



THE DEPUTY SECRETARY-GENERAL

5 May 2009

Dear Mr. President,

It is my pleasure to refer to your letter of 3 November 2008, regarding the request by the General Assembly contained in its resolution A/RES/62/277. In paragraph 4 of the Resolution, the General Assembly requests the Secretary-General to provide to Member States substantive papers on the issues of funding and governance as those issues arise in the context of system-wide coherence with a view to facilitating substantive action by the General Assembly within the sixty-third session.

I am pleased to submit to you the attached paper entitled, "Strengthening the system-wide funding architecture of operational activities of the United Nations for development". This Paper examines the overall trends and challenges in financing UN operational activities for development. Based on the analysis of the strengths and weaknesses of existing funding mechanisms, it also raises a set of focused recommendations to enhance the effectiveness and coherence of the present funding system.

The ten recommendations proposed in this Paper build on the broad consensus emerging from the informal consultations in the context of the 61<sup>st</sup> and 62<sup>nd</sup> sessions of the Assembly. The recommendations focus on strengthening the existing funding architecture rather than suggesting major structural reforms. These recommendations are grouped under the key parameters for strengthening the funding system, notably ensuring adequate resource flows, improving organizational performance and enhancing aid effectiveness.

This Paper was prepared in close consultation with UN funds, programmes and specialized agencies, as well as various inter-agency mechanisms. It reflects the collective vision of the UN on the system-wide funding architecture of UN operational activities for development.

His Excellency  
Mr. Miguel D'Escoto Brockmann  
President of the General Assembly  
New York

A coherent funding architecture underpins progress in other areas of system-wide coherence, such as governance in particular, as was underscored by Member States during the informal consultation on governance on 24 April.

Your leadership, Mr. President, is key to mobilizing sustained political momentum towards concrete advances on system-wide coherence. I would hence like to reiterate my unwavering support for the work of your Co-Facilitators under your committed guidance. I look forward to fruitful informal consultations and concrete outcomes on this important issue.

Please accept, Mr. President, the assurances of my highest consideration.



Asha-Rose Migiro

*Discussion Note*

**Strengthening the system-wide funding  
architecture of operational activities of the  
United Nations for development**

United Nations Secretariat  
New York

3 May 2009

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## List of acronyms

BWIs	Bretton Woods Institutions
CEB	Chief Executive Board (for Coordination)
CERF	Central Emergency Response Fund
DaO	Delivering-as-One
DAC	Development Assistance Committee
DCF	Development Cooperation Forum
ECOSOC	Economic and Social Council
FAO	Food and Agriculture Organization
FBN	Finance and Budgetary Network
GA	General Assembly
GAVI	Global Alliance for Vaccines and Immunization
GEF	Global Environment Facility
GFATM	Global Fund for Aids, Tuberculosis, and Malaria
GNI	Gross National Income
HLCM	High-level Committee on Management
IADGs	Internationally-agreed development goals
ICT	Information and communications technologies
IDA	International Development Association
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IPA	Immediate Plan of Action
IPSAS	International Public Service Accounting Standards
LDCs	Least-developed countries
M&E	Monitoring and evaluation
MDGs	Millennium Development Goals
MDG-F	Millennium Development Goals Achievement Fund
MDTF	Multi-donor trust fund
MOPAN	Multilateral Organizations Performance Assessment Network
MTSP	Medium-Term Strategic Plan
MYFF	Multi-year funding framework
ODA	Official development assistance
OECD	Organization for Economic Co-operation and Development
RBM	Results-based management
RBSA	Regular Budget Supplementary Account
TB	Tuberculosis
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV and AIDS
UNCT	United Nations country team
UNDAF	United Nations Development Assistance Framework
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNDG	United Nations Development Group
UNEG	United Nations Evaluation Group
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund

UNOPS	United Nations Office for Project Services
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
VISC	Voluntary Indicative Scale of Contributions
WFP	World Food Programme
WG	Working Group
WHO	World Health Organization

## A. Introduction

1. The current note has been prepared in response to General Assembly resolution 62/277 on System-wide Coherence, adopted by consensus on 15 September 2008, which requested the Secretary-General “drawing on the resources and expertise of the United Nations system and building on the outcome of [the] triennial comprehensive policy review, to provide to Member States substantive papers on the issues of funding and governance, as these issues arise in the context of system-wide coherence, with a view to facilitating substantive action by the General Assembly”. The present note focuses on the issue of funding.<sup>1</sup>

2. Member States have engaged in extensive informal consultations on United Nations (UN) system-wide coherence during the 61<sup>st</sup> and 62<sup>nd</sup> sessions of the General Assembly (GA). There has been broad consensus that:

- ❖ An improved funding system is key to more coherent and coordinated system-wide performance, including enhanced cost-effective delivery of services;
- ❖ The fragmented nature of the funding architecture of UN operational activities for development undermines the ability of the UN system to pursue coordinated implementation of the global development agenda, including the achievement of development results;
- ❖ Improving the efficiency, effectiveness and coherence of UN development cooperation is key to increased and more predictable funding;
- ❖ High transaction cost is undermining the effectiveness of UN development cooperation at country-level;
- ❖ The current imbalance between core and non-core resources risks weakening the normative and analytical capacity of UN entities, and has negatively impacted the effectiveness and coherence of UN development cooperation, encouraging supply-driven, rather than demand-driven approaches, and undermining the principle of country leadership and ownership;
- ❖ Adequate, timely, predictable and non-earmarked core funding is essential to sustain the basic capacities of the UN system;
- ❖ Voluntary, non-earmarked contributions linked to multi-year strategic or funding frameworks adopted by governing bodies are complementary to regular resources;
- ❖ A strengthened funding system for operational activities for development of the UN system should build on existing arrangements, not lead to the creation of a new, overarching and additional mechanism with narrow substantive focus;

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<sup>1</sup> This note should be read in conjunction with a separate paper on governance, as well as the Secretary-General's reports on comprehensive statistical analysis of the financing of operational activities for development of the UN system for 2006 (A/63/71 – E/2008/46) and trends in contributions to operational activities for development of the UN system and measures to promote an adequate, predictable and expanding base of UN development assistance (A/63/201).

- ❖ Savings incurred from initiatives to enhance system-wide coherence, efficiency and effectiveness of UN operational activities for development should be ploughed back into programmes at the country-level.

## B. Background

### (a) Trends in resources flows

*Contributions peaked in 2005, since stagnated, with future uncertain*

3. From 1995 to 2005, contributions to UN operational activities for development grew at more rapid rate than total official development assistance (ODA), or 9.9 per cent annually, compared to 2.6 per cent for non-UN multilateral ODA, and 6.9 per cent for bilateral ODA (constant 2006 US dollars).<sup>2</sup> Overall contributions received by the UN development system in 2006, however, decreased, in real-terms, by 1.1 per cent, though this was followed by 2.4 per cent increase in 2007.<sup>3</sup> Some operational agencies continued to experience growth in contributions throughout the whole 1995 to 2007 period.

4. In the 2002 to 2007 period, the annual growth in contributions to UN operational activities for development, notably, slowed to 5.6 per cent, while non-UN multilateral ODA grew at faster rate or 6.6 per cent and bilateral ODA at 6.1 per cent (constant 2006 US dollars).

5. A 2008 OECD/DAC survey on aid allocation policies and indicative forward spending plans has highlighted that delivery on funding commitments made at the G8 Gleneagles Summit in 2005 is not on track.<sup>4</sup> Overall ODA, excluding debt relief, for example, increased in 2007 by only 2 per cent over 2006.

6. There are also first indications that the global financial and economic crisis that started in 2008 and which has led to both severe fiscal constraints in donor capitals and fuelled significant exchange rate fluctuations, is beginning to affect the funding allocated to international development cooperation, including the UN development system. Moreover, with ODA-level in many countries linked to Gross National Income (GNI), the present economic and financial crisis may put downward pressure on aid flows in the near-term.

7. While recognizing that the international context has changed in profound ways since the 2002 Monterrey Conference on Financing for Development, the Doha Review Conference on Financing for Development in November/December 2008, urged those developed countries that have not yet done so to make additional concrete efforts towards

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<sup>2</sup> UN operational activities for development grew from \$6.2 billion to \$17.4 billion; non-UN multilateral ODA from \$14.7 billion to \$19.6 billion; and bilateral ODA from \$41 billion to \$85.3 billion.

<sup>3</sup> There is no common international definition of ODA, with OECD/DAC and UN system applying different terminology. For example, some operational activities undertaken by the UN development system are not classified as ODA by OECD/DAC. This may lead to either under-reporting, or double counting, of contributions to UN operational activities for development. This lack of common definition may also negatively impact resources mobilization for some of the work of the UN system at country-level.

<sup>4</sup> Aid targets slipping out of reach, OECD/DAC (2009).



ODA target of 0.7 per cent of GNI, including the specific target of 0.15 to 0.2 per cent of GNI for ODA to least-developed countries (LDCs). The Heads of State and Government at the recent G20 Summit in London also reaffirmed their commitments to meeting the Millennium Development Goals (MDGs) and to achieving the respective ODA pledges.

#### *Fragmentation of UN operational activities remains an issue*

8. The current funding architecture of UN operational activities for development can be traced back to the founding of the organization, as discussed in a related paper of the Secretary-General on governance. A functional approach, rather than a federalist one, was seen as more responsive to the needs of Member States in different thematic and sectoral areas. The UN system, as a result, is composed of a large number of distinct entities, each with particular governance, funding and administrative arrangements. This diverse group of entities supports a wide range of development activities and services at the national, regional and global levels.

9. In 2007, 37 entities of the UN system received nearly \$19.1 billion (current US dollars; \$17.6 billion in constant 2006 US dollars) of the estimated contributions for operational activities for development, with 5 organizations (UNDP, UNICEF, WFP, WHO, UNHCR) accounting for 76 per cent of the total. The top 11 organizations in terms of contributions (adding UNFPA, UNRWA, FAO, UNESCO, ILO, and UNEP) accounted for 90 per cent of the total, and the remaining 26 organizations for 10 per cent.

#### **Text Box 1**

##### **No common UN definition of funding sources**

A wide array of terms is used by UN system entities to classify funding sources for operational activities for development. UNDP, for example, classifies resources as “core” when the purpose of the contribution is general support of the organization with no limitation imposed as to its use. The UNDP terminology of “non-core” is applied when contribution is for specific purpose consistent with the policies, aims and activities of the organization.

WFP has no core resources and classifies contributions according to level of earmarking. Contributions provided without restriction, or directed to specific programme category, without further earmarking, are termed as “multilateral”. The term “directed multilateral” is used when the donor requests funds to be directed to specific activity or activities, or specific operation or operations. Several other definitions of “core” and “non-core” are used by different UN entities.

UNHCR, for example, uses the term “unrestricted”, “sector earmarked”, “thematic earmarked” and “regional earmarked” contribution. All specialized agencies use “assessed contribution” to identify funding from voted appropriations, or regular budget when including other income closely managed with assessed contributions and credited to the same general fund, and “supplementary funding” or extra-budgetary resources to define voluntary contributions. Under the latter category, funds are mostly earmarked, but can also be less so, or even non-earmarked.

For reporting purposes, the above terms are normally grouped under “core” and “non-core” resources, with the former referring to non-earmarked funding that is used at the sole discretion of the respective UN entity and its governing body, and the latter meaning earmarked funding, directed by donors towards specific locations, themes, activities and operations.

#### *Share of core resources of overall contributions rapidly declining*

10. Core resources are the bedrock of the UN system for development, as these resources allow it to pursue its mission according to the key principles of universality and neutrality. The effectiveness to which the system is able to utilize its core resources to address major development

challenges is dependent upon the 'predictability' of these resources: in other words the duration for which they are committed by donors. The term 'core' is used in this paper for contributions classified by funds, programmes and specialized agencies as 'core', 'regular', 'assessed' and 'non-earmarked'.

11. A notable long-term trend in the funding of UN operational activities for development has been the continuous decline in the share of core resources of overall contributions, from 37.1 per cent in 2002 to 28.8 per cent in 2007. In this period, core resources for UN operational activities for development grew on average, in nominal-terms, by 7.6 per cent annually and 0.4 per cent in real-terms compared to 15.9 per cent and 8.2 per cent respectively for other resources (see Table 1).

12. Data on long-term trends in the share of core resources of overall contributions to the UN development system is only available for small number of organizations. This data reveals that the share of core resources of overall funding of UNDP, UNFPA and UNICEF collectively dropped from 79.7 per cent in 1991 to 31.8 per cent in 2007, although for UNFPA, this ratio is much higher or above 60 per cent.<sup>5</sup>

**Table 1**

**Core and other contributions for operational activities to United Nations system, 2002-2007**

	2002	2003	2004	2005	2006	2007	% change 2006 to 2007	Annual average % change 2002 to 2007
<i>(current US\$ million)</i>								
Core resources	3.820	4.030	4.547	4.538	4.938	5.501	11.4	7.6
Non-core resources	6.489	8.735	10.172	12.449	12.241	13.576	10.9	15.9
<b>Total Contributions</b>	<b>10.309</b>	<b>12.765</b>	<b>14.719</b>	<b>16.987</b>	<b>17.179</b>	<b>19.078</b>	<b>11.1</b>	<b>13.1</b>
Annual increase	..	23.8	15.3	15.4	1.1	11.1		
<i>(constant 2005 US\$ million)</i>								
Core resources	4.966	4.604	4.766	4.640	4.938	5.074	2.8	0.4
Non-core resources	8.437	9.980	10.661	12.729	12.241	12.522	2.3	8.2
<b>Total Contributions</b>	<b>13.403</b>	<b>14.584</b>	<b>15.427</b>	<b>17.369</b>	<b>17.179</b>	<b>17.596</b>	<b>2.4</b>	<b>5.6</b>
Annual increase		8.8	5.8	12.6	-1.1	2.4		
Percentage core	37.1	31.6	30.9	26.7	28.7	28.8		

13. A number of donors have made efforts to formulate multi-annual core resources commitments to a variety of different UN organizations, and are also supporting reform of the funding modalities to ensure better balance between core and non-core resources flows.<sup>6</sup> A

<sup>5</sup> Annual growth in core contributions to UNDP in the 1992 to 2007 period in constant 2006 US dollars was -1.6 per cent, while for non-core funding it was 10.1 per cent. For UNFPA and UNICEF, the corresponding figures were 2.0 per cent and 26.6 per cent; and 0.9 per cent and 12.8 per cent respectively. If the analysis is limited to the 2002 to 2007 period, the percentages would change as follows: UNDP, 3.4 per cent and 8.1 per cent; UNFPA, 3.9 per cent and 12.2 per cent; and UNICEF, 2.1 per cent and 13.8 per cent.

<sup>6</sup> For example, the Government of Belgium, as of 1 January 2009, will exclusively fund core resources of multilateral organizations, with earmarking of contributions at the country-level also reduced to minimum. Earmarked contributions to specialized agencies will also increasingly be transferred to core voluntary accounts. The 2008 budget in Belgium has been adopted with funding committed on a

significant number of donors, however, continue to make annual commitments, a factor, which makes effective medium-term planning more challenging.

14. Only a small number of donors have also started contributing to the relatively new and innovative core voluntary accounts established by ILO, WHO and FAO and other UN agencies. This is highlighted in an upcoming first-ever OECD/DAC report on multilateral aid, which also points out that donor policies regarding funding of UN operational activities for development are often ad-hoc, uncoordinated and not implemented consistently across all agencies of the UN development system.

15. When donors commit core resources for multiple years, they contribute to the predictability and sustainability of the recipient agency funding base which improves management of cash flow, programme planning and implementation. However, there are challenges/conditions that prevent donors from making non-earmarked multi-year pledges such as lack of established governance mechanisms for multi-year core contributions; parliamentary constraints on allocations covering more than one year; and unsynchronized fiscal cycles.

## Text Box 2

### Funding modalities for core/regular resources

Four distinct funding modalities have emerged in the UN system to enhance predictability of core resources flows and policy coherence. These funding modalities are described in greater detail in an Annex to this paper.

**Voluntary core contributions:** Contributions to core resources of UN funds and programmes are entirely voluntary. A multi-year funding framework (MYFF), in some instances, referred to as 'strategic plan', 'action plan' and 'immediate plan of action', is used by funds, programmes and some specialized agencies, to promote increased 'voluntary core contributions' on a predictable, continuous and assured basis. MYFFs are helpful in articulating organizational goals, focus areas, performance indicators, outcome expectations and resources requirements.

**Assessed contributions:** The GA decides on the 'scale of assessments' for contributions to the regular budget (the scale generally covers three years). The scale of assessments is essentially determined on the basis of country's capacity to pay (measured by factors such as national income and size of population). The scale of assessment is used by all agencies that present programme of work based on budgetary appropriation voted by the respective governing body.

**Negotiated voluntary core contributions:** A 'voluntary indicative scale of contributions' (VISIC) is developed taking into account, among other things, the UN 'scale of assessments' with the objective of broadening the base of donors and enhancing the predictability of voluntary funding flows.

**Negotiated replenishment system:** The level of contributions is first determined based on assessment of needs. In the second stage, donors negotiate burden-sharing. The replenishment system includes full assessment of the policies and programmes including the performance-based allocation system, results and impact of operations.

#### *Non-core resources flows highly fragmented*

16. The reliance on non-core resources, with corresponding unpredictability of funding and timing of payments and the restricted use for which voluntary contributions may be earmarked, has made the management and programme implementation of UN operational activities for

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multi-year basis up to 2011. An important corollary of the new policy is that multilateral organizations have to demonstrate growing efficiency and quality, as well as commitment to reform and coordinated effort.

development, more challenging.<sup>7</sup> The term 'non-core' is used in this paper for contributions classified by funds, programmes and specialized agencies as 'non-core', 'extra-budgetary', 'supplementary' and 'earmarked'.

17. The growth in non-core funding in the past decade is also an important factor in increasing transaction cost for UN entities. Negotiating individual funding agreements, tracking and reporting programming and financial data for hundreds or even thousands of individual projects, and reporting according to widely varying sets of requirements, for example, all add significant costs that fall outside of the organization's basic operating systems. As a result, agencies must juggle both large and small supplementary contributions in time frames inconsistent with their basic managerial processes. In some instances, supplementary funding is also still provided with conditions on monitoring and reporting that fall outside of the normal systems of the respective agencies. Such conditions are an important factor in increasing transaction cost.<sup>8</sup>

18. There are also concerns that declining core or regular budget resources may distort the work priorities of UN agencies mandated by the respective governing body. Constrained by the stagnation of core funding, UN agencies have been under pressure to reorient activities towards those attracting supplementary funding.

19. While most UN organizations try to ensure that supplementary funding is aligned with strategic priorities, all such financing to some extent distorts the substantive direction set by the respective governing body. This poses a particular challenge for standard-setting specialized agencies, which collectively have seen the share of core funding decline from 36.8 per cent of overall contributions in 2003 to 29.0 per cent in 2007.<sup>9</sup> In addition, activities funded by extra-budgetary financing are often not subject to full cost recovery, which, de facto, means that they are being subsidized by core resources.

#### *Specialized agencies: increasingly reliant on extra-budgetary resources*

20. Within the UN system, the specialized agencies occupy an important position as focal points for intergovernmental deliberations and negotiations on common international issues in their respective areas. They were established to collect and disseminate information linked to the setting of international standards and rules as well as safety regulations and to provide technical assistance to member nations. The standard-setting function was always supported by research, policy advice and technical advisory services at the request of Member States. Increasingly, the specialized agencies became known as "centre of excellence" in their respective field, initiating and organizing international research efforts and campaigns and catalyzing knowledge transfer to developing countries, as well as executing development cooperation programmes and projects to further promote the ratification and implementation of standards. As such, the specialized agencies

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<sup>7</sup> A related note of the Secretary-General on governance of UN operational activities for development also points out that the fragmented nature of the funding architecture is undermining the ability of the UN system to pursue coordinated implementation of national, regional and global development goals, including the achievement of development results.

<sup>8</sup> Discussion paper on funding of UN technical cooperation activities, Lindores (2007).

<sup>9</sup> The ratio of regular/extra-budgetary resources among specialized agencies varies greatly. For ILO, for example, this ratio is much higher than the above figure or above 60 per cent.

deliver public goods that are an important source of information and advice to developing countries. This has often been referred to as the normative function.

21. Over time, the erosion of budgets of specialized agencies financed by assessed contributions, has weakened their normative, international treaty negotiation and information roles, and as a consequence, their capacity to meet demand from Member States for technical assistance. The reasons for this development may vary from one organization to another, but a major factor has been the decline, in real-terms, in budgets funded from assessed contributions, which has intensified the mobilization of extra-budgetary resources.

22. Regular/assessed contributions to specialized agencies as a group declined, in real-terms, annually by 3.5 per cent in the period 2002 to 2007, or a cumulative total of just over 16 per cent. This constitutes significant decline, in real-terms, in regular/assessed resources in a relatively short period of time, which has undoubtedly weakened the ability of some specialized agencies to maintain core capacities for research, information-sharing and policy analysis.

23. Total contributions to specialized agencies in current US dollars during the same period grew from just over \$2.0 billion to \$4.3 billion with an annual growth of 15.6 per cent. Considering that the increase in contributions during this period was predominantly of extra-budgetary nature, most of the specialized agencies have begun a process of revamping strategic planning frameworks in order to ensure adequate intergovernmental oversight of non-core resources. This issue will be further discussed in an Annex to this note.

### Text Box 3

#### Funding modalities for non-core/extra-budgetary resources

- (1) Individual contribution can be tracked separately or pooled with those received from other donors for the same purpose. Transaction cost is high as separate ledger account needs to be established to monitor and report on each contribution. In comparison, pooled funds decrease transaction cost by simplifying the management, monitoring and reporting, with one single narrative and financial report provided to donors.
- (2) Donor contribution can be earmarked to project or programme. Earmarked contribution is often provided on the basis of project document. In this case, the implementing organization cannot deviate from the prescribed activities without prior approval of the donor. In addition, contributions can be earmarked to programme (or thematic area). This option presents several advantages:
  - ❖ Improves flexibility in the use of funds and lessens the risk of UN activities being donor-driven;
  - ❖ Provides opportunity for more meaningful M&E of the programme;
  - ❖ Decreases transaction cost;
  - ❖ Helps achieve results outlined in the strategic plan of the organization.
- (3) Funds can be contributed directly to the implementing UN organization or through multi-donor/multi-agency fund. Channeling non-core contributions to multi-donor/multi-agency fund increases coherence of aid, and may also decrease transaction cost for the donor by reducing the number of agreements signed. However, by adding new administrative layer, this modality may shift such transaction cost from the donor to the UN organization and the national government(s). The UN development system has developed guidelines for the establishment of multi-donor trust funds (MDTF), which simplify the procedures and significantly decrease such transaction cost. Transaction cost associated with the management of other global funds may remain high, with each fund often operating according to different rules, procedures and regulations, which can make audit and oversight difficult.

*Despite volatile resources flows, targeting of support to LDCs has increased*

24. Despite growing volatility in resources flows, and declining UN share of overall multilateral ODA in recent years, the targeting of funds has increased. Total expenditures of the UN system on operational activities for development in LDCs have more than doubled since 2002, reaching \$5.9 billion in 2007. This share, as percentage of total country expenditures, has also increased from 40.3 per cent in 2002 to 49.0 per cent in 2005, followed by slight reduction to 46.2 per cent in 2007. Eight out of top ten programme countries, in terms of expenditures of UN operational activities for development, are all LDCs. Africa has consistently received the largest share of expenditures, reaching 46.4 per cent in 2006 and 43.7 per cent in 2007.

*Results-based multi-year funding frameworks and strategic plans have enhanced predictability of resources flows*

25. The introduction of multi-year funding frameworks (MYFFs) and strategic plans and other innovative approaches has been an important response to address the declining, and often volatile, trend in core resources flows to UN funds and programmes. Several specialized agencies have also followed suit by introducing new strategic planning and management instruments in order to enhance the predictability of resources flows, including multi-year funding focus areas. These instruments help establish better linkages between the organizational vision, activities, financial resources and results indicators of the respective organization. They have also played an important role in focusing the activities of UN system agencies on high-priority areas, as well as measurement of results.

26. By and large, the introduction of such strategic planning frameworks has advanced the predictability of funding, although their impact varies from one entity to another. The increase in core funding to many funds and programmes during the 2002 to 2007 period may also suggest that these frameworks are having a positive impact in this respect, but more rapid growth in supplementary resources flows, has meant that the core/non-core ratio of UN operational activities for development has continued to worsen. The experience of funds and programmes, and some specialized agencies, with the MYFFs will be further discussed in an Annex to this note.

27. The preparation of results-based strategic plans is becoming the norm in UN organizations, with annual reports increasingly analytical. The strategic plans describe the expected contribution of the respective organization to national and global development goals, with well-defined key result areas, performance targets and indicators. Continuous efforts are being made by UN entities to improve the conceptual clarity of the results matrix with a view of strengthening performance management and reporting. The support budgets of UNDP, UNFPA, UNICEF and WFP are guided by common format, which is being further refined for the 2010-2011 biennium across the four agencies.

28. In the case of UNICEF, an analysis of sample of country programme documents submitted to the Executive Board in 2008 found that the average scores for integration of results-based management principles in such programming documents and the

accompanying results matrices has increased to 75 per cent (from 66 per cent in 2007). The study found that in 8 out of 11 submissions (72 per cent), the scores were above 80 per cent.

#### *Major growth in interagency pooled funds*

29. By March 2009, approximately \$4.0 billion in contributions from 40 donors and programme countries had been channeled to the UN development system through interagency pooled funds, administered by the Multi-donor Trust Fund Office in UNDP.<sup>10</sup> Several other UN agencies also administer pooled funds. The MDTFs are being used to address various humanitarian, recovery, reconstruction and development challenges that have emerged at the country-level as the result of 'horizontal' programming, including the UNDAFs.

30. The administration of interagency pooled funds, or MDTFs, is regulated by UNDG legal agreements and operating procedures. The MDTF Office in UNDP is the administrative agent for 22 MDTFs on behalf of the UN system, supporting programmes in 74 countries and covering a range of thematic areas, including humanitarian emergencies, post-crisis recovery and reconstruction and medium to long-term development. The administrative agent for each pooled fund is responsible for reporting on the use of resources to the contributing donors.

#### *Thematic funds have improved flexibility and predictability of resources flows and reduced transaction cost*

31. In addition to the interagency pooled funds, almost all UN organizations have created some types of thematic funds as part of broader strategy to address the long-term declining trend in core resources. These thematic funds allow donors to contribute resources to specific service lines, regions, programme countries and programme categories.

32. The use of thematic funds has improved flexibility and predictability of funding. Instead of having multiple contributions to manage, there is only one fund per thematic area and one consolidated annual report instead of separate statement for each donor. This lowers transaction cost for the UN entity in terms of staff time spent on management of contributions. The flexibility inherent in the thematic funds allows for scaling-up programmes with clear measurable objectives; prioritizing under-funded programmes; undertaking capacity-building for implementation of poverty reduction strategies; adoption of sector-wide approaches; more effective support to the implementation of national development plans; and enhanced performance management.

33. For UNICEF, thematic funding as share of overall contributions grew from 8 per cent in 2004 to 12 per cent in 2005. Thematic contributions are based on existing programmes such as the country programmes approved by the Executive Board or the thematic priority areas defined in the Medium-term Strategic Plan (MTSP). The pooled funds, whether at the global, regional or country-level, are allocated to achieve the goals in the respective priority area. The donors do not request any specific financial statements tracking their contribution, but rather a holistic report on results achieved in the thematic area they are supporting and expenditures from all sources (regular

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<sup>10</sup> The MDTFs are sometimes referred to as 'donor pooled funds'. Such donor pooled funds have a well-defined mandate. Thematic funds, on the other hand, are linked to strategic plans of agencies adopted by the respective governing body.

resources, other resources and thematic funds), at the global, regional or country-level. One consolidated report for each area is thus required.

34. For thematic funds, there is a more flexible time span for using contributions which also helps to reduce transaction cost by allowing the organization and the donors involved to avoid spending time and resources on justification of agreement extension, request for extension and amendment of agreements following the approval of an extension request. Further, the extended duration of the contribution allows the UN organization to reduce transaction costs by not having to continually identify, recruit and then separate staff. By using thematic funds, UN organizations are better placed to attract and retain high-quality staff by providing a measure of job security.

35. This suggests that thematic contributions may be considered the most attractive form of funding after regular resources and/or voluntary core funding, because such support is aligned with the strategic goals and priorities of the respective UN entity, while allowing for longer-term planning and sustainability. In the case of UNICEF, the decision to accept thematic funding required streamlining of its financial system, which was originally developed to follow each dollar received from every donor. Reporting on the use of thematic contributions is different and less burdensome, thus allowing more concentration on programming and achieving results.

*Private funding remains a small, but growing part, of overall contributions*

36. Funding from private sources has also brought in fresh resources to a number of UN entities. UNICEF has been particularly adept at leveraging the strength of private contributions. Income from private sources to UNICEF totaled \$878 million in 2007, reflecting an increase of 9 per cent over 2006.<sup>11</sup> Other funds and programmes have also benefited from private funding or enhanced cooperation with the private sector. For example, there is growing interest among UN entities in expanding partnerships with the private sector. Several initiatives involving cooperation between UN agencies and the private sector have been launched recently (e.g. UN Private Sector Forum, the new "Framework for Business Engagement with the UN", revision of the UN Business Sector Cooperation Guidelines). WFP, for example, has recently launched two new multi-year, multi-million dollar global partnerships to solicit contributions from corporate partners, based on a public-private partnership strategy.

37. However, securing funding from the private sector often comes with high transaction cost. The private sector usually has strong preference for earmarking funds to projects in specific countries. This unfortunately limits the flexibility in the use of funds and can result in donor-driven projects. For the specialized agencies, too strong focus on resources mobilization from the private sector may also be fraught with potential conflict of interest, due to their global norm and standard-setting role.

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<sup>11</sup> UNICEF (E/ICEF/2008/10).



Table 2

Private funding for UNDP, UNFPA and UNICEF 2005-2007 (millions of current US\$)<sup>12</sup>

	2005			2006			2007		
	Overall funding	Private funding	Private/Overall	Overall funding	Private funding	Private/Overall	Overall funding	Private funding	Private/Overall
UNDP	4.800	23	0.5%	4.790	91	1.90%	5.190	150	2.89%
UNFPA	544.6	11.2 <sup>13</sup>	2.06%	570.5	16.3	2.86%	705.2	21.4	3.03%
UNICEF	2.762	1.235	44.71%	2.781	799	28.73%	3.013	878	29.14%
WFP	2.700	27	1.0%	2.700	55	2.0%	2.700	49.1	1.8%

Source: UNDP/UNFPA Annual Financial Reviews and UNICEF Annual Reports.

38. Except for UNICEF, private contributions are not yet a significant source of income for funds and programmes such as UNDP, UNFPA and WFP, although experiencing some growth (see Table 2).<sup>14</sup> For UNFPA, for example, private contributions in 2007 remain just over 3 per cent of total income. In the case of UNDP, private funding has increased considerably, but is still an insignificant share of overall contributions. Generally, there is no evidence to suggest that income from private sources received by funds and programmes are distorting the implementation of activities mandated by governing bodies.

*Burden-sharing of core resources: too few hands carrying the load*

39. The volume of core funding for UN operational activities is closely linked to the sharing of the burden by donors. The difference between donors in this regard is quite significant. The 1970s and 1980s saw a trend emerging towards increasingly uneven burden-sharing of core funding for UN operational activities for development.<sup>15</sup> This trend has largely continued during the 1990s and the beginning of the new century. From 1995 to 2007, the top ten donors to UNICEF contributed on average 81 per cent of core contributions; for UNDP the percentage was close to 85 per cent; and for UNFPA it exceeded 93 per cent. The issue of concentration of donor-related funding also applies to specialized agencies. In FAO, for example, the top ten donors (excluding global funds such as CERF, but including multilateral contributions) accounted for 53 per cent of total voluntary resources received in 2006-2007, with the top twenty contributing 79 per cent.<sup>16</sup>

40. Of total contributions for UN operational activities for development in the years 2004 to 2006, eight donor countries accounted for approximately 65 per cent. Another indicator of weakened burden-sharing may be the rapidly declining role of the annual UN Pledging Conference, resulting in contributions amounting to \$80 million in 2007 and \$65 million in 2008.

<sup>12</sup> Includes contributions from private sector, foundations and civil society organizations.

<sup>13</sup> The 2005 figure for UNFPA includes "other income" of \$8.3 million for the regular budget and \$2.9 million of co-financing contributions from the private sector. UNFPA did not record private contributions to the regular budget for 2005. The "other income" of \$8.3 million is therefore used here to illustrate the rough scale of private funding to the regular budget. The actual amount is likely to be lower than presented in the above table. Private funding for 2006 and 2007 includes private endowment trusts to the regular budget and co-financing contributions from the private sector.

<sup>14</sup> The same applies to specialized agencies.

<sup>15</sup> Report of the Nordic Project, 1991.

<sup>16</sup> FAO Programme Implementation Report, 2006-2007 (paragraph 34 and table 4).

41. As mentioned earlier, the funds and programmes rely entirely on voluntary contributions to cover the cost of operational activities for development. One important implication of this reliance on voluntary contributions is that major donors tend to serve for longer periods of time on the Executive Boards of the funds and programmes than other Member States.

42. A stronger and more effective role of the UN in the economic and social fields needs to be built to greater extent than is presently the case on more equitable and diversified sharing of the burden of funding. Reliance on small number of countries for high share of core contributions also makes UN entities vulnerable to fluctuations in overall resources flows, e.g. if one, or more, major donors suddenly decide to reduce funding. This risk is best addressed by broadening the donor base of UN development cooperation. Approaches adopted by several UN entities to diversify the donor base and increase funding volumes are further discussed in an Annex to this note.

#### *Global funds: posing a challenge to funding of UN development cooperation*

43. Global programmes - often referred to as "global funds" or "vertical funds" - are defined as "partnerships and related initiatives whose benefits are intended to cut across more than one region of the world and in which the partners reach explicit agreement on objectives, agree to establish a new (formal or informal) organization, generate new products or services, and contribute dedicated resources to the programme."<sup>17</sup> In other words, global funds focus "vertically" on specific issues or themes, in contrast with the "horizontal" approach of the country-based model of development programming. Contributions to global programmes accounted for 3 per cent of total ODA in 2005. The main sectors covered by global programmes are health (e.g. the Global Fund for Aids, Tuberculosis, and Malaria, GFATM) and environment (e.g. the GEF).

44. The vertical funds are seen by many donor governments as focused and efficient in responding to major global development challenges. The UN was a key actor in the establishment of many of the existing global funds. However, there is perception that the global funds must remain focused initiatives and not grow to replace or undermine the broader and more complex programming requirements of the UN development system. Resources contributed to the global funds in many instances tap into the same government budget lines as related initiatives of the UN development system. Most of the global funds are also seen as depending heavily on traditional sources of ODA and not generating additional contributions from non-traditional partners. In addition, it is felt that although the global funds may reduce transaction cost to donors, their operations often lead to significant increase in administrative burden on both programme country governments, due to weak alignment with national systems, and UN system entities.

45. The global funds have adopted a wide range of governance and management arrangements. For example, they may be independent legal entities with autonomous governing bodies and own management structures such as GFATM and UNAIDS. Other global funds may operate instead as informal associations of partners without legal status. Such funds may be governed by representatives from donor institutions, partner countries, private foundations and members of civil society (e.g. GAVI and Stop TB). The global funds therefore vary greatly in the

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<sup>17</sup> *Aid Architecture: an overview of the main trends in ODA flows*, May 2008, World Bank.

manner governing bodies are constituted and empowered to act. In addition, in many instances, the hosting agencies play the role of implementing partners applying their own management policies and procedures, which may further complicate accountability arrangements.

## (b) Renewed focus on organizational performance

### *Some UN agencies seen as pace-setters among multilaterals*

46. The past decade has seen renewed efforts by agencies at headquarters and country-level to enhance organizational effectiveness. Some donors have also made improvements in organizational effectiveness explicit criteria in the allocation of resources to UN funds, programmes and specialized agencies. External evaluations of UN performance have also revealed a number of weaknesses of UN organizations, notably in the areas of transparency, coherence and cost-efficiency.

47. Many UN entities have responded by undertaking extensive organizational reform since the late 1990s and early part of the new century. As a result, some UN agencies are now seen as pace-setters in terms of institutional reform amongst the multilaterals. Donor-sponsored surveys of organizational effectiveness of multilateral and international agencies confirm the positive impact of these initiatives on the efficacy of the UN development system. Annual assessments by the Multilateral Organizations Performance Assessment Network (MOPAN), based on perceptions of embassy staff in selected countries, have reached similar conclusion.<sup>18</sup> However, it is important to note that these studies have not been conducted through an inclusive process involving both programme country governments and donors. Their findings and recommendations therefore only reflect the views of the respective donor countries.<sup>19</sup>

48. A brief review of the scores of individual UN agencies in the donor-sponsored surveys of organizational effectiveness of multilateral and international organizations, mentioned above, and annual growth rates in contributions does not yield conclusive evidence as to whether enhanced efficiency as measured by these studies has been associated with more stable and predictable resources flows. In addition to agency-specific initiatives to enhance organizational effectiveness, there have been efforts at the system-level to harmonize programme support costs and business practices.<sup>20</sup>

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<sup>18</sup> The following countries are members of MOPAN: Austria, Canada, Denmark, Finland, France, Netherlands, Norway, Sweden, Switzerland and United Kingdom.

<sup>19</sup> An upcoming OECD/DAC report on multilateral aid criticizes MOPAN and other similar donor-led surveys. This report argues that "a strong case can be made that bilateral donors should change the way they advocate for multilateral reform. Instead of using non-transparent approaches for assessing multilateral effectiveness from the outside, they should make even more united use of their positions within the executive boards to advocate for change from within the multilaterals to improve their reporting on effectiveness".

<sup>20</sup> A related paper of the Secretary-General on governance of UN operational activities for development recommends the strengthening of system-wide performance review and evaluation with a view of enhancing accountability of the UN system to Member States.

### Text Box 5

#### Harmonization of programme support costs

A diverse range of programme support cost modalities and other cost recovery mechanisms exist within the UN system. Although 13 per cent has been widely used as standard cost-recovery rate, UN agencies tend to apply different rates according to the source of funding. ILO, for example, applies 13 per cent for multi-bilateral funding, 12 per cent for associate professional officers and 10 per cent for UNDP contributions. This type of practice is also seen in many other agencies. A number of UN system organizations, including UNOPS, also used to assess and recover extra-budgetary support costs on a case-by-case basis.

The HLCM/CEB established in 2003 a Working Group (WG), chaired by UNESCO, to promote the development of common guidelines for the application of programme support costs within the UN system. The WG reached consensus on common definitions of cost categories and principles for cost recovery. The three cost categories: direct costs, fixed indirect costs and variable indirect costs, have gradually been adopted by UN agencies.

Based on the outcome of the HLCM/CEB-sponsored dialogue, funds and programmes agreed to adopt a harmonized cost recovery rate of 7 per cent for indirect programme support costs for non-core resources (i.e. extra-budgetary funding or other resources) for the management of the "Delivering-as-One" (DaO) pilot initiative. Following joint UNDG/CEB and Finance and Budgetary Network (FBN) of HLCM/CEB consultation, convened in April 2008 to explore the extent to which further harmonization of cost recovery policies was feasible, both parties endorsed the use of 7 per cent as harmonized indirect programme support cost rate for MDTFs and multi-agency country-level joint programmes and activities.

### Text Box 6

#### Harmonization of business practices

The CEB, at its 2007 fall session, endorsed the Plan of Action for the Harmonization of Business Practices in the UN System, developed by HLCM/CEB and its networks. This plan covers all major management functions that rest within the purview of Executive Heads, including, inter alia, finance and budgeting, human resources, information and communications technologies (ICTs) as well as procurement. The plan is broken down into three groups of initiatives: (a) projects ready for implementation, (b) analyses and reviews leading to the implementation of one of the alternative options that will be identified, and (c) feasibility studies whose outcome would determine whether to proceed to an implementation phase or to opt for alternative solutions. A funding proposal for the plan was circulated in October 2008. Implementation has already begun in priority areas on the basis of contributions received as well as internal resources earmarked by UN agencies.

The plan builds on the notion that within a system structured around a variety of mandates, increased coherence in working modalities of UN organizations would contribute significantly to their ability to deliver better programmatic results. The plan was developed with a view to identify system-wide solutions to issues that have emerged, in many cases, at the country level. The HLCM/CEB will focus on system-wide administrative and management issues, with UNDG/CEB supporting country-level operations, with particular focus on prioritizing and spearheading solutions to administrative bottlenecks in business practices in the DaO pilot countries. Such solutions could subsequently be replicated system-wide by HLCM/CEB. In the past year, solutions have been identified in the areas of procurement, ICTs and human resources, where different agency staff are working in a common team.

This approach ensures the alignment of country-level operations with the strategic direction and priorities pursued at the policy-level. It places particular focus on needs emerging at the country-level, including through the DaO pilots, being fed into system-wide development of common policies and standards, at headquarter-level.

### (c) Aid effectiveness moves centre stage

#### *The changing aid environment*

49. The comprehensive policy review of the GA in 2001, 2004 and 2007 has called for strengthening of the UN development system at the country-level as well as greater coherence and effectiveness. For example, GA resolution 62/277 *“recognizes that strengthening the role and capacity of the United Nations development system to assist countries in achieving their development goals requires continuing improvement in its effectiveness, efficiency, coherence and impact, along with a significant increase in resources and an expansion of its resources base on a continuous, more predictable and assured basis.”*<sup>21</sup> Recent experiences at the country-level have shown that strengthened joint programming through the UNDAF process is a precursor for increased harmonization and coherence in the funding of UN operational activities for development.

50. These developments are taking place against the backdrop of a global aid environment that is changing in several important ways. For example, there has been a major proliferation of development cooperation actors in recent years, with corresponding fragmentation of funding sources. As of 2005, for example, there were more than 65,000 donor activities worldwide, up from 20,000 in 1997, with some countries hosting more than 1,000 donor activities.<sup>22</sup> The proliferation of development cooperation actors has also been accompanied by reduction in the average size of contribution of each donor (from \$2.5 million to \$1.5 million). In addition, this proliferation of development cooperation activities, in many instances, has undermined the capacity of developing countries by diverting government staff to work as project counterparts or donor staff, spending funds on technical assistance to manage projects, or on parallel project implementation units, thus increasing the cost of coordination with donors at both the global and country levels.

51. Recent years have also seen renewed calls by programme country governments for donors to intensify harmonization of operational systems, procedures and reporting. Here, the 2002 Monterrey Conference on Financing for Development played a particularly important role by turning the attention of the international community to the issues of aid quality and aid effectiveness.

52. The Development Cooperation Forum (DCF) of ECOSOC, the 3<sup>rd</sup> High-level Forum on Aid Effectiveness in Accra and the Doha Review Conference on Financing for Development, all held in 2008, have also added strong voices to the call for greater commitment of donors and other contributors to the principle of aid quality and aid effectiveness. The Doha Review Conference, for example, pointed out the need for more systematic and universal ways to follow quantity, quality and effectiveness of aid flows, giving due regard for existing schemes and mechanisms. The Conference invited the Secretary-General, with relevant UN system agencies, in close cooperation with the World Bank, the regional and sub-regional development banks, OECD/DAC and other relevant stakeholders, to address this issue and provide a report for consideration of the Development Cooperation Forum.

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<sup>21</sup> A/RES/62/208 (page 4, paragraph 11).

<sup>22</sup> E/2008/69.

53. This international consensus on the need for improved quality and effectiveness of aid is already influencing the work of the UN system for development at the country-level as reflected in the shift towards greater coherence and harmonization of programming and funding. The emergence of new development cooperation actors such as global thematic funds, the private sector and civil society organizations in the delivery of aid have added further complexity to the role of the UN in this changing environment. Moreover, the growing use of sector-wide action plans and general budget support as new modalities for delivering development assistance has raised questions about the way in which the UN system is to interact with these instruments in the future. While the programmatic implications of these delivery mechanisms for UN system support are progressively emerging, their impact on funding country-level activities remains unclear.

#### (d) Towards country-level coherence

##### *From UNDAF to common programme, budgetary framework and fund at country-level*

54. As discussed in a related note of the Secretary-General on governance of UN operational activities for development, there has been continued focus within the UN system since 2002 on improving field-level coordination of operational activities for development through institutionalization of the UNDAF process; further strengthening of interagency cooperation through undg/ceb, whose membership was expanded to include virtually all UN organizations with a development mandate, and of the Resident Coordinator System; greater emphasis on measuring field-level results; and acceleration of the establishment of common UN houses in programme countries.

55. Most recently, an approach based on delivering-as-one (DaO) through common programme, budgetary framework and fund, has been adopted in eight pilot countries. The common budgetary framework presents a holistic financial picture of available, as well as required resources, in support of the common country programme, comprising three sources of funds: core resources, vertical funds (thematic trust funds, national committees) and funds that need to be mobilized. The core resources of each agency and vertical funds remain within the control of the respective organization, but the use of the funds is fully aligned with the common country programme.

56. A common fund has been established in the eight DaO pilots to support the coordinated resources mobilization, allocation and disbursement of donor contributions for the unfunded elements of the common country programme.<sup>23</sup> Donors pool resources together under the common fund to cover the funding gap in implementing the consolidated UN programme. The common fund is managed by the Resident Coordinator on behalf of the UNCT. As of 31 October 2008, \$131.8 million has been committed to such common funds by 12 donors.<sup>24</sup>

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<sup>23</sup> The common fund is sometimes referred to as "One UN Fund" or "UN Coherence Fund".

<sup>24</sup> Austria, Canada, Finland, France, Ireland, Luxembourg, New Zealand, the Netherlands, Norway, Spain, Switzerland, the United Kingdom.

57. A stocktaking exercise conducted by UNDG in late 2007 has identified evidence of progress in implementing the DaO pilot initiative in the eight countries.<sup>25</sup> For example, institutional mechanisms have been established to facilitate implementation by the UNCTs, including *common operational document*, with clear reporting lines and accountability framework, based on agreed division of labour. Local resources mobilization efforts are also increasingly joint-in-nature and supported through the Resident Coordinator and UNCT. Moreover, resources mobilization in partnership with the UN system is increasingly high on the agenda of governments in programme countries. Furthermore, through the common country programme, national partners have attained comprehensive overview of UN activities and financial resources as well as information on funding gaps. This has resulted in the UN system more fully aligning its programming with national priorities, national reform processes (including the Paris Declaration), and national development plans, including the MDGs, with greater government leadership.

58. The UNDG stocktaking exercise has also identified several challenges in implementing the DaO pilot initiative, including (a) slow pace of change at headquarters, including approval processes, reporting requirements, human resources and information technology, (b) insufficient guidance and sometimes slow support from headquarters and regional offices, (c) striking balance between inclusiveness and strategic focus and alignment, and (d) high expectations on funding availability from both governments and UNCTs, which, in some instances, has led to unrealistic programming. So far, the funding gap in the eight DaO pilot countries has only been closed in Tanzania.<sup>26</sup>

59. The experience of Rwanda in formulating the common country programme in conjunction with UNDAF roll-out has proven to be effective in fostering coherence rather than starting this exercise in the middle of a five-year programming cycle. Another important lesson from the DaO pilot phase is the need for more effective harmonization of systems and procedures at headquarters-level to facilitate the implementation process at the country-level.

#### *Funding country-level coherence initiatives*

60. A recent global initiative to encourage the harnessing of the collective strength of the UN system to address multi-dimensional development challenges through collaborative activities at the country level is the MDG Achievement Fund (MDG-F).<sup>27</sup> An amount of €528 million was initially committed to the MDG-F to be programmed between 2007 and 2010.<sup>28</sup> The MDG-F is organized around specific funding windows, namely the Global Account, DaO Account and Country Account, with the Global Account contributing to core resources of select UN agencies, while the other two will focus on the DaO pilots and joint programmes in 8 thematic windows respectively. Eighty per cent of the MDG-F, or about \$714 million, is expected to be used for joint programmes in 8 thematic areas. To date, 68 joint programmes, with a portfolio of \$400 million, have been approved from the MDG-F.

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<sup>25</sup> Another stocktaking exercise was conducted by UNDG in early 2009.

<sup>26</sup> UNEG evaluability assessment of the programme country pilots, DaO, draft synthesis report, 2008.

<sup>27</sup> MDG-F was established by the Government of Spain and UNDP in December 2006.

<sup>28</sup> During the GA High-level Event on MDGs in September 2008, the Government of Spain pledged additional €90 million to support selected widows.

61. Since 24 September 2008, the DaO window in the MDG-F has been enlarged into a new multi-donor facility to finance collaborative and joint UN activities and programmes.<sup>29</sup> The purpose and objective of the new funding window is to increase the contribution of the UN system to poverty reduction and achievement of MDGs by ensuring more effective use of UN resources at the country-level. More specifically, the new funding window is designed to: (a) respond to the need for additional, non-earmarked and more predictable funding in order to support countries that have approved 'One UN' programme at the country-level, (b) provide channel for additional resources to fill funding gaps in approved UN country programmes, (c) allow donors to support the 'One UN' programme in countries where they may not have bilateral presence nor country-level funding mechanism but where poverty, MDG-gap and 'aid orphan' criteria determine the need for additional support, and (d) reduce the transaction cost associated with separate and multiple funding agreements which are necessary for the management of earmarked resources, thereby leading to costs-savings that can be applied to programmatic priorities.

#### (e) Key policy messages

61. Some of the key policy messages emerging from the above review of recent trends in funding and allocation include the following:

1. Enhanced predictability, stability and flexibility of voluntary funding is key to greater efficiency, effectiveness and coherence of UN operational activities for development;
2. Significant and long-term imbalance between core and non-core resources undermines the principles of universality and neutrality in UN development cooperation;
3. High-degree of fragmentation in supplementary funding increases transaction cost, reduces efficiency and weakens aid effectiveness of UN development cooperation;
4. Full cost of implementing supplementary funded activities is not always recovered by the UN system due to donor pressure to reduce project support cost rate;
5. Continued decline in assessed contributions risks weakening the traditional normative, i.e. standard-setting, research, information and technical assistance roles of some specialized agencies. A more effective arrangement for funding the normative and global public goods functions of the UN system, is needed;
6. Introduction of MYFFs and strategic plans has advanced the predictability of funding in some UN entities, reduced transaction cost, and helped focus activities on high-priority areas, as well as measurement of results;
7. Thematic funds linked to strategic plans of UN entities are effective vehicles to promote policy coherence, reduce transaction cost, improve efficiency, and enhance aid effectiveness of supplementary resources flows;
8. Core voluntary accounts linked to strategic plans of specialized agencies provide an innovative and efficient mechanism to enhance effectiveness of voluntary resources flows;

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<sup>29</sup> The new facility is called the "Expanded Multi-donor Delivering-as-One Funding Window". The Governments of Spain, UK, Norway and the Netherlands have contributed funds to the new multi-donor DaO facility.



9. Some UN agencies are seen as pace-setters in terms of institutional reform amongst the multilaterals. Progress in enhancing organizational effectiveness, however, has not automatically led to increases in core funding;
10. Significant efforts are being made to integrate results-based management principles in strategic planning and reporting of UN entities;
11. Transparent and objective criteria and modalities for assessing organizational effectiveness of UN entities could foster enhanced link between performance and funding;
12. Reliance on small number of donors for core funding can make funds and programmes more vulnerable to significant fluctuations in resources flows;
13. Lack of common UN definition of funding sources complicates financial reporting of UN operational activities for development.

### **C. Possible options for way forward**

62. The UN system uses funding mechanisms for operational activities for development that do not provide sufficient volume, predictability, flexibility, stability and burden-sharing of contributions. The fragmented nature of the present funding architecture is also detrimental to aid effectiveness at the country-level. Structural reform of the current funding system, however, may not be feasible due to complicated governance arrangements and decentralized modus operandi of UN development cooperation. For this reason, it is recommended that actions of Member States, as well as the UN development system, focus on improving the efficiency, effectiveness and coherence of the present funding system.

63. An important lesson of the past ten years or so is that the system of annually pledged voluntary contributions has not lived up to expectations, resulting in significant imbalance between core and non-core resources. As a result, the funding architecture has become highly fragmented, undermining system-wide coherence of UN development cooperation. Addressing these weaknesses in the funding system will require action by both donor countries and UN system entities alike.

64. It is recommended that further strengthening of the funding system of UN operational activities for development be guided by the following objectives:

1. Strong commitment by UN entities to common country programming and budgetary framework based on the principle of national ownership and leadership;<sup>30</sup>
2. Strengthened commitment of donors to increase overall contributions to UN operational activities for development, including core/regular resources of funds, programmes and specialized agencies, as key pillar of the funding system;<sup>31</sup>

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<sup>30</sup> Common country programmes are sometimes referred to as "Common Operational Plan", "One UN Programme", "Operational Plan of the System", "Common Action Plan" or "Common Country Programme Action Plan".

<sup>31</sup> Including core voluntary accounts in relevant specialized agencies.

3. Improved predictability, stability, flexibility and adequacy of voluntary funding flows;
4. Simplification of the present architecture of supplementary funding, including improved alignment with strategic plans adopted by governing bodies of UN system organizations;
5. Enhanced performance management across the UN development system;
6. Strengthened link between funding and objective measures of performance;
7. Improved burden-sharing of core funding;
8. Enhanced commitment of all actors to the principle of aid effectiveness.

65. Ten recommendations addressed to both donor countries and the UN system, are made here below to further strengthen the system-wide funding architecture of UN operational activities for development.<sup>32</sup>

### ***Resources flows***

#### **Recommendation 1: Renew commitment to funding volumes**

66. The present global financial and economic crisis will affect the livelihoods of hundreds of millions of people in developing countries and endanger progress toward poverty reduction and other internationally-agreed development goals (IADGs), including the MDGs. Although all countries are greatly affected, developing countries are particularly exposed to this crisis. It is important that ODA provided to developing countries at this critical juncture be targeted to meeting poverty targets and other IADGs, including the MDGs.

67. At the G20 Summit in April 2009, as well as the Doha Review Conference on Financing for Development in November/December 2008, the Heads of State and Government reaffirmed their commitment to meeting the IADGs, including the MDGs and achieving ODA pledges. The rapidly deteriorating socio-economic situation in many developing countries in recent months as the result of the economic and financial crisis calls for accelerated delivery of existing donor commitments on development assistance. The UN Chief Executives Board for Coordination (CEB), at its April 2009 session, reiterated that commitments made earlier to increase ODA, must be met. The CEB decided to set-up nine joint initiatives to assist countries and the global community to confront the crisis, accelerate recovery and build a fair and inclusive globalization allowing for sustainable economic, social and environmental development for all.<sup>33</sup>

68. It is recommended that the Secretary-General of the UN, with support of the Chair of UNDG, as well as the UNDG Advisory Group, in consultation, as appropriate, with Heads of agencies, undertake high-level policy dialogue with Member States on how the UN development system can contribute to socio-economic recovery in developing countries during this time of global economic and financial crisis, most effectively.<sup>34</sup> This high-level policy dialogue could include

<sup>32</sup> See also recommendations in related paper of the Secretary-General on governance of UN operational activities for development.

<sup>33</sup> The nine areas are: additional financing for the most vulnerable; food security; trade; green economy initiative; global jobs pact; social protection floor; humanitarian, security and social stability; technology and innovation; and monitoring and analysis.

<sup>34</sup> Including through enhanced regional/sub-regional cooperation.

consultation with donor countries on the need to develop an indicative forward-looking (3-year) spending plan for UN development cooperation at country, regional and global levels, underpinned by enhanced burden-sharing of core funding. This dialogue should also include intensified exchange and coordination with the BWIs.<sup>35</sup>

**Recommendation 2: Provide minimum of 50 per cent of system-wide contributions as core/regular funding**

69. The General Assembly, in resolution 62/208, has called for substantial increase in voluntary contributions to core/regular budgets of the UN development system. It is recommended that donors, other than programme countries contributing to UN operational activities for development at the national-level, commit to contributing a minimum of 50 per cent of system-wide funding for UN operational activities for development as core resources.<sup>36</sup> Although this ratio may vary from one organization to another, the objective would be to ensure that core resources are at least 50 per cent of overall funding to UN operational activities for development.<sup>37</sup> At present, the share of core funding of overall contributions is around 30 per cent. Reaching the 50 per cent target over a 4-year period, for example, would require shifting annually about \$1 billion from non-core to core resources (based on current 2007 US dollars).<sup>38</sup> This should also include enhanced commitment by donors to early payment of core contributions to UN organizations to allow for better planning and less exchange rate risk.

**Recommendation 3: Revise budgetary laws and practices to allow for multi-year core funding commitments**

70. Multi-year core funding commitments contribute to enhanced predictability and sustainability of resources flows to UN operational activities for development. Such commitments also improve cash-flow management and programme planning and implementation. The lack of established governance mechanisms for multi-year core contributions; parliamentary constraints on allocations for a period longer than one-year; resource allocations restricted to certain themes or regions; and different fiscal cycles, are some of the challenges experienced by donor governments in making multi-year core funding commitments to UN development cooperation. It is recommended that governments in donor countries consider undertaking the necessary legislative changes to allow for such multi-year core funding commitments to the UN development system.

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<sup>35</sup> See also recommendation nine in related paper of the Secretary-General on governance of UN operational activities for development.

<sup>36</sup> This would include contributions to core voluntary accounts established in several specialized agencies to enhance predictability of funding. The ILO, WHO, FAO and other agencies have successfully established such accounts that allow donors to increase funding to the regular budget in above assessed contributions determined by the respective governing bodies. For the purpose of this paper, such contributions are defined as 'core' as they resemble voluntary core resources to funds and programmes (see Annex for more information). This recommendation to provide minimum of 50 per cent of system-wide contributions as core/regular resources should also not lead to reduction in overall funding to UN operational activities for development.

<sup>37</sup> Some UN organizations such as WFP do not receive core funding, but rely on voluntary contributions. For WFP it is particularly important to enhance predictability of funding through multi-year contributions.

<sup>38</sup> In 2007, core/regular resources of overall contributions were about \$5.6 billion.

**Recommendation 4: Channel minimum of 50 per cent of system-wide non-core/extra-budgetary resources to thematic funds linked to strategic plans adopted by governing bodies**

71. The fragmented nature of the supplementary funding architecture of UN operational activities for development undermines the ability of the UN system to pursue coordinated implementation of the global development agenda. Simplification of the extra-budgetary funding architecture is therefore key for enhanced system-wide coherence of UN development cooperation. Further streamlining of non-core resources flows by channeling such contributions to thematic funds linked to strategic plans adopted by governing bodies of UN system organizations could greatly enhance system-wide coherence.<sup>39</sup> The use of thematic funds allows UN organizations greater flexibility in allocation and lowers transaction cost, while enabling the donor to specify which theme or programmatic area to support from the strategic plan or interagency work plan. Thematic funds enable agencies to operate at the programme-level, as opposed to the project-level, and they encourage enhanced coherence with other agencies due to more flexible planning horizon. Thematic funds are usually managed by agencies at the global-level, but can also exist at regional and country levels.<sup>40</sup> It is recommended that donors, other than programme countries that contribute to UN operational activities at the national-level, allocate a minimum of 50 per cent of non-core/extra-budgetary resources flows to thematic funds linked to strategic plans adopted by governing bodies of UN system organizations.<sup>41</sup>

**Recommendation 5: Support establishment of common country funds to fill funding gaps in common country programmes**

72. Countries that have prepared an UNDAF, including implementation plan, should develop a common budgetary framework at the country-level. This framework should present a holistic financial picture of required, as well as available, resources in support of nationally-owned common country programme (in line with the UNDAF process), comprising three sources of funds: core resources, thematic funds and funds that need to be mobilized. While the core resources and thematic (and non-earmarked) funds remain within the control of each agency, the use of such funds should be fully aligned with the common country programme and budgetary framework. It is recommended that organizations of the UN development system establish common country funds to fill funding gaps in common country programmes.<sup>42</sup> The common country funds should be established as a multi-donor trust fund using UNDG/CEB standard documents and procedures.

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<sup>39</sup> Some UN organizations such as WFP do not have thematic funds but 'programmatic funding windows'. This recommendation applies also to such funding modalities.

<sup>40</sup> In addition to organization-specific thematic funds, there has been major increase in contributions to interagency pooled funds in recent years as discussed earlier in this paper. The interagency pooled funds are used to address humanitarian, recovery, reconstruction and development challenges that have emerged at the country-level. Such funding arrangements promote system-wide coherence and enhance the potential of the UN system to respond to complex challenges.

<sup>41</sup> GA resolution 63/232 underscored the importance of mobilizing more predictable levels of voluntary contributions to the core operational programmes of the UN development system, recognizing the establishment of thematic trust funds, multi-donor trust funds and other voluntary non-earmarked funding mechanisms linked to organization-specific funding frameworks and strategies established by the respective governing bodies, as funding modalities complementary to regular budgets.

<sup>42</sup> Several names are currently being used for such funds at the country-level including "One UN Fund" and "Coherence Fund".

73. The common country fund would support coordinated resources mobilization, allocation and disbursement of donor contributions for the unfunded elements of the common country programme. Through the establishment of a Steering Committee, co-chaired by the national government and the UN Resident Coordinator, the establishment of the common country fund would further strengthen national leadership and the coherence and alignment of the common country programme with national development priorities. The establishment of the common country fund would also decrease transaction cost to all stakeholders (single consolidated report, fewer agreements) and improve the efficiency of UN operations by ensuring a great degree of flexibility in the allocation of resources within the common country programme.

### ***Organizational performance***

#### **Recommendation 6: Reform multi-year strategic planning frameworks**

74. It is recommended that UN entities undertake major strengthening of existing results-based planning systems, including multi-year funding frameworks (MYFFs), with a view of improving predictability, stability, flexibility and adequacy of resources flows. This could include introducing in strategic plans of UN entities more detailed costing of development results to be achieved and better definition of objectives, baseline information and performance indicators. An important objective would be to improve the effectiveness of results-based management and reporting in UN system organizations. This would allow UN entities to better communicate to Member States and other stakeholders, agency-specific, as well as system-wide, results at the country-level. Costing of development results would form the basis of the multi-year funding framework which would be an inherent part of the strategic plan. This approach would enable donors to make multi-year funding commitments to the respective UN entity against the delivery of well-defined development results. This approach would also establish stronger link between development results and resources requirements.

#### **Recommendation 7: Establish common standard to assess organizational and operational effectiveness**

75. Several donors have developed methodologies to assess the organizational effectiveness of multilateral agencies. In some instances, these surveys are used to influence allocation of resources to UN organizations. These studies have not been conducted through an inclusive process, but are donor-led initiatives, with findings and recommendations reflecting their views. It is recommended that common standard be developed for use by governing bodies to assess organizational and operational effectiveness of UN entities. The common standard could build on the best attributes of some of the existing methodologies in this area. An important objective would be to promote performance improvements across the UN system. In addition, it is envisaged that the establishment of common standard to assess organizational and operational effectiveness could strengthen the strategic positioning of the UN system vis-à-vis other key actors in international development cooperation.

76. It is recommended that the common standard be developed by UNDG/CEB through an inclusive, transparent and objective process, involving also representatives of programme countries and donors. It is expected that governing bodies would use this common standard to undertake biennial assessment of the organizational and operational effectiveness of UN entities.

### ***Aid effectiveness***

#### **Recommendation 8: Harmonize results-based management, monitoring and evaluation and reporting systems at country-level**

77. The adoption of common country programme and budgetary framework calls for harmonization of results-based management (RBM), monitoring and evaluation (M&E) and reporting systems across the UN system at the country-level. An important objective would be to strengthen the accountability of the UN country team to the national government for the delivery of results agreed in the UNDAF and the common country programme. Harmonized RBM, M&E and reporting systems should enable assessment of agency-specific, as well as system-wide, results and impact of UN development cooperation at the country-level. Harmonization would also enhance aid effectiveness and reduce transaction cost to both national governments and the UN system. It is recommended that UNDG/CEB lead the establishment of UN-wide standard for RBM, M&E and reporting systems at the country-level. This should include development of common reporting standards for interagency pooled funds and thematic funds that would meet the needs of both donors and UN system entities.

#### **Recommendation 9: Standardize funding terminology and procedures**

78. As part of the effort to comply with the International Public Service Accounting Standards (IPSAS), UN organizations and donors will have to adopt common language and procedures in the area of financial resources management. It is recommended that this process also include adopting common definitions of funding sources of UN operational activities for development. Such standardization would improve the effectiveness, efficiency and transparency of financial reporting of UN operational activities for development. Furthermore, it is recommended that all relevant stakeholders agree on common definition of ODA, with a view, of avoiding, inter alia, either under-reporting or double counting, of contributions to UN operational activities for development.<sup>43</sup> In addition, it is recommended that the UN development system and donors adopt model agreements with a view of reducing transaction cost involved in repeated negotiations of specific conditions in mobilization of resources.

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<sup>43</sup> GA, in resolution 62/208, has requested the Secretary-General, making use of existing capacities within the Secretariat, and, if necessary, voluntary contributions, to continue to broaden and improve the coverage, timeliness, reliability, quality and comparability of system-wide financial data, definitions and classifications for the financial reporting of operational activities for development of the UN system, in a coherent way.

#### Recommendation 10: Publish biennial aid effectiveness report

79. It is recommended that the UN development system publish biennially an analytical report on progress in improving aid effectiveness of UN development cooperation. This analytical report could serve as background document for the biennial high-level Development Cooperation Forum (DCF) of ECOSOC, the Council's Operational Activities Segment, as well as other high-level events on aid effectiveness issues. Publication of the biennial aid effectiveness report would provide an opportunity for the UN development system to communicate to all relevant stakeholders, progress made by UN entities in meeting global aid effectiveness commitments as well as relevant policy recommendations and guidance established by the DCF and the comprehensive policy review of the GA. It is recommended that the biennial aid effectiveness report be prepared by UNDG/CEB in cooperation with UNDESA.

#### D. Conclusion

80. There is consensus among Member States that the fragmented nature of the present funding architecture of UN development cooperation undermines the ability of the UN system to pursue coherent, effective and efficient implementation of the global development agenda. The ten recommendations proposed in this note focus on measures to strengthen the existing funding architecture rather than suggesting major structural reform.<sup>44</sup> This pragmatic approach reflects the complicated governance arrangements and decentralized nature of the UN development system. A compact is proposed where donors would renew commitment to improve the quantity and quality of resources flows while UN system entities would undertake commensurate action to enhance organizational effectiveness and aid effectiveness.

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<sup>44</sup> These recommendations should be reviewed along with related proposals to strengthen the governance of UN operational activities for development and discussed in a separate note of the Secretary-General.

## Annex

### Strategies to enhance predictability of voluntary core resources flows and policy coherence

81. Three distinct funding models have emerged in the UN system to enhance the predictability of voluntary core resources flows and policy coherence.

#### 1. Multi-year funding frameworks (MYFFs)

##### (a) UN funds and programmes

82. Following GA resolution 50/227 and ECOSOC resolution 1997/59, the Executive Boards of UNDP, UNICEF and UNFPA decided to develop multi-year funding frameworks (MYFFs), with the aim of increasing core resources flows on a predictable, continuous and assured basis. For UNDP, Executive Board decision 98/23 laid out the basic principles and purpose of the revised funding strategy, which would consist of the MYFF, accompanied by a reporting system comprising an annual results-oriented report and a four-yearly assessment of the MYFF. The MYFF itself is comprised of a strategic results framework and an integrated resources framework, bringing together both programme and administrative resources. The Executive Board of UNDP approved the first MYFF in September 1999. The first annual results-oriented report was presented to the UNDP Executive Board in mid-2000. For UNICEF, the first MYFF was approved by the Executive Board in January 2000 and for UNFPA at the second regular session of its Executive Board in the same year. The WFP, however, doesn't have a MYFF, but has opted instead for a strategic plan approach to guide its operations and funding.

83. The MYFFs and the strategic plans have become the main instrument of UN funds and programmes for articulating organizational goals, focus areas, performance indicators, outcome expectations and resources requirements. A survey undertaken for the preparation of this note has confirmed that this approach has been widely adopted within the UN development system as all UNDG members have such a framework in place, although with varying timeframes and not all including a resources component. An essential requirement of MYFFs and strategic plans is the establishment of results indicators to monitor the effective use of resources. Donors are invited to make contributions that are consistent with and for the entire timeframe of the MYFF.

84. A major challenge in many UN organizations has been to meet the regular resources targets, agreed in the MYFF or strategic plan. Burden-sharing has been another important issue affected by the voluntary nature of the pledging process for UN funds and programmes. From 1995 to 2007, as mentioned earlier, the top ten donors to UNICEF contributed on average almost 81 per cent of core contributions; for UNDP the percentage was close to 85 per cent; and for UNFPA it exceeded 93 per cent. This suggests that the MYFFs have not yet resulted in more effective burden-sharing among donors.

85. The multi-year funding framework or strategic plan approach has also been adopted by a number of specialized agencies, with two of those models briefly described here below.



## (b) UNESCO

86. UNESCO has recently adopted an Action Plan for improved management of extra-budgetary contributions, with a view of forging seamless interface between the regular programme and activities funded through supplementary resources. The key innovation in the Action Plan is the preparation, beginning with the 2008-2009 biennium, of an "additional programme of targeted/projected extra-budgetary activities" in full alignment with the regular programme and budget adopted by the General Conference of UNESCO. UNESCO has identified some 500 targeted/projected extra-budgetary activities, which follow the structure of the regular programme and are closely linked to results. The "additional programme" is meant to be the main vehicle for the resources mobilization of UNESCO during the current biennium.

## (c) FAO

87. The 35<sup>th</sup> (Special) Session of FAO Conference held 18-22 November 2008, adopted an Immediate Plan of Action (IPA) for FAO Renewal (2009-2011). A key element of the IPA is a new strategic framework and resource mobilization and management strategy, which shifts the focus of the organization from what it does with assessed contributions to what it intends to achieve through the integrated application of existing assessed resources and voluntary funding, with a view of providing greater transparency and improved basis for monitoring. In the new integrated framework, assessed contributions are supplemented by extra-budgetary funding in support of agreed strategic priorities. This approach is expected to facilitate increased predictability of extra-budgetary resources through greater pooling of programme funding (as distinct from project funding). As part of this framework, seven Impact Focus Areas are proposed for resources mobilization, fully aligned with the new strategic framework and medium-term results-based plan.

## 2. Negotiated voluntary core funding

### (a) UNEP

88. Since its inception, UNEP has received some funding from the regular budget of UN to finance the expenses of its secretariat, with programme activities financed through voluntary contributions to the Environment Fund. In the early years, the contributions from the UN regular budget covered more than 20 per cent of the expenditures of UNEP. That input has now fallen to about 4 per cent of the total budget.

89. The Governing Council/Global Ministerial Environment Forum of UNEP at its seventh special session in Cartagena, Colombia, in 2002, adopted a report of the Open-ended Intergovernmental Group of Ministers or their Representatives on International Environmental Governance. The report called for all Member States to contribute to UNEP, and towards that end, proposed the application of a voluntary indicative scale of contributions (VISC) to the Environment Fund. The objective would be to broaden the base of contributions and enhance predictability in the voluntary financing of the Environment Fund.

90. The VISC was developed specifically for the Environment Fund, taking into account, among other things, the UN scale of assessments and the following factors:

- ❖ A minimum indicative rate of 0.001 per cent;
- ❖ A maximum indicative rate of 22 per cent;
- ❖ A maximum indicative rate for least-developed countries of 0.01 per cent;
- ❖ Economic and social circumstances of the Member States, in particular those of developing countries and countries with economies in transition;
- ❖ Provision to allow for any Member State in a position to do so to increase its level of contributions over and above the current level.

91. In response to the Council/Forum's adoption of the Working Group's report, the Executive Director of UNEP launched a pilot phase of the voluntary indicative scale of contributions for one year, the second year of the 2002-2003 biennium. Following the pilot phase, the scale was then applied in the biennium 2004-2005 and subsequently revised for 2006-2007 and 2008-2009.

92. The main results achieved through the introduction of the VISC have been summarized in a recent report of the Executive Director of UNEP and include the following:<sup>45</sup>

- ❖ Significant broadening of the donor base, as 157 UN Member States have pledged and paid contributions during the last six years. In particular, many developing countries and countries with economies in transition have become new donors. Not all donor countries have been able to make regular annual contributions;
- ❖ Greater short-term predictability with respect to voluntary contributions to the Environment Fund, as approximately 75 per cent of Member States pledge annually in accordance with the VISC;
- ❖ Improved financial stability, as the majority of countries have at least maintained the level of their payments to the Environment Fund;
- ❖ Higher voluntary payments to the Environment Fund, as the negative trend in contributions experienced during the four biennium preceding the adoption of the VISC was reversed and positive growth in contributions commenced immediately upon adoption of the scale. Pledges and contributions to the Environment Fund increased by 83 per cent, from \$48 million in 2002 to \$88 million in 2008;
- ❖ Approximately 25 per cent of Member States contribute in amounts below those suggested by the VISC.

93. In a 2006 report, the Joint Inspection Unit of the General Assembly supported the VISC model of UNEP as a 'best practice' to improve the predictability and adequacy of resources for those UN system organizations facing uncertain core funding.

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<sup>45</sup> UNEP/GC.25/INF/14, 1 December 2008.

## (b) WHO

94. For WHO, the concept of negotiated core voluntary funding was introduced against the backdrop of extra-budgetary resources gradually becoming major proportion of total contributions. In the 2004-2005 biennium, for example, about 74 per cent of total contributions to WHO were voluntary. Contributions to WHO come from three sources: (a) assessed contributions, (b) negotiated core voluntary contributions, and (c) other voluntary contributions. When the “negotiated core voluntary funding” concept was introduced by WHO Medium-Term Strategic Plan (2008-2013) and Programme Budget (2008-2009)<sup>46</sup>, more than 75 per cent of its extra-budgetary resources came from 12 donors, with the remaining 25 per cent contributed by 400 donors. Negotiated core voluntary contributions would provide predictable amounts for a time period corresponding to the WHO Medium-Term Strategic Plan, and would be negotiated centrally in order to align the extra-budgetary funding with the strategic objectives and results of the organization. Currently, slightly more than 10 per cent of voluntary contributions can be considered as negotiated core voluntary funding, with the aim to increase this share to one-third by 2013.

## (c) ILO

95. ILO and its tripartite constituents have established a Regular Budget Supplementary Account (RBSA). The RBSA is a ‘core voluntary account’, which allows donors to make non-earmarked voluntary contributions over and above their assessed contributions to expand and deepen the capacity of the organization to deliver on the priorities set by the ILO Programme and Budget, in particular the implementation of Decent Work outcomes and priorities as contribution to UNDAFs and national development frameworks. The integrated programme and budget sets out limited number of priority outcomes as well as total resources that would contribute to the results proposed under each outcome. Under each outcome, indicators of performance are identified and targets are set, corresponding to priorities defined by the governing body, the regions and in Decent Work country programmes. This hierarchy of results, the underlying results-based management strategy, and the integrated resource planning has been further streamlined in the programme and budget proposals for 2010-11 that ILO presented to its governing body in March 2009.

96. So far, eight donors have contributed more than \$42 million to the RBSA and have agreed to uniform reporting standards fully aligned with the results-based programming and reporting frameworks of ILO. In its first-ever report on the multilateral system,<sup>47</sup> OECD/DAC has highlighted the core voluntary account of the ILO as ‘best practice’: “the ILO example suggests how donors could usefully apply Paris Declaration principles in their non-core funding of multilateral organizations”.

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<sup>46</sup> Approved by the World Health Assembly at its 60<sup>th</sup> session in May 2007.

<sup>47</sup> See 2008 OECD/DAC Report on Multilateral Aid.

### 3. Replenishment system

#### IFAD

97. In addition to MYFFs used by the funds and programmes and the innovative approaches applied by UNEP, WHO, ILO, UNESCO and FAO, to enhance the predictability of voluntary resources flows, IFAD has adopted an approach based on “negotiated replenishment”. According to this approach, required contributions are first estimated based on review, undertaken under the responsibility of the Governing Council of IFAD, of the adequacy of resources available in the Fund. In the second stage, donors negotiate burden-sharing among themselves. The replenishment process is a complex mechanism, involving full review of the policies pursued by the Fund, including the performance-based system for allocating resources and assessment of results and impact of field operations.

98. The strength of the replenishment mechanism is that the volume is closely related to perceived needs and defined objectives, that it allows for financial planning by the institution over a number of years and that burden-sharing is negotiated and effected within a unified framework, thus minimizing scope for “free-riding”, i.e. reaching the agreed target becomes a collective responsibility.

99. The experience of IFAD with the negotiated replenishment mechanism has been positive. Since the fourth replenishment (1998-2000), contributions from Member States have grown steadily. During the sixth replenishment (2004-2006), IFAD received \$569.1 million, representing nearly 29 per cent growth from the previous cycle. The target-level for the seventh cycle (2007-2009) is \$720 million, with \$588.1 received in the first year, surpassing total contributions for the entire sixth replenishment period. The average annual growth, in real-terms, in contributions in the 2002 to 2007 period was 18.7 per cent (constant 2006 US dollars).

100. Since its establishment, IFAD has used a voting structure partly linked to contributions paid by individual donors. This process ensures an ongoing majority level of votes for programme countries, while the pool of votes to donor countries can shift according to level of contributions. Like most organizations with such voting structures, IFAD strives to reach decisions by consensus. If consensus cannot be achieved, countries vote with different voting shares. These shares are also factor in determining donor representation on the Executive Board of the Fund.

101. Besides IFAD, a negotiated replenishment modality is used by a range of institutions such as the International Development Association (IDA), as well as several global funds including the GEF and the Global Fund to Fight AIDS, Tuberculosis and Malaria. While complex, the replenishment modality has proven itself capable, given the necessary political will and the right environment, of mobilizing significant volume of resources for the concerned entities.