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Financing the United Nations Development System

Current Trends and New Directions

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Acronyms

AAAA	Addis Ababa Action Agenda
AMC	Advance Market Commitments
ARC	African Risk Capacity
CBD	UN Convention on Biological Diversity
CBPF	Country-Based Pooled Funds
CEB	Chief Executives Board
CERF	Central Emergency Response Fund
DAC	Development Assistance Committee of the OECD
DaO	Deliveringas One
EC	European Commission
ERC	Emergency Relief Coordinator
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GAVI	Global Alliance for Vaccines and Immunization
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFATM	Global Fund to Fight Aids, Tuberculosis and Malaria
GPGs	Global Public Goods
HRP	Humanitarian Response Plan
IAEA	International Atomic Energy Agency
ICAO	International Civil Aviation Organization
IDA	International Development Association of the World Bank
IFAD	International Fund for Agricultural Development
IFI	International Finance Institution
ILO	International Labor Organization
IMF	International Monetary Fund
IMO	International Maritime Organization
IOM	International Organization for Migration
IP	Intellectual Property
ITU	International Telecommunication Union
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MERS	Middle East Respiratory Syndrome
MPTFO	Multi-Partner Trust Fund Office
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PAHO	Pan American Health Organization
SARS	Severe Acute Respiratory Syndrome

SDRF	Somalia Development and Reconstruction Facility
SIB	Social Impact Bond
PBF	Peacebuilding Fund
PBSO	Peacebuilding Support Office
PEF	Pandemic Emergency Financing Facility
PSG	Peacebuilding and Statebuilding Goals
PCT	Patent Cooperation Treaty
QCPR	Quadrennial Comprehensive Policy Review
RC/HC	Resident Coordinator / Humanitarian Coordinator
SDGs	Sustainable Development Goals
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNDS	United Nations Development System
UN	United Nations
UN OAD	United Nations Operational Activities for Development
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHABITAT	United Nations Human Settlements Programme
UNHCR	United Nations High Commissioner for Refugees
UNIDO	United Nations Industrial Development Organization
UNITAR	United Nations Institute for Training and Research
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
UNRWA	United Nations Relief and Works Agency
UNU	United Nations University
UN WOMEN	United Nations Entity for Gender Equality and the Empowerment of Women
UNWTO	United Nations World Tourism Organization
UPU	Universal Postal Union
VISC	Voluntary Indicative Scale of Contributions
WASH	Water Sanitation and Hygiene
WBG	World Bank Group
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Trade Organization

Executive summary

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

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

Scope of the Report

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

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

Shifts in UN financing

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

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

The global picture

In the second half of 2015 we witnessed a number of significant events which present major challenges and opportunities for the UN Development System. These include the adoption of Agenda 2030, the adoption of the Addis Ababa Action Agenda, the Paris Agreement on Climate, penetrating reviews of the international community's response to the Ebola outbreak, major UN reports on the future of peacekeeping and peacebuilding and the World Humanitarian Summit.

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

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

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

Key findings: Sources of finance and funding mechanisms

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

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

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

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

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

Key findings: Innovative trends and emerging challenges in UN financing

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

Financing for Sustainable Development Goals

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

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

Pooled Financing

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

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

Financing for Sustaining Peace

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

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

Innovative Financing and Leveraging

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

The Global Fund, as explained by Patrik Silborn, has deployed a myriad of innovative financing platforms, such as social impact bonds and blended finance, and the African Risk Capacity initiative as outlined by Mohamed Beatogui has transformed the disaster risk financing paradigm. These novel instruments point to the importance of unique UN "guarantee" functions - financial, substantive and political - to leverage the confidence of investors for transformative change especially in medium and high risk settings, which can enhance the UN's impact in Agenda 2030.

Conclusion

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

Introduction

The UN system has a considerable task ahead: playing its part in fulfilling the 2030 Agenda for Sustainable Development, within the broader development architecture. Adequate, long-term financing is at the heart of realising Agenda 2030. This will require both traditional and new approaches to be leveraged, catalytic connectors across the UN system strengthened, and a willingness to embrace innovative financing.

The purposes of this report are:

- To stimulate critical debate and action relating to key issues facing the financing of the UN Development System (UNDS).
- To improve understanding of the positioning of the UNDS from a financial perspective within the broader development architecture.
- To facilitate a broad dialogue on how the UNDS can leverage its assets more effectively and proactively explore innovative financing instruments.
- To address the linkages between development, humanitarian, climate and peacebuilding financing

This is the second annual report on Financing the UNDS. The report starts with a broad introduction which covers emerging issues and trends in the UNDS financial landscape. It puts some of the current debates in historical context and looks forward to emerging challenges. Part One follows closely the structure used in the first edition. It covers the spectrum of financing instruments and sources of financing, it provides an overview of UNDS resources, and it analyses the profile of assessed contributions, core and earmarked contributions as well as non-member state sources of income. A new section provides an overview of the profile of expenditures. Part Two includes a variety of essays that highlight important finance related areas and issues likely to be high on the financing agenda over the coming years. The contributions from a number of senior colleagues are intended to promote new thinking rather than re-state policy. It is our hope that these contributions will provide an interesting read on what the major trends, opportunities and challenges in the system are, and that they will help inform ongoing and future discussions and debates around financing the United Nations.

The essays in Part Two have been clustered into four groupings:

1. The first looks at some of the financial challenges related to implementation of Agenda 2030, including from a field perspective;
2. The second considers developments in the sphere of pooled funding, and includes a section on pooled funding for humanitarian action and climate finance;
3. The third addresses financing related to peacebuilding;
4. The fourth explores the experiences of the UNDS related to innovative financing and leveraging.

This report is the result of a collaborative partnership between the Dag Hammarskjöld Foundation and the UN Multi-Partner Trust Fund Office (MPTFO). The report uses existing financial data as provided by the UN System Chief Executives Board (CEB) and various annual reports of the UN entities. It is important to note that between 2011 and 2012 there were some changes in accounting principles with the introduction of a new accounting methodology that makes comparisons between these years difficult to assess. CEB collects its data using a template agreed upon with the UN system. The current template poses limitations on the types of UN system-wide data easily available for preparing this report. In some cases, gaps could only be filled through consulting the various annual reports of UN entities. While we have done our best to ensure the numbers used are correct, the possibility of mistakes exists.

Generally speaking, there is a wealth of statistical information available, yet it needs to be provided in a manner that lends itself to making informed decisions that align finance to policy direction and positioning. This report is intended as a contribution to this effort.

Emerging Issues in the UNDS Financial Architecture

In order to understand the major challenges facing the current financial architecture, it is important to grasp the way different financial instruments have evolved historically.

As pointed out in last year's report, the world of UN finance has virtually in its entirety been about the mobilisation and disbursement of grant funding. In its earliest phase, the financing of the system was secured predominantly as grants in the form of assessed contributions from the UN member states. The UN system was established around communities of interest that together were designed to create the building blocks for peace and contribute to a new international system. Assessments were the price of membership in these communities of interest.

In a subsequent phase, in the 50s and 60s, reflecting the reality of decolonisation and the monumental development challenges faced by a large number of newly emerging states, assessed budgets were supplemented by voluntary contributions. Assessed contributions continued to be paid as the price of membership in agencies that had core global functions and responsibilities. Funding for development was from the beginning voluntary in nature. It was at that time largely un-earmarked.

Earmarked funding

During the course of the 90s, there was a dramatic shift in the character of the contributions made for development purposes from untied core to earmarked contributions. This reorientation reflected the 'goals' and 'results' culture that emerged from the series of global conferences[1] held during the decade and which culminated in the 2000 Millennium Summit. The increase of earmarked funding has led to fragmentation in funding flows to UN organisations and subsequently a decline in the willingness of the international community to invest in the overall purposes of individual organisations.

The alignment of the UNDS behind a set of clear Millennium Development Goals (MDGs), agreed in 2000 following the Millennium Summit, had radical implications for the way the system has been financed over the past 15 years. A significant growth in earmarked contributions has characterised the financing of most UN development agencies in the 'MDG era'. This in turn has led to efforts to rebalance core and earmarked resources. These are reflected in a number of initiatives. A few agencies have focused on developing thematic funding lines that introduced more flexibility than project earmarks allowed for. Another initiative has been the attempt to consolidate all resources into integrated budgets, promoting flexibility through greater transparency on the total funding available to an organisation to deliver on its strategic plan, which makes it easier to identify funding gaps and priorities. Yet another approach has been to expand system wide funding through new pooled funding arrangements. These different initiatives and approaches are discussed in more detail in Part Two of the report.

It should be noted that in many cases earmarked funding that is channeled through the UN system has already been earmarked within the budgetary processes of the donor government. The only choice available to the UN is whether to accept the earmarks or reject the funding, thus taking the UN as a multilateral instrument away from donor governments seeking to find the most effective way of disbursing their earmarked funds.

Another aspect to keep in mind is that some earmarked funds have already been delegated by the donor to a specific country, so that when they come to the attention of the UN they have already been earmarked to a specific country. From the point of view of the recipient country, however, they may often appear very 'core-like'.

The globalisation effect

The transformation in many aspects of the global economy accompanying the process of globalisation over the last decade or so has had important ramifications for the financing architecture. The emerging challenges posed by the need to provide support for Global Public Goods (GPGs) draws attention to another financing instrument, that of negotiated pledges. In cases where groups of countries need to get together to agree on a common approach because solutions require a collective response, the agreement being pursued will usually incorporate burden-sharing arrangements relating to finance. In this regard, integral to the agreement on a collective response is a negotiated pledge. While successfully being used elsewhere, such as with the Environment Defense Fund and the World Bank's International Development Association (IDA) model, to date, this instrument has not established itself within the UNDS financial architecture.

There has also been a considerable growth in sources of income from non-member states such as private sector, private foundations and individuals. In this report we focus in particular on individual contributions and fees both of which represent significant sources of income for several agencies and programmes.

Innovation and leveraging

Over the last twenty years, the extraordinary growth in the world economy, leading to a trebling in world Gross Domestic Product (GDP) to over $75 trillion today, has led to major financial flows through markets. This has led to a rebalancing of the relationship between public and private. This is reflected in the increasing importance and relevance of innovative financing instruments, a subject analysed in the report last year. In Part Two of this report, we analyse a number of cases of interest to UNDS that explore new approaches to innovative financing and leveraging.

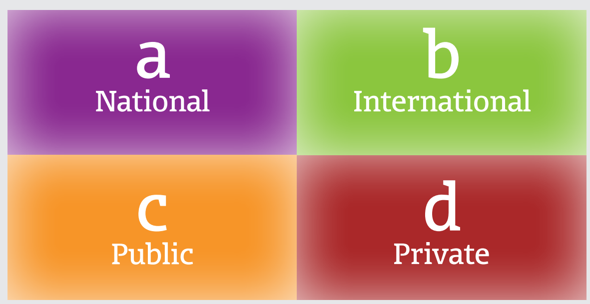
Repositioning for Agenda 2030

In the second half of 2015, we witnessed a number of significant events which present major future opportunities and challenges for the UNDS. These include the adoption of the 2030 Agenda for Sustainable Development, (see Box 2) the Addis Ababa Action Agenda, the Paris Agreement on Climate, penetrating reviews of the international communities' response to the Ebola outbreak, major UN reports on the future of peacekeeping and peacebuilding, and the World Humanitarian Summit (see Box 1).

Agenda 2030 represents a significant achievement in rallying the international development community around a universal and comprehensive normative framework. Impact will rely heavily on the rigour with which targets are set and performance monitored. Implementation will require commitment from many different stakeholders and will require the leveraging of a level of resources which dwarf currently available public financing. The role of national governments in providing finance for their own development is also key, see more in Part Two of this report. The theory of change embedded in the process that led to the Paris Climate Agreement depends on two pillars. The first is the power of data and regular reporting to force the parties not just to honour their promises but to commit to stronger promises down the road. The second is the power of the message of the Paris Agreement on Climate to signal to markets not to bet on fossil fuels. What Agenda 2030 and the Paris Agreement on Climate point to is the reality that the UNDS has already taken giant strides to repositioning itself at the interface of the world of grants and the world of private sector finance. This repositioning can be understood through the lens of the evolution of the basic matrix that has been used to frame the international development system.

Prior to and through most of the 1990s the action plans of the outcome documents of major international conferences essentially divided responsibility for follow up between A and B in the quadrant depicted below (Figure 1). Primary responsibility lay with national governments and the international community's role was to provide support.

FIGURE 1:
From firewalls to bridges
Framing the international development system



In the 2000s, follow up rested with all four boxes in the quadrant. This represented a significant advance and was the signal achievement of the Monterrey Consensus adopted at the International Conference on Financing for Development in 2002. Commitment and action were required at both the national and international levels as well as in both public and private spheres. But it was implied to all that international support should not infringe on sovereignty and the private sector should not be allowed to influence public sector engagement. In short, it was clear that the boxes needed to be firewalled, to be kept distinct from each other. It is only in recent years that - with commitments like those entered into with Agenda 2030, the Addis Ababa Action Agenda, and the Paris Climate Agreement - the challenge has become to build bridges between all corners of this quadrant. Emerging challenges that demand collective responses do not stop at borders, so the national/international divide has blurred. And public resources need to leverage private flows – blending has become the norm, not firewalling.

The changing role of Official Development Assistance (ODA)

What emerges from the above evolution of significance for the UNDS are two distinct tracks. The first relates to the challenges confronted in many Least Developed Countries (LDCs)[2] and especially those affected by fragility and protracted crisis. For these countries, ODA remains extremely important. The challenge of integrating peace operations, humanitarian imperatives and development needs is critical. The deep silos in which these strands have traditionally operated have been reflected in the lack of coherence in the approach to financing and by a sub-optimal balance in the level of financing available for each of these areas. Recently there have been major calls to re-examine these practices, in particular by re-opening the possibility of allocating assessed contributions for development work related to peace operations and sustaining peace as well as for humanitarian activities, and by looking at a more optimal combining and sequencing of financing instruments to achieve common outcomes.

The second track is central for the great majority of middle-income countries[3]. These countries recognise that they are entering a post ODA phase. Volumes related to Foreign Development Investment (FDI), trade, and above all domestic resource mobilisation far exceed grant assistance. For these countries, public resources need to provide levers to gain access to the financial markets. In this context, it is important to distinguish between the mobilisation of resources through the UN system and the leveraging of resources outside the UNDS to support UN goals. The UN system leverages a substantial amount of resources to support investments in UN goals, resources which are not channeled through the UN, such as for the Sustainable Energy for All Initiative or Every Woman Every Child. Over the last decade, it has become important to capture and measure the volume of resources leveraged in this way.

UNDS' role in normative and standard-setting work

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

With the renewed emphasis being given to norms and standards, a strong case can be made that these are functions which should be put on a sounder financial footing and be financed as the cost of UN membership. Functionality requires some form of assessment to provide sustained and predictable funding in the sense of membership fee, not voluntary, earmarked financing. It needs to be recognised that there is a definite relationship between the political possibility of assessment (non-voluntary core funding) and the degree of rigour and discipline around the definition of what is covered by normative activities. In addition to the implications for the financial instrument chosen, prioritising the UN's role in setting norms also raises challenges for the way results are measured. The measurement of influence and impact on the adoption and implementation of norms remains methodologically difficult.

In summary, the logic of Agenda 2030 and the Paris Agreement on Climate requires the UNDS to reposition itself in the international multilateral architecture. In many countries, there will be a focus on norms and their effective operationalisation. This in turn will require revisiting the appropriate financing strategy and mix of financing instruments, and new ways of measuring results. As stated in last year's report, "the Agenda 2030 financing architecture will need to embrace a culture of leveraging, reward the practice of partnerships and devise new ways to measure impact."

Box 1: The World Humanitarian Summit

The World Humanitarian Summit held in Istanbul in May 2016, had as one of its commitments to "Invest in Humanity". This aspect of the Summit reinforced the crucial role of financing as the key enabling and catalytic factor towards both meeting and reducing needs. Building upon the High-Level Panel for Humanitarian Financing, as well as in the Agenda for Humanity, participants made commitments that will help ensure that over 130 million people in need worldwide have increased access to life-saving humanitarian assistance and protection, and to make existing funds go further.

More specifically, there was recognition that financing needs to be able to support the new way of working. At the same time, it was clear that there remains a need to increase direct, timely and predictable humanitarian financing. Commitments were made to increase resources and widen the donor base, including through expanding financing streams and mechanisms, ramping up risk insurance, greater support to pooled financing mechanisms, and mobilisation of Islamic Social Finance.

See World Humanitarian Summit summary report

BOX 2: Agenda 2030 - 17 Global Goals for Sustainable Development

In September 2015, all 193 Member States of the United Nations adopted a plan of action for a better future for all – laying out a path over the next 15 years to end extreme poverty, fight inequality and injustice, and protect our planet. At the heart of "Agenda 2030" are the 17 Sustainable Development Goals (SDGs), also referred to as the Global Goals. The goals are indivisible and universal, applying to all nations and intended to leave no one behind.

The SDGs result from the most inclusive process in the history of the UN, with Governments involving business, civil society and citizens from the outset. Successful implementation will require continued inclusion in the implementation phase and for all stakeholders to champion this agenda.

The financing framework of Agenda 2030 is outlined in the Addis Ababa Action Agenda that was adopted at the Third Financing for Development conference in 2015. The framework calls for alignment of all financing flows and policies towards the social, economic and environmental priorities, and further emphasises national resource mobilization, private sector investments, innovation and leveraging of financing, and the continued role of international development cooperation.

Preamble of Agenda 2030

"This Agenda is a plan of action for people, planet and prosperity. It also seeks to strengthen universal peace in larger freedom. We recognise that eradicating poverty in all its forms and dimensions, including extreme poverty, is the greatest global challenge and an indispensable requirement for sustainable development. All countries and all stakeholders, acting in collaborative partnership, will implement this plan. We are resolved to free the human race from the tyranny of poverty and want and to heal and secure our planet. We are determined to take the bold and transformative steps which are urgently needed to shift the world onto a sustainable and resilient path. As we embark on this collective journey, we pledge that no one will be left behind. The 17 Sustainable Development Goals and 169 targets which we are announcing today demonstrate the scale and ambition of this new universal Agenda. They seek to build on the Millennium Development Goals and complete what these did not achieve. They seek to realize the human rights of all and to achieve gender equality and the empowerment of all women and girls. They are integrated and indivisible and balance the three dimensions of sustainable development: the economic, social and environmental."

PART ONE:

Overview
of Existing Instruments and Sources of Finance

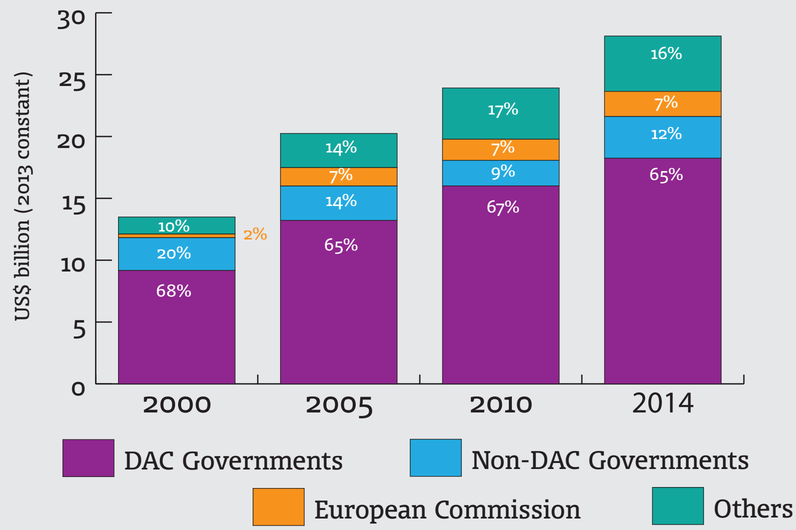
The Spectrum of Financing Instruments

There are primarily five types of financial instruments in the UN system: 1. assessed contributions, 2. core contributions, 3. negotiated pledges, 4. earmarked funding and 5. fees. The instruments are defined by the conditions that are applied to the provision of the contribution. Table 1 below provides an overview of the five financial instruments and the spectrum within which these instruments operate. More details on the UN's financial instruments are provided in Annex 1.

TABLE 1: The spectrum of financing instruments

	Assessed contributions	Core contributions	Negotiated pledges	Earmarked Funding	Fees
Definition	Payments as obligation that nations undertake upon signing a treaty	Voluntary untied contributions	Legally binding pledges by member states	Voluntary contributions that are tied to a theme or a country	Payments that are charges for services
What is the central characteristic of financing	Price of membership	Voluntary, usually annual pledges (no earmarking)	Allocation of responsibilities of participating member states is defined	Funding is earmarked to theme, country or project	Collection of separate knowledge, management and product fees from both state and non state actors
How is burden shared?	Formula	No burden sharing mechanism, purely voluntarily	Allocation of responsibilities is legally formalised	No institutionalised burