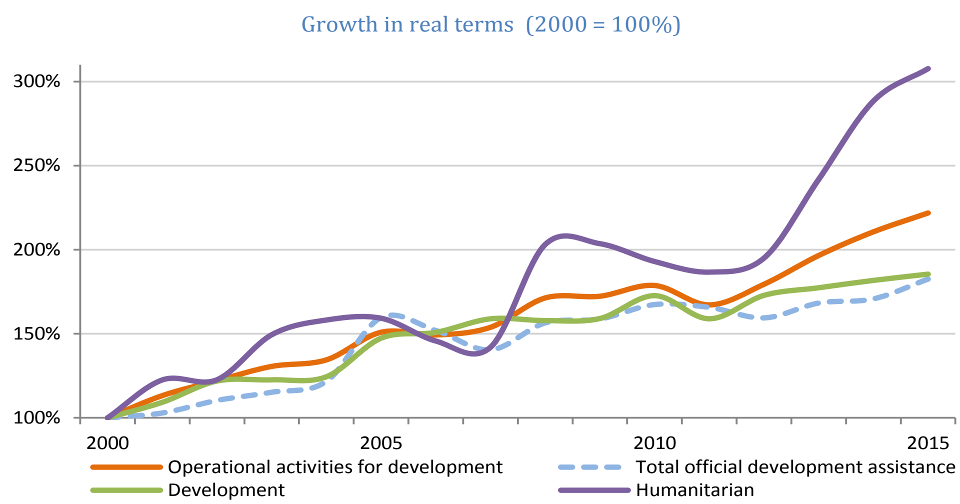
A. Context of funding for operational activities for development

13. Funding for operational activities for development amounted to $26.7 billion in 2015, representing a decrease of 6.8 per cent in nominal terms compared with 2014. That nominal decrease, however, can be attributed to the weakening of several major currencies relative to the United States dollar. In real terms, taking into account inflation and exchange rate differences, total contributions in 2015 increased by 3.9 per cent compared with 2014.

14. Funding for operational activities for development in 2015 accounted for 19 per cent of total official development assistance (ODA) provided by the donors of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD).[5]

15. Figure II shows the trend in funding for the United Nations development system, with development and humanitarian funding also shown separately, relative to total ODA. Over the past 15 years, the growth in funding for United Nations development-related activities followed a similar trend to the growth in total ODA. Funding for operational activities for development increased more rapidly than ODA owing to two periods of increased funding for United Nations humanitarian assistance activities. In 2008, humanitarian funding grew as a result of increased global hunger in the face of rising fuel and food costs. More recently, humanitarian funding surged again owing primarily to the crises in Iraq, the Syrian Arab Republic and Yemen.

Figure II
Growth in official development assistance and funding for operational activities for development of the United Nations system: 2000-2015

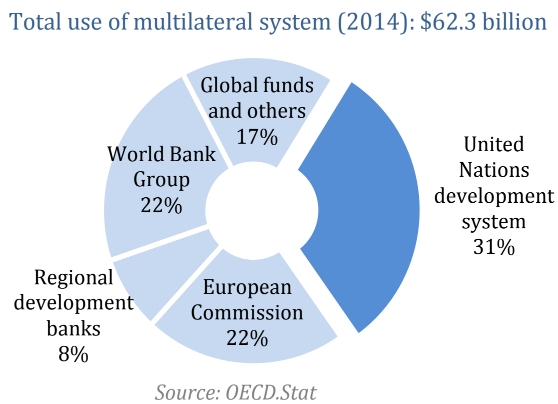


[5] Local resources channelled through the United Nations development system are excluded because they do not fall within the definition of ODA.

16. Aid flows channelled through the multilateral system, both core and non-core, rose from a 36 per cent share of global ODA to a 45 per cent share between 2007 and 2014, owing primarily to an increase in non-core funding.

17. Funding for operational activities for development accounts for 31 per cent of multilateral ODA, as reported by the Development Assistance Committee, making it the largest single channel of direct multilateral ODA (see figure III).[6] This represents an increase from the 29 per cent share in 2011.[7]

Figure III
Channels of multilateral aid: 2014[8]



18. Notwithstanding solid growth in both the volume of funding for operational activities for development and global ODA since 2000, the aid flows represent only a small share of overall global financial flows to developing countries. The largest of those flows is international private finance in the form of foreign direct investments, which have more than doubled over the past 10 years to reach $765 billion in 2015.[9] Migrant remittances are another major flow. In 2015, $582 billion was sent by migrants to individuals in their home countries, which is almost double the amount 10 years ago.[10]

19. In terms of directing aid to the poorest and most vulnerable people, however, ODA and funding for operational activities for development can have a significant impact, given that such flows have a comparative advantage in focusing on leaving no one behind and ending poverty. For example, less than 7 per cent of the growth of international resource flows since 2000 went to the least developed countries.[11] Of the $765 billion in foreign direct investment flows in 2015, only $35 billion, or

[6] To avoid double counting, ODA flows between any two multilateral organizations are excluded.
[7] Comparable data do not exist prior to 2011 owing to a lack of comprehensive reporting of non-core funding flows through some multilateral organizations.
[8] The data are for 2014, given that the Development Assistance Committee's statistics report for 2015 is published in late December 2016, after the issue date of the present report.
[9] See www.unctad.org/fdistatistics.
[10] See www.pewresearch.org/fact-tank/2016/08/31/migrant-remittances-worldwide-drop-in-2015-for-first-time-since-great-recession/.
[11] See "Improving ODA allocations for a post-2015 world". Available from www.un.org/en/ecosoc/newfunct/pdf15/un_improving_oda_allocation_for_post-2015_world.pdf.

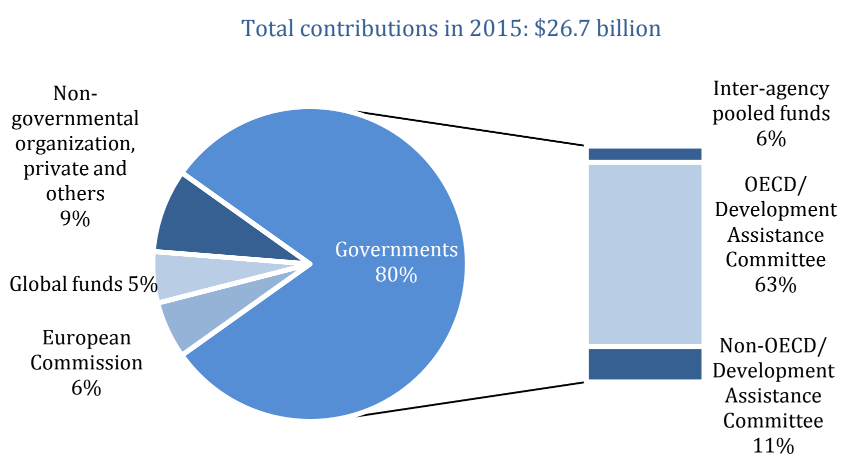
5 per cent, went to those countries. By contrast, 44 per cent of ODA disbursements and 47 per cent of operational activities for development expenditures were for those countries in 2015.

20. Given that funding for operational activities for development increasingly represents a small proportion of international financial flows to developing countries, there is an increasing need for United Nations country teams to shift from a funding to an integrated financing strategy. Such a strategy would need to look in a complementary manner at the development, humanitarian and peacebuilding financing needs in a given country, with a view to supporting Governments in identifying and bringing together diverse sources of international and national finance, including financing from partnership arrangements, most of which will not pass through the United Nations development system. The universal nature and comparative advantage of the United Nations development system as a global convener of multi-stakeholder development actors make it ideally suited to lead country-level support for such a strategy. It is important to stress that such an integrated financing strategy, focusing on determining the optimal mix of financing resources for a country's development agenda, should be undertaken to complement, not replace, the Organization's joint resource mobilization strategies, such as identifying potential donors for United Nations activities and coordinating fundraising activities among United Nations entities.

B. Contributor base

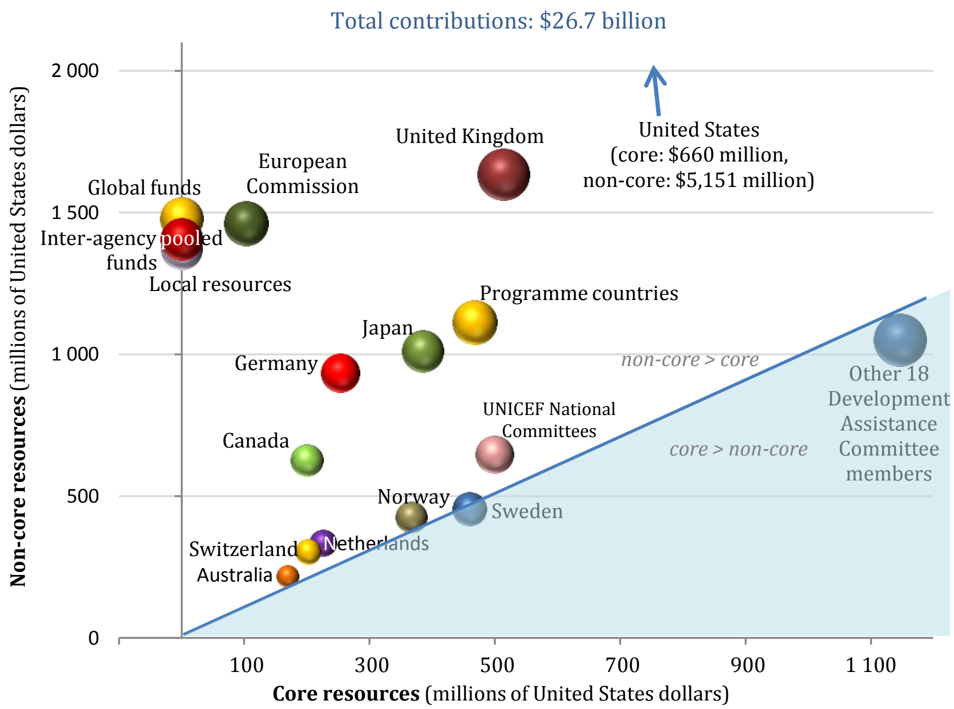
21. A total of 80 per cent of total contributions in 2015 were made by Governments directly (see figure IV), including contributions made to inter-agency pooled funds that are administered by a United Nations entity on behalf of the United Nations development system. The remaining 20 per cent is accounted for by the European Commission and by non-governmental organizations, public-private partnerships and other multilateral institutions, including global funds.

Figure IV
Main groups of funding sources: 2015



22. Figure V shows the core and non-core contributions by the top 10 government donors and groups of main contributors. Together, the sources of funding presented therein accounted for 95 per cent of total funding in 2015. Contributions to inter-agency pooled funds are excluded from information on individual contributors and shown as a separate bubble. Figure V also shows that, of the top 10 government donors, only Sweden provided more core contributions than non-core (illustrated by being inside the shaded region). The combined contributions received from the 18 other Development Assistance Committee contributors had a core share of 52 per cent.

Figure V
Main contributors: 2015



Note: Size of bubbles is proportional to total contributions.

23. Programme countries[12] contributed more than $1.5 billion to operational activities for development in 2015, excluding local resources, which represents a 12 per cent decrease compared with 2014 in nominal terms. The decrease can be attributed primarily to exceptionally high contributions in 2014 by Saudi Arabia. Compared with 2013, contributions from programme countries were 16 per cent higher in 2015. More than 70 per cent of programme country contributions were non-core. The $1.5 billion in contributions is equivalent to 8 per cent of total estimated South-South development

[12] For the purposes of the present report, the programme countries are the 149 countries that received the Department of Economic and Social Affairs programme country government survey in 2015. See the technical note on the quadrennial comprehensive policy review website for further details.

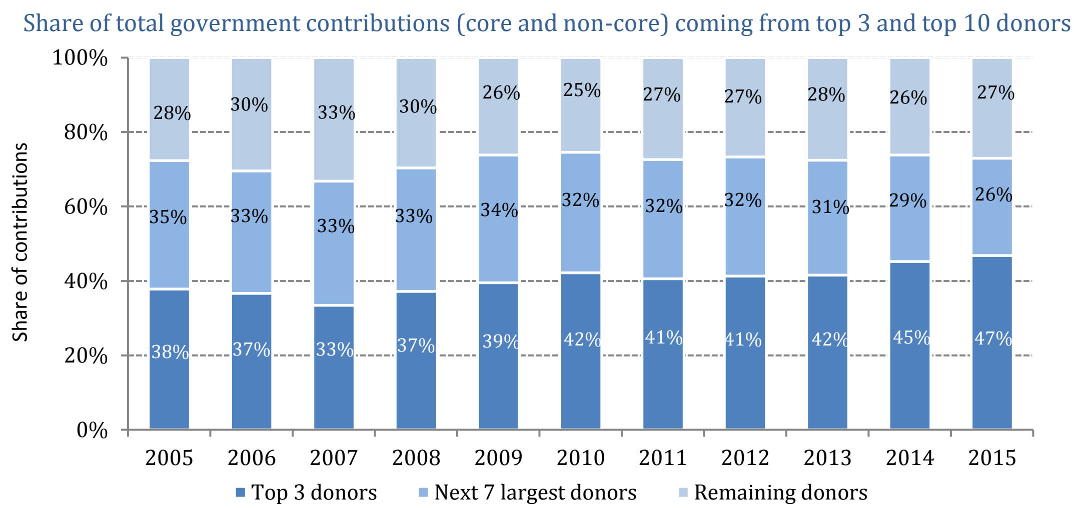
cooperation flows in 2014.[13] Programme countries also provided $1.4 billion in local resources to finance United Nations activities in their own countries.

24. Entities throughout the United Nations development system have made efforts to try to broaden their donor base, including by raising the issue regularly for discussion during the structured financing dialogues held within United Nations governing bodies. In the 2015 survey by the Department of Economic and Social Affairs of United Nations entities,[14] 23 of the 25 that responded indicated that their organization reported annually on concrete measures to broaden the donor base as part of its regular reporting.

25. Notwithstanding those efforts, in 2015, three government donors accounted for 47 per cent of all contributions made by Governments, while the top 10 accounted for 73 per cent.[15]

26. Figure VI shows that there has been no easing of the reliance on the top few donors, notwithstanding strong calls to broaden the donor base in resolution 67/226 and in earlier resolutions on the triennial comprehensive policy review. In fact, reliance on the top three donors has increased over the past decade.

Figure VI
Dependency on top government donors: 2005-2015



27. In order to enhance the predictability and stability of funding, it will be important for the United Nations development system to diversify its funding base, thereby reducing its reliance on a few top donors. Doing so will also require finding

[13] See the report of the Secretary General on trends and progress in international development cooperation (E/2016/65), in which South-South cooperation flows were estimated to have exceeded $20 billion in 2014.

[14] Available from www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/qcpr/qcpr-2016-hq-agency-survey-report.pdf.

[15] The top 10 donors in 2015, beginning with the largest funding, were the United States of America, the United Kingdom of Great Britain and Northern Ireland, Japan, Germany, Sweden, Canada, Norway, the Netherlands, Switzerland and Australia.

ways to encourage non-traditional partners that are in a position to do so to contribute more.

C. Trends in core and non-core flows

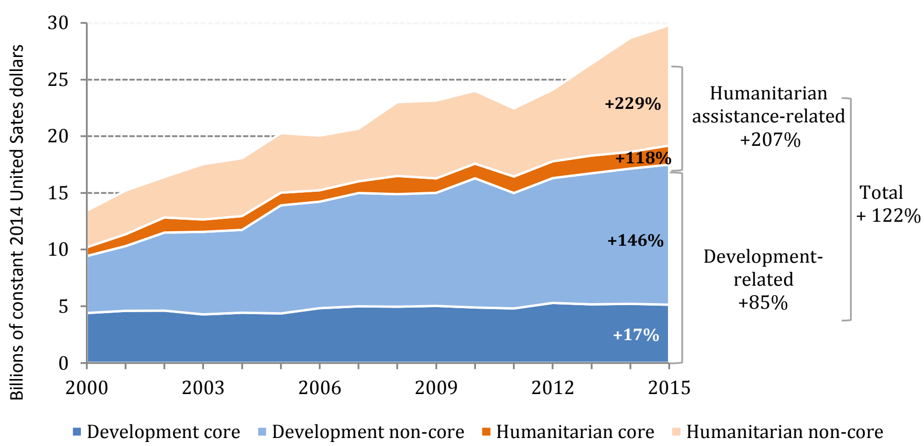
28. Operational activities for development are funded by a combination of so-called core and non-core resources (except for the United Nations Office for Project Services, which is almost entirely self-financed). Core resources are those that are not earmarked and that are commingled without restrictions. Their allocation and use are directly linked to the multilateral mandates and strategic plan priorities of entities as legislated by their governing bodies.

29. By contrast, and as determined by the contributors, non-core resources are earmarked and thus restricted with regard to their allocation and application. Accordingly, there is not necessarily a direct link between activities financed by non-core resources and the multilateral mandates and strategic plan priorities legislated by governing bodies. In some instances, governing bodies formally approve the use of core resources while only "taking note" of the use of non-core resources. Non-core contributions can also have a high level of reporting requirements tailored to the specific needs of donors, which can increase transaction costs.

30. Figure VII shows that the general trend in funding has been quite positive over the past 15 years, with funding for development-related activities increasing by 85 per cent in real terms, while funding for humanitarian activities has more than tripled. The vast majority of the growth, however, has been in the form of non-core resources. Non-core funding for development-related activities has grown more than eight times faster than core funding. As a result, the core share of development-related funding dropped from 47 per cent to 29 per cent during the 15-year period.

Figure VII
Real change over time in funding for United Nations operational activities for development: 2000-2015

(Percentage change relative to 2000)



31. The growth in overall funding for development-related activities has slowed in the past few years. Since 2010, such funding has increased by only 7 per cent, while funding for humanitarian assistance activities has grown by 59 per cent. This more recent trend may continue, given that current funding provided to global humanitarian activities cannot keep pace with the growing humanitarian demands.[16] A challenge moving forward will be to adequately assist countries requiring urgent humanitarian assistance while also committing to protecting development gains and supporting the longer-term sustainable development challenges of all programme countries, in particular those that are most vulnerable, including building resilience and synergies among development efforts and humanitarian interventions.

32. Linked to the issue is the need for the United Nations development system to play a catalytic role in bringing key development actors together and explore ways to identify and mobilize support for innovative financing mechanisms based on models that combine public and private resources, such as green bonds, vaccine bonds and carbon pricing mechanisms, as well as new forms of taxes and levies that can complement financing for sustainable development.

33. Doing so would include innovative mechanisms that allow countries to manage and finance disaster risk reduction, including by developing mitigation plans, in an effort to bring better alignment between development and humanitarian finance.

34. To that end, in October 2016, the Secretary-General launched a new financial innovation platform to support the identification and piloting of innovative financing instruments that can drive investment and support well-thought-out Sustainable Development Goal interventions. The initiative will engage a broad range of government and non-State actors that already have new and innovative financing mechanisms under development.

35. While exploring new ways to leverage additional resources through innovative financing mechanisms, the United Nations development system should partner with other multilateral organizations, international financial institutions and global funds that have experience engaging in such mechanisms. Doing so would facilitate the effort to enhance value for money and mitigate risks associated with innovative financing.

D. Non-core funding modalities and trends

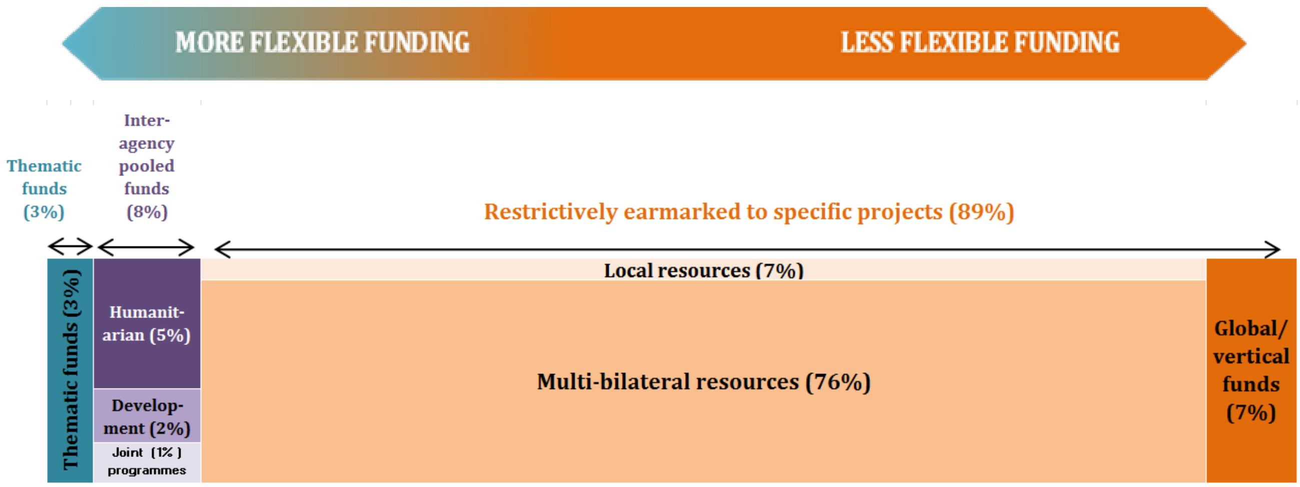
36. Non-core funding can, in general, be grouped into four types: entity-specific thematic funds; inter-agency pooled funds, which include joint programmes; funding earmarked to specific programmes and projects, which includes local resources; and global funds administered outside the United Nations development system.

37. Figure VIII shows the main types of non-core resources organized from left to right according to the degree of flexibility from the perspective of United Nations entities. The relative sizes of the rectangles are proportional to the quantity of resources received through each of the different modalities in 2015. Contributions to loosely earmarked funding arrangements, namely thematic funds and inter-agency pooled funds, accounted for 11 per cent of overall non-core flows.

[16] For example, over the past five years in WFP, the funding gap has, on average, been 30-40 per cent below the identified funding needs for the entity to carry out its planned activities, according to the WFP annual performance report for 2015.

38. The vast majority, or 89 per cent, of non-core flows continued to be earmarked to specific projects. Considering that 77 per cent of funding was non-core in 2015, it means that more than two thirds of the $26.7 billion in total contributions received were tightly earmarked for specific projects.

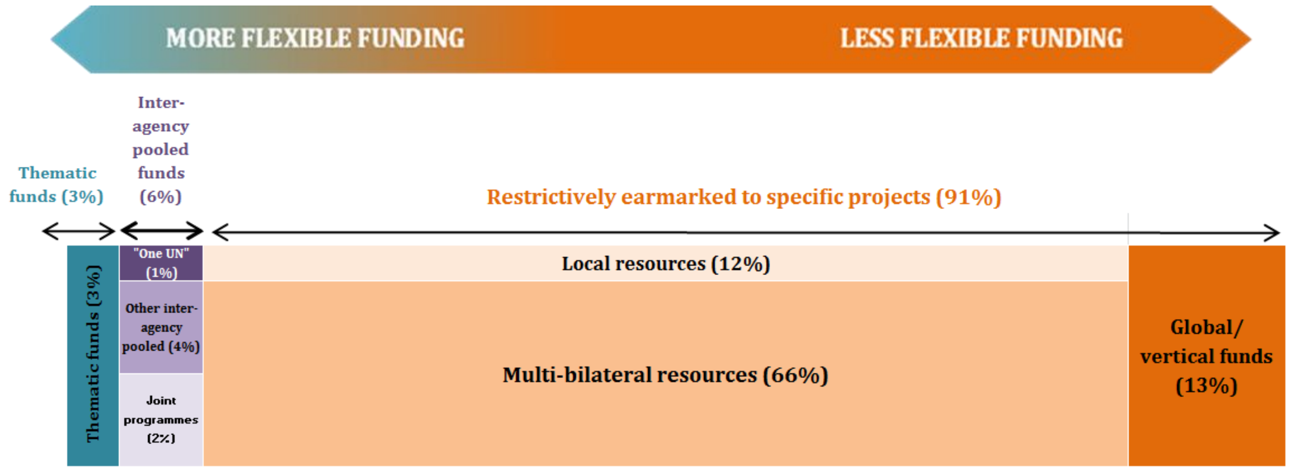
Figure VIII
Non-core funding modalities for United Nations operational activities for development: 2015



Source: CEB financial statistics database and Multi-Partner Trust Fund Office database on inter-agency pooled funds.

39. In terms of funding for development-related activities specifically, excluding humanitarian funding, 91 per cent of all non-core flows were earmarked for specific projects (see figure IX).

Figure IX
Non-core funding modalities for United Nations development-related activities: 2015



Source: CEB financial statistics database and Multi-Partner Trust Fund Office database on inter-agency pooled funds.

40. Discussions in the context of the Economic and Social Council dialogue on the longer-term positioning of the United Nations development system highlighted that the dominance of strictly earmarked, donor-driven funding had resulted in a highly complex and resource-consuming reporting system for both entities and programme countries alike; the reporting burden was particularly heavy on Governments in small programme countries. It would appear that the donor-driven and fragmentation-inducing nature of the current funding architecture has reached its limits. The integrated nature of the 2030 Agenda will further amplify the need for core resources to be complemented with flexible non-core funding in order to deliver the expected results.

Entity-specific thematic funds

41. Contributions to thematic funds are softly earmarked for outcomes of an entity's strategic plan. Such a funding mechanism offers long-term planning and flexibility and is an effective way to attract large-scale non-core resources through internally pooled donor funds, which, in turn, saves on transaction costs. It is therefore concerning that, between 2014 and 2015, contributions to thematic funds declined by 41 per cent, from $893 million to $529 million.

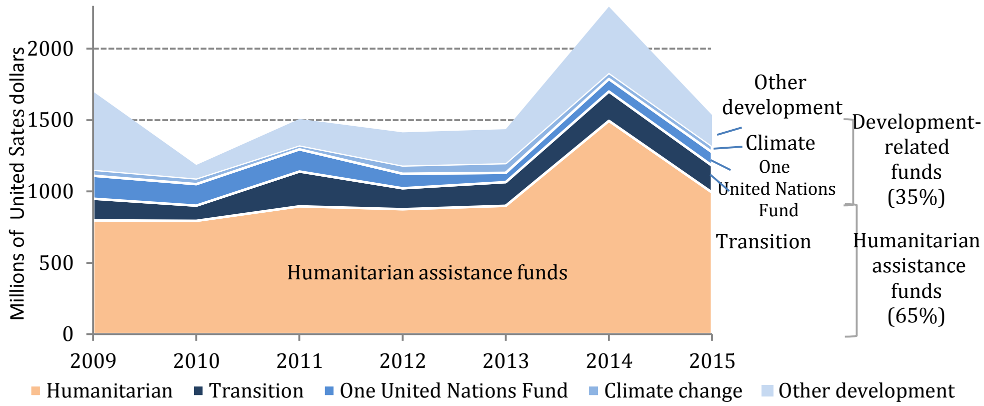
42. The discussions during the Economic and Social Council dialogue on the longer-term positioning of the United Nations development system indicated that attracting more contributions that were earmarked more broadly would require stronger ownership by Member States of the strategic plans of entities and a higher degree of confidence in the quality of their results-based management, evaluation and reporting systems.

Inter-agency pooled funds

43. Inter-agency pooled funds are designed to support a clearly defined broad programmatic scope and results framework through contributions that are commingled, without earmarking for a specific United Nations entity, and managed by a United Nations fund administrator. With regard to such funds, decisions on programmatic allocations are made by a United Nations-led governance mechanism, which is responsible for defining the purpose and results framework of the fund, resulting in a flexible form of non-core flows, which help to strengthen system-wide coordination and coherence.

44. Contributions to inter-agency pooled funds totalled $1.5 billion in 2015 (see figure X), of which close to two thirds were to humanitarian funds, representing an overall 33 per cent decrease compared with 2014, which was an exceptional year owing to the one-time contribution from Saudi Arabia to the Saudi Humanitarian Fund for Iraq. If 2014 were excluded, then a modest increase could be observed in contributions to inter-agency pooled funds since 2010.

Figure X
Deposits made to inter-agency pooled funds, by fund category: 2009-2015

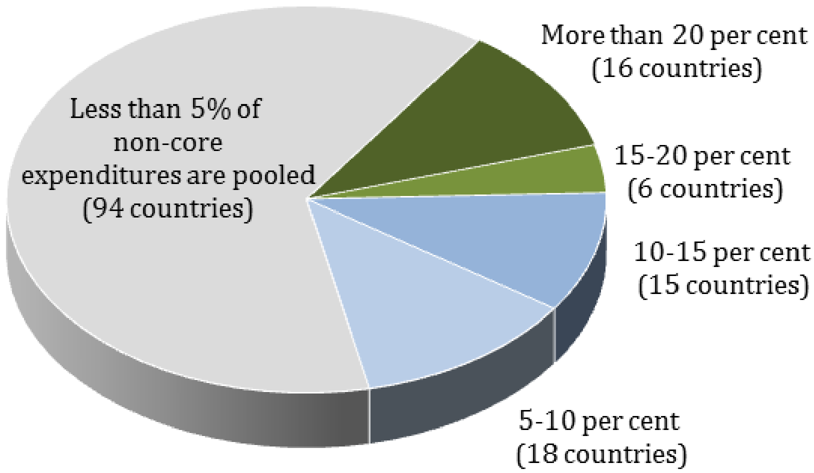


45. While not a separate type of third-party pooled funding modality, funding for joint programmes is included in the volume of flows shown in figure X, given that it can be regarded as a form of pooling of resources by United Nations entities at the country level to make the United Nations development system more coherent, effective and efficient. A joint programme consists of a partnership involving, in general, two to five United Nations entities, their national or subnational governmental partners and other stakeholders. Total funding for joint programmes in 2015 was $204 million.

46. In order to reap the benefits of economies of scale and for inter-agency pooled funds to act as gravity centres for strengthening system-wide coherence at the country level, based on past experience it is estimated that at least 15-20 per cent of non-core expenditures should be channelled to inter-agency pooled funds.[17] In 2015, only 16 programme countries reached the 20 per cent threshold, and in another 6 countries the 15 per cent threshold was obtained. In the majority of programme countries, less than 5 per cent of non-core expenditures were channelled through inter-agency pooled funds (see figure XI). One of the main reasons for the target share not being achieved in more programme countries is the narrow donor base for such contributions. Just four donors, namely the Netherlands, Norway, Sweden and the United Kingdom, accounted for 63 per cent of all contributions to inter-agency pooled funds in 2015.

[17] Bruce Jenks and others, *Financing the United Nations Development System: Current Trends and New Directions* (Dag Hammarskjöld Foundation and Multi-Partner Trust Fund Office, 2016).

Figure XI
Estimated share of country-level non-core expenditures channelled through inter-agency pooled funds: 2015



47. When well-designed inter-agency pooled funds attract a significant volume of resources, they can counteract many of the negative effects of tightly earmarked non-core contributions, namely a lack of flexibility and predictability, increased fragmentation of aid and high transaction costs.[17]

48. The set-up and administration of inter-agency pooled funds, however, come with additional transaction costs. Consequently, if there are too many such funds and they do not attract sufficient resources to generate adequate economies of scale, they can lead to decreased efficiency and the further fragmentation of resources.

49. The United Nations development system has recently designed a number of new pooled funding arrangements, such as the joint policy fund under the aegis of the United Nations Development Group. The fund is aimed at supporting the efforts of Member States to advance the 2030 Agenda through integrated policy support, providing programme countries with catalytic support where needed and as identified by United Nations country teams and in response to specific complex and multidimensional policy challenges. It will draw on the multisectoral policy expertise that exists across the United Nations development system to enhance cross-sectoral government approaches to national and subnational policymaking, providing funding at a scale and duration that allow for deeper policy engagement and innovative approaches to policymaking.

Global thematic and vertical funds

50. An increasingly significant channel of funding for the United Nations development system is global thematic funds, which are sometimes referred to as vertical funds. Global thematic funds, like global United Nations-administered inter-agency pooled funds, focus “vertically” on specific issues or themes but are not administered directly by a United Nations entity and do not demand a United Nations lead role in the fund allocation process. They usually have their own

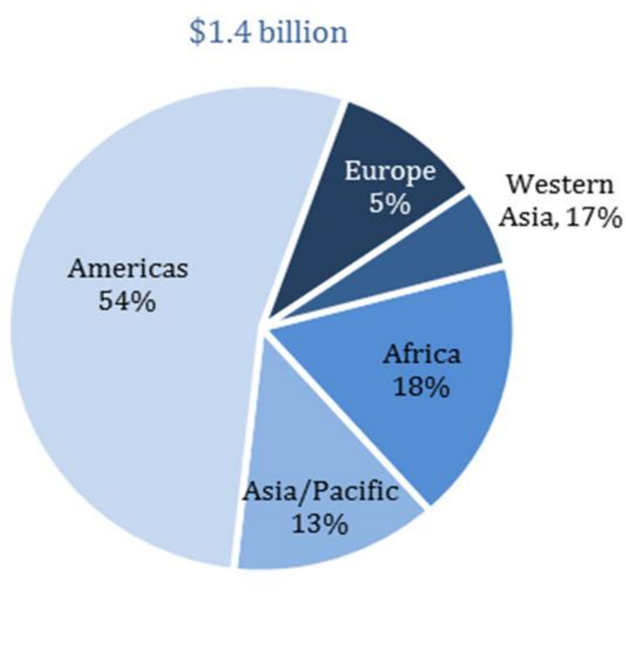
trustee, funding, governance, policy and programming arrangements. Consequently, while global funds are a form of pooled funding, from the perspective of the United Nations the funds are often tightly earmarked for specific projects, as shown in figures VIII and IX above, with the United Nations serving uniquely as an implementing organization.

51. While vertical funds are often considered a mechanism of innovative development finance, many large vertical funds are financed largely by traditional funding sources rather than through the leveraging of additional innovative development finance to complement traditional ODA. In 2015, resources amounting to a little more than $1.4 billion were channelled to the United Nations development system through vertical funds, nearly double the volume compared with 2010. The distribution of resources from vertical funds tends to fluctuate more significantly than direct contributions from government donors, which could have a notable impact on the level of predictability of funding for operational activities for development as vertical funds continue to become a more prominent channel of resources.

Local resources

52. Contributions to entities in the form of local resources for programming in the contributors' own countries amounted to $1.41 billion in 2015, or 6.8 per cent of total non-core resources to the United Nations development system. As shown in figure XII, that modality is used most commonly in the Latin America and Caribbean region, where four of the five largest local resource contributors, namely Argentina, Brazil, Colombia and Peru, are located. Pakistan was the second-largest contributor of local resources and the only one among the top five countries outside the Latin America and Caribbean region.

Figure XII
Source of local resources by region: 2015



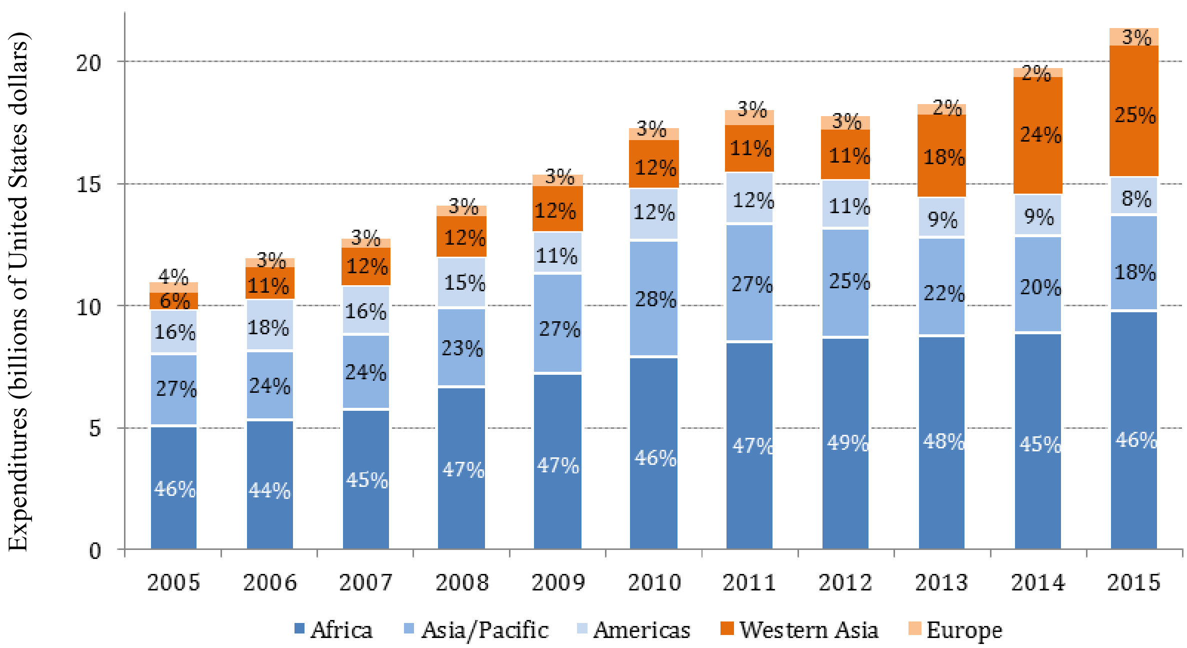
IV. Allocation of funds

A. Overview of expenditures

53. In 2015, expenditures for operational activities for development totalled $28.4 billion, of which 76 per cent was spent on programme activities at the country level. Accordingly, 24 per cent of total expenditures related to programme activities at the regional and global levels, programme support and management, and activities that could not be attributed to any of the above-mentioned categories. While some entities refer to programme support as "development effectiveness", in discussions under the quadrennial comprehensive policy review on cost recovery, both programme support and management costs were referred to as non-programme costs.

54. Of the $21.5 billion in expenditures at the country level in 2015, $9.9 billion, or 46 per cent, was spent in the Africa region (see figure XIII), representing an increase of $1 billion compared with 2014. The share of expenditures in the Western Asia region has increased rapidly in recent years, owing primarily to the continuing humanitarian crises in Iraq and the Syrian Arab Republic. In 2015, the region represented 25 per cent of country-level expenditures, more than double the share just three years ago. Conversely, both the volume and the share of expenditures in the Asia-Pacific region and the Latin America and Caribbean region have decreased in recent years.

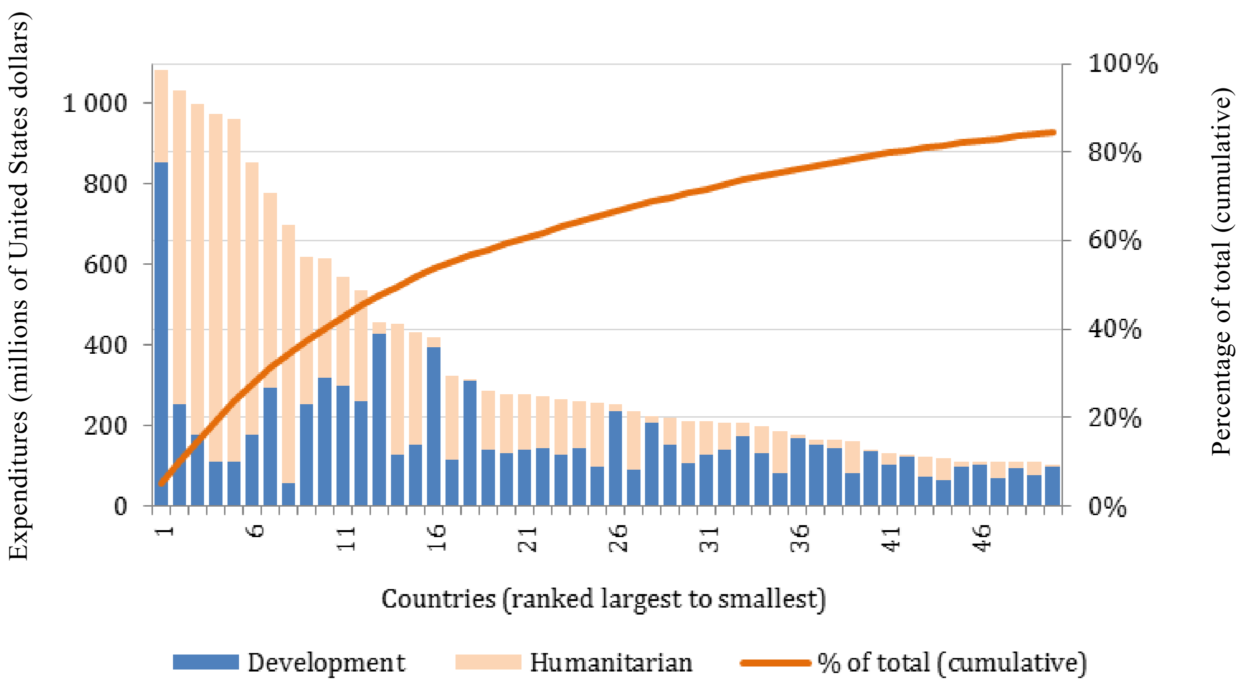
Figure XIII
Allocation of country-level expenditures by region: 2015



55. Nearly half of the expenditures at the country level were directed towards humanitarian assistance activities in 2015. This is a notable departure from just three years ago, when humanitarian expenditures constituted fewer than 40 per cent of all country-level expenditures.

56. Figure XIV shows the distribution and degree of concentration of 2015 country-level expenditures, both development-related and humanitarian assistance-related, among the top 50 programme countries. Those expenditures accounted for 85 per cent of total country-level expenditures. The top 10 countries alone accounted for 40 per cent.

Figure XIV
Expenditures in the top 50 programme countries: 2015

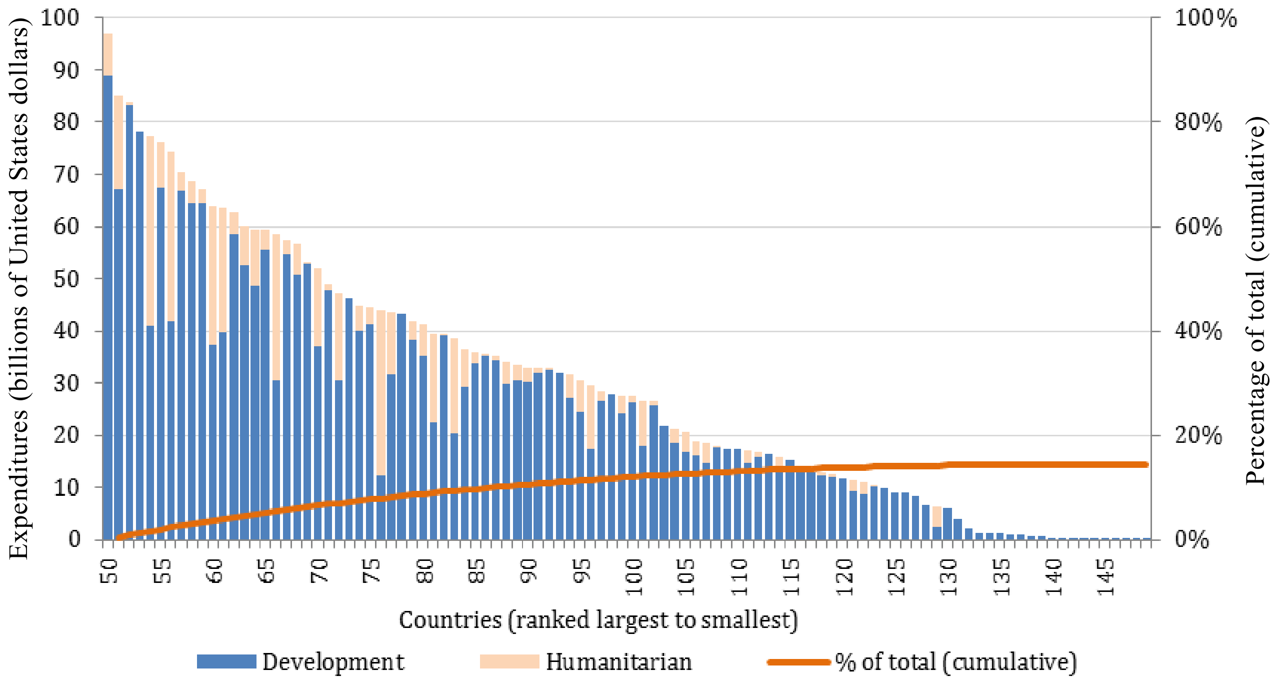


57. Figure XIV also shows that humanitarian assistance dominated the activities in eight of the nine largest programme countries, with Afghanistan, the largest programme country, being the exception. Those countries accounted for more than half of the total expenditure on humanitarian activities.

58. In 100 of the 149 programme countries, United Nations expenditures amounted to less than $100 million in 2015. In 79 of those countries, those expenditures amounted to less than $50 million. The 100 smallest programme countries (shown in figure XV) accounted for just 15 per cent of total country-level expenditures. Although they make up a relatively small share of overall United Nations expenditures, in those countries an average of 10 United Nations entities on the ground receive funding that is tightly earmarked primarily for specific

projects.[18] This has led to the growing fragmentation of funding flows, with implications for the overall efficiency of the United Nations development system.

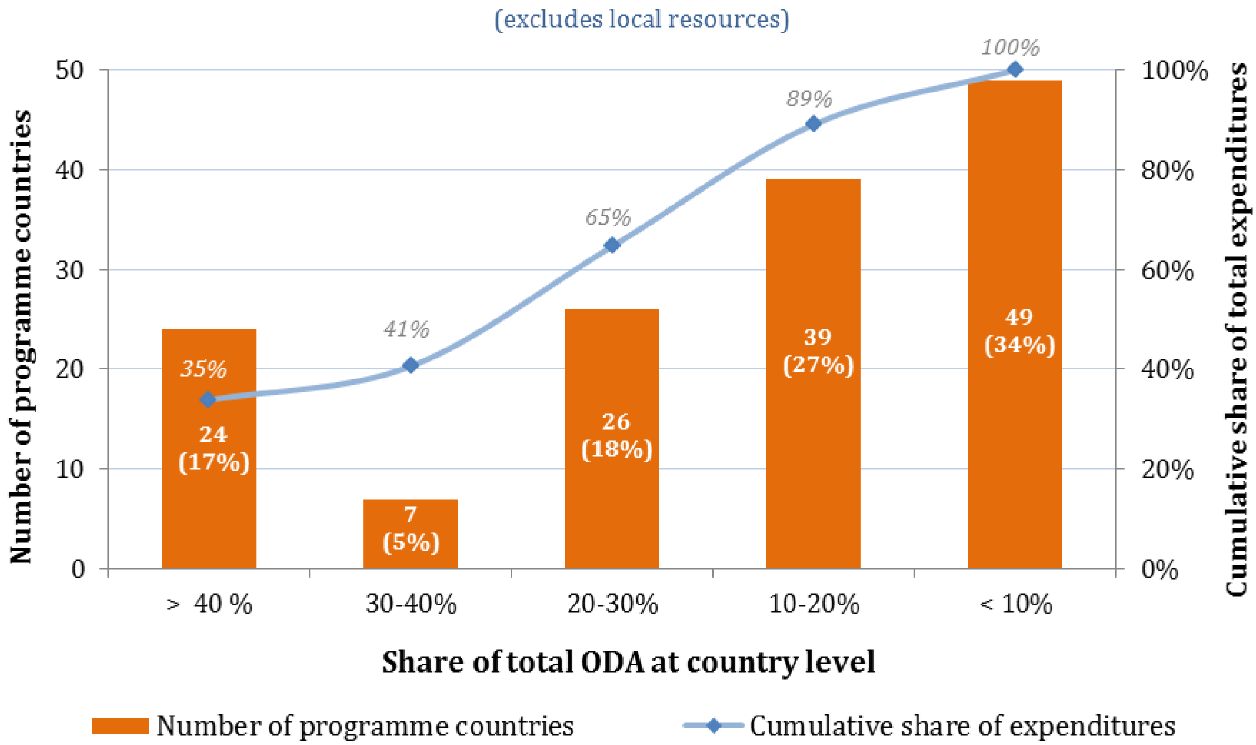
Figure XV
Expenditures in the smallest 100 programme countries: 2015



59. Figure XVI illustrates the financial relevance of the United Nations development system at the country level. It presents a comparative analysis of total expenditures for operational activities for development and total ODA disbursements at the country level, showing that those expenditures accounted for less than 10 per cent of total ODA in 49, or more than one third, of the 145 programme countries that received ODA in 2015. Those 49 countries accounted for 11 per cent of all country-level expenditures for operational activities for development. In a further 39 programme countries, the expenditures accounted for between 10 and 20 per cent of ODA.

[18] See www.unsceb.org/content/personnel-statistics.

Figure XVI
Country-level expenditures for operational activities for development as a share of ODA: 2015

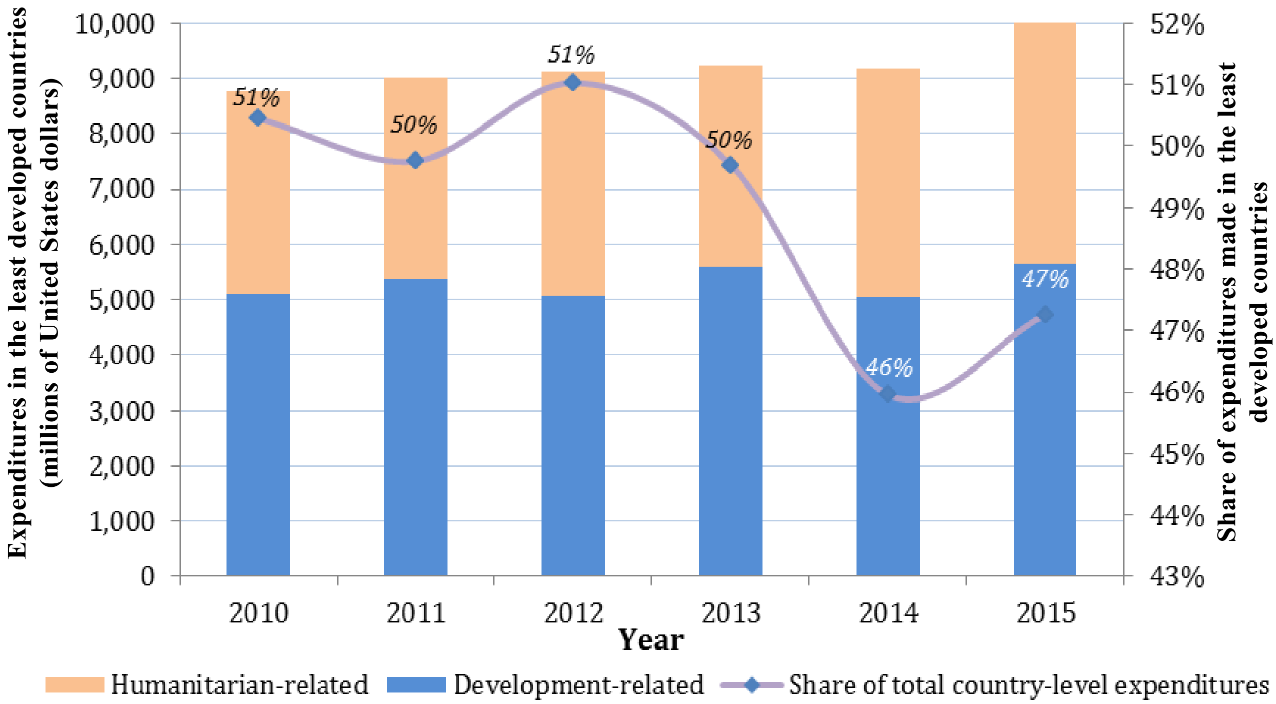


60. United Nations expenditures account for more than 20 per cent of ODA in 27 of the least developed countries and 60 per cent of fragile, post-conflict countries, according to the World Bank list of countries in fragile situations, indicating that the United Nations development system tends to have a higher financial relevance in the least developed countries and post-conflict countries than in programme countries in general.

B. Allocation of funds by country group

61. Expenditures in the least developed countries totalled $10.2 billion in 2015. Until recently, approximately half of all country-level expenditures were spent in those countries, which is higher than the global ODA average. That share was below 50 per cent in both 2014 and 2015, owing in large part to the humanitarian crises in Iraq and the Syrian Arab Republic, which has led to an increase in United Nations expenditures in those two countries, as well as in neighbouring countries affected by those crises.

Figure XVII
Expenditures in the least developed countries: 2010-2015



62. In 2016, the Secretary-General began the process of launching and operationalizing the Technology Bank for the Least Developed Countries, as called for in Sustainable Development Goal 17, which would act as a supporting mechanism dedicated to those countries. In June 2016, the Bank's governing council developed a three-year strategic plan for the institution centred on capacity-building in science, technology and innovation in those countries.

63. Expenditures in landlocked developing countries reached an all-time high, in nominal terms, of $6.3 billion in 2015, representing 29 per cent of total country-level expenditures.

64. Expenditures in small island developing States have declined from an all-time high of $881 million in 2010 to $576 million in 2015. The decrease was, however, due to particularly high humanitarian expenditures in 2010 and 2011 following the earthquake in Haiti. Combined expenditures in other small island developing States, excluding Haiti, have increased steadily in nominal terms, from $316 million in 2010 to $411 million in 2015.

V. Selected funding issues

A. Cost recovery

65. The growing imbalance between core and non-core funding over the past two decades has made the adequate attribution and recovery of institutional costs associated with substantive and operational support for those activities an issue of growing concern. This follows from the logic that a substantial increase in non-core financed projects also requires a larger core funding base to support if the programme support cost rate does not cover all the non-programme costs, which include administration and management costs, associated with non-core funded projects.

66. In 2016, an independent and external assessment was conducted to review the new cost-recovery methodology approved by the executive boards of UNDP, the United Nations Population Fund (UNFPA), UNICEF and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) in 2013, which included increasing the cost-recovery rate from 7 per cent to 8 per cent beginning in 2014. The independent and external consultant concluded that the new rate of 8 per cent had not been fully applied, given that the methodology included some provisions by which some types of non-core contributions were subject to a reduced rate, including contributions to government cost-sharing activities and to loosely earmarked thematic funds. In addition, some donors had not been willing or able to accept the new rate, even when they provided the types of contributions that should be subject to the standard rate.

67. Applying reduced cost-recovery rates can give donors an incentive to provide some types of contributions over others, for example to provide more loosely earmarked thematic contributions instead of strictly earmarked non-core funding. Applying such reduced rates, however, moves United Nations entities away from the principle of full cost recovery, given that the effective cost-recovery rates end up being lower than the standard rate of 8 per cent. The independent assessment showed that, for UNDP, UNFPA, UNICEF and UN-Women, the effective cost-recovery rates in 2015 ranged from 6.3 to 7.0 per cent. Considering that non-core contributions to those four entities exceeded $10 billion in 2015, if the effective cost-recovery rate is just 1 per cent below the standard rate, it means that an extra $100 million in non-programme costs attributed to non-core projects are not being financed with non-core funds.

68. Furthermore, the standard rate of 8 per cent was calculated through a formula that excluded some institutional costs of entities, such as “critical cross-cutting functions”, and some costs that are not common across all four entities. In the end, those exceptions and reduced rates mean that core funding that otherwise could have been spent on core programme activities must go towards subsidizing the non-programme costs of non-core projects. That circumstance forms the basis of the Secretary-General’s recommendation, contained in his report on the quadrennial comprehensive policy review of operational activities for development of the United Nations system: recommendations (A/71/292/Rev.1), to attribute an incremental cost to all strictly earmarked contributions. Such a cost would help to offset the discounts and exceptions applied to the standard cost-recovery rate while

maintaining the incentives for donors to provide specific types of contributions, such as those that promote greater coherence and efficiency. Such a levy can be justified owing to the need to cover extra management and administrative costs associated, in general, with the handling of and reporting on strictly earmarked resources. The goal should be to have an effective cost-recovery rate at the level required to prevent the need for core resources to subsidize the financing of non-core activities.

69. The independent assessment stopped short of providing an estimate of the extent to which core funds were being used to subsidize the non-programme costs of activities financed with non-core resources. Recent reports of the Secretary-General on the implementation of the quadrennial comprehensive policy review and on the funding of operational activities for development, however, have included a detailed review and analysis of non-core funding and cost recovery (see A/71/63-E/2016/8, A/68/97-E/2013/87 and A/67/94-E/2012/80). Those reviews have been based on a high-level comparison between the use of core and non-core resources for programme activities (programme costs) and programme support and management activities (non-programme costs).[19]

70. The outcomes of the high-level comparisons conducted by the Secretary-General confirmed that there was indeed a significant difference in the distribution of non-programme costs between core and non-core funding sources. Consequently, core resources are being used to subsidize non-core activities, thereby reducing the share of core funds available for actual programme activities. The studies reveal that, if the principle of full cost recovery had been implemented, as defined in resolution 67/226, between $550 million and $720 million in additional core resources would have been released annually for programme activities. This translates to between $2 billion and $3 billion per quadrennial comprehensive policy review cycle. The fact that a higher proportion of non-core resources tends to be spent on programme activities compared with core resources may also provide an incentive for donors to contribute non-core funding.

71. It is important to note that those studies were based on aggregate system-wide data and that, therefore, the results do not imply that all entities subsidize non-core financed projects with core funds. For example, WFP applies the principle of full cost recovery, given that it finances its entire programme support and administrative budget by charging the same cost-recovery rate to its core and non-core contributions.

B. Burden sharing of core funding

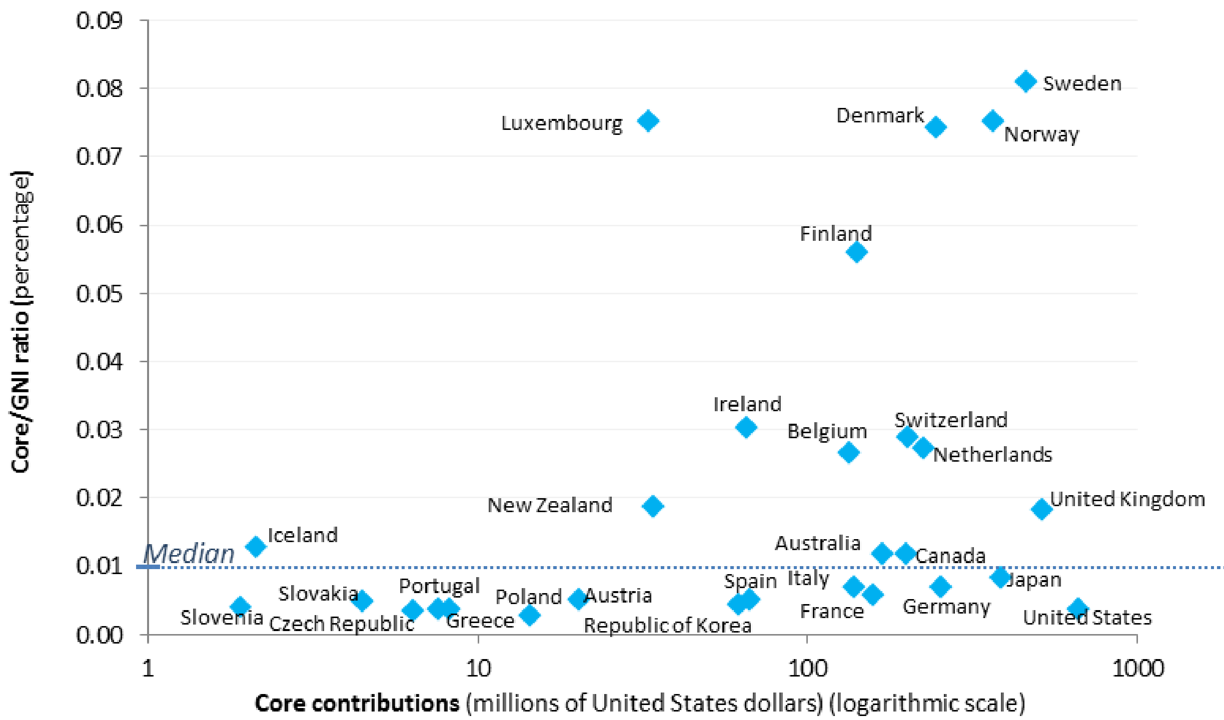
72. As described earlier, notwithstanding efforts by United Nations entities to broaden their donor base, they are, in general, highly dependent on a few top donors for the majority of their funding.

73. Figure XVIII examines the issue of burden sharing of core funding by showing Development Assistance Committee donors’ core contributions relative to their gross national income (GNI) in 2015 (or core/GNI ratio). As a group, those

[19] The data were collected through the Department of Economic and Social Affairs surveys of the headquarters of United Nations entities.

countries contributed $4.6 billion in core resources in 2015, or some three quarters of all core contributions received. The median core/GNI ratio for that group of countries as a whole was 0.01 per cent. It should be noted that a logarithmic scale is used on the horizontal axis in figure XVIII. As a result, countries that provide significantly different amounts of core contributions may appear relatively close to each other in the figure. That uneven burden sharing has added importance, in view of the fact that core resources are found to subsidize support for and the management of activities financed from non-core resources, as illustrated in the previous section.

Figure XVIII
Core contributions relative to gross national income: 2015



74. During the Economic and Social Council dialogue, some Member States expressed the view that further discussion and analysis were required with regard to the potential for a negotiated pledging mechanism to improve the volume and burden sharing of core funding.

C. Transparency and accountability of funding flows

75. The results of a 2013 OECD survey of Development Assistance Committee donors[20] showed that the growing imbalance between core and non-core funding had been influenced by the contributors' need for greater visibility, control over

[20] Available from www.oecd.org/dac/aid-architecture/Multilateral%20Report%20N%201_2014.pdf.

disbursements, enhanced accountability and concerns about the distribution of decision-making power at the level of the governing bodies. Funding, as a result, is increasingly seen as driving functions and activities.

76. In recent years, many United Nations entities have developed and/or significantly improved publicly accessible online systems that map data on donor contributions and expenditure allocations. Other entities may want to follow suit, given that a culture of transparency can also foster better alignment between the preferences of contributors and the strategic intent and work priorities of entities.

77. In addition, it will be important to develop and strengthen those online systems to ensure that they include comprehensive information on staffing and office presence at the country, regional and global levels to help to illuminate and strengthen operational efficiencies. More information would enable Member States to support governance decisions, enable improved accountability and strengthen trust between Member States and the United Nations development system. Publishing such information using a common standard that is familiar to Member States would facilitate such efforts.

78. System-wide compliance with the International Aid Transparency Initiative common standard, of which the 2030 Agenda took note, appears to be a way forward in this regard. From the point of view of programme countries, the standard provides the information that they need to generate budgets and national plans based on accurate information on current and future resources coming from various actors. The standard also allows contributing countries to hold multilateral and other organizations more accountable for the use of humanitarian and development aid flows that they provide. Evidence also suggests[20] that many contributing Governments do not have a comprehensive view of all the support that they provide to multilateral organizations, given that the allocations are often scattered across various ministries and departments within their administration. Many turn to the funding organization to obtain that information, which underscores the usefulness of having United Nations entities adopt a common standard for reporting on its funding flows.

79. In 2015, nine United Nations entities were reporting using the International Aid Transparency Initiative standard, but with varying degrees of quality. Four other entities became members of the Initiative in 2016, indicating a commitment to begin reporting using the standard in the near future. UNDP had the highest Aid Transparency Index[21] among the 46 donors and organizations studied in 2015, while UNICEF ranked third. The two entities provide good examples that other entities can follow in their efforts towards providing timely, comparable, disaggregated and comprehensive information on their activities.

80. A United Nations working group on transparency has also been set up in an effort to leverage the collective work of the United Nations on the International Aid Transparency Initiative and reduce the barriers of entry for United Nations entities that have not yet engaged in the Initiative.

[21] The international Aid Transparency Index is used to measure how transparent donors and multilateral organizations are in presenting information about their development projects to the Initiative's registry.

81. At the country level, the United Nations development system must continue with efforts to develop and improve the quality of a common budgetary framework in all programme countries to support the financial management of its operational activities for development, as requested in the quadrennial comprehensive policy review. The full implementation of a medium-term common budgetary framework in every programme country should be viewed as a minimum requirement, given that it provides Member States with a simplified reference document that covers the funding situation in a programme country at a given point in time, including where the shortfalls in funding lie. Such a framework is also a basic requirement for developing a joint resource mobilization strategy to enable United Nations country teams to better attain "One United Nations" country programme outcomes and outputs by ensuring that adequate resources are raised.

82. At the corporate level, some United Nations entities have recently stepped up efforts to consolidate all projected resources within an integrated budgetary framework based on priorities determined in their respective strategic plans. Presenting the integrated budgets in conjunction with the strategic plans of organizations strengthens the linkages between resources and results.

83. It will be important to strengthen harmonized approaches, such as the common budgetary framework at the country level and integrated budgetary frameworks at the corporate level, in order to strengthen reporting in the context of the 2030 Agenda.

84. Transparency will need to be a core operating principle of the United Nations development system in order to allow for regular reviews and informed discussions based on such frameworks that capture the volume and allocation of core and non-core funds, including identifying the gaps and the types of funding available. The frameworks will need to be of high quality and updated regularly to form the basis for more dynamic resource mobilization strategies, given that the mix of various types of funding will likely change continuously, thereby opening opportunities for reallocating core and other flexible funding to underfunded areas and/or themes.

D. Structured dialogues on financing

85. The high degree of strict earmarking in the United Nations development system indicates that contributions are influenced strongly by donor-specific priorities, rather than intergovernmentally approved strategic plans and mandates of entities. This is seen to negatively affect the ability of entities and the system as a whole to implement mandates and core activities in the most effective and efficient manner. As a result, the functions of the United Nations development system are increasingly being dictated by the nature of the funding that it receives.

86. The structured financing dialogues being conducted in two thirds of United Nations entities[22] represent a key element in the reform process of the United Nations development system. The dialogues are aimed at providing greater clarity on expected outcomes and impact outlined in the strategic plans of organizations and the resources available to finance them. Such a dialogue process has the

[22] The 2015 Department of Economic and Social Affairs survey revealed that 68 per cent of entities had engaged in a structured financing dialogue in 2014.

potential to significantly strengthen current funding practices towards the alignment of funding with functions through substantive deliberations at the level of governance, which, in turn, will build trust between United Nations entities and Member States and other stakeholders. In the end, it is the trust of Member States and other stakeholders that ensures the relevance of the United Nations development system.

87. At the individual entity level, the financing dialogues must go well beyond considering the current funding situation and highlighting the main funding-related challenges of an organization during one of its regular executive board meetings. One of the key conclusions emanating from the Economic and Social Council dialogue on the longer-term positioning of the United Nations development system is that funding and governance are linked and that, consequently, such dialogues must also be about good governance, stronger ownership by Member States of the entity's strategic plans and better enabling the decision-making role of the Executive Board based on transparent and accountable financial management practices and reporting.

88. As a first step, it was underscored at the Economic and Social Council dialogue that, at the level of governance, Member States should establish clarity on the core functions and the absolute advantages of each entity to determine, through an interactive process, how those functions would be most logically funded.

89. Consensus at the governance level on the core functions and funding requirements of entities and, subsequently, the system as a whole should become the foundation for the effective medium- and longer-term positioning of the United Nations development system in the context of the Sustainable Development Goals. It is ultimately up to the individual entities and the United Nations development system as a whole to make the case for what resources should be provided and why and in what fashion contributors should provide them.

90. Some entities have developed good practices in this area. In both the International Fund for Agricultural Development (IFAD) and the World Health Organization (WHO), the structured dialogues have served as a vehicle for regular consultations among Member States and the senior management on issues relating to reform of the organizations. Integral to the IFAD and WHO experiences has been a concerted effort to increase the ownership by Member States of the strategic plans and resource frameworks and related decisions at the level of governing bodies.

91. Other United Nations entities may wish to follow and build on some of those good practices. This could include, but is not limited to, conducting a thorough review of the progress made in implementing the work programme of an entity in the previous cycle; identifying emerging strategic issues; agreeing on objectives that should guide the new planning cycle; determining resource mobilization targets, including quality of funding and the most appropriate mechanisms for delivery, and where relevant, proposals for burden sharing among Member States; and ensuring the logical attribution of costs, including full cost recovery.

92. The structured dialogues will also need to allow for the exploration of innovative options towards mobilizing significant additional resources to supplement traditional ODA. The potential of innovative financing mechanisms presents a critical opportunity for the United Nations development system to

reshape its approach to financing its programme of work, thereby enhancing the impact of the limited traditional funding that it receives. United Nations entities need to work with each other to share knowledge and best practices with innovative funding mechanisms and to take into account the experiences of other multilateral institutions. In this regard, it will be essential to develop tools that are able to measure the volume of additional resources that the United Nations development system is able to leverage and direct towards the Sustainable Development Goals in order for Member States and other stakeholders to fully understand and appreciate the impact and relevance of the system.

93. Given the importance and potential of such dialogues, it may be beneficial to schedule them in between Executive Board sessions. The dialogues also need to be integrated, transparent and inclusive by creating opportunities to involve and engage non-traditional State and non-State actors.

VI. Conclusion

94. The Addis Ababa Action Agenda of the Third International Conference on Financing for Development underlined the important role and comparative advantage of an adequately resourced, relevant, coherent, efficient and effective United Nations system in supporting the realization of the 2030 Agenda. The United Nations development system has a particularly important role to play in the new Sustainable Development Goals era in supporting Member States in implementing global norms and standards, providing thought leadership, supporting national development, engaging in humanitarian and crisis operations, supporting global and regional policy development and addressing global challenges that require collective action.

95. For United Nations entities to play that role effectively, delivering demand-driven results at the country level that are tailored to national needs, are more flexible and provide predictable funding will be crucial. Doing so will also require reassessing the United Nations development system's physical presence at the country, regional and global levels to maximize value for money.

96. As highlighted in the present report, the current funding trends are, for the most part, moving in the opposite direction towards reduced flexibility, less predictability and more fragmentation of resources. There is some overlap and duplication among the activities of United Nations entities, and the potential for identifying and implementing innovative approaches capable of leveraging additional resources to support development objectives in an integrated manner with other development actors is far from being realized. If the United Nations development system continues to depend primarily on its ability to combine short-term project-targeted and sector-targeted funding as best it can to support the achievement of the Sustainable Development Goals, then its relevance may be at risk.

97. Addressing such risk is a shared responsibility of Member States and the United Nations development system. It was clearly indicated at the Economic and Social Council dialogue on the longer-term positioning of the development system that the system needs to build trust and confidence on the part of Member States by

enhancing its transparency and accountability; strengthening its effectiveness, coordination and coherence; bolstering efficiencies through common, simplified planning, programming, operational and reporting policies, instruments and practices; rethinking differentiated models of presence that respond to country needs, priorities and capacities with more collaborative arrangements, joined-up operational capacities and assets that build on different entities' strengths; rethinking its presence and support in a manner that is flexible and tailored to countries' needs, priorities and capacities; and enhancing partnership approaches by leveraging the strengths of all players and moving from funding to integrated financing strategies. For their part, Member States need to provide coherent guidance in their governance of individual entities and the system as a whole, including through their increased ownership of the strategic plans and better alignment of their financial contributions to the results outlined in those plans.

98. The era of the Sustainable Development Goals requires a United Nations development system that thinks, plans and operates as one, supported by enhanced governance, partnership and funding that enable the system to deliver on the promise of the 2030 Agenda to leave no one behind.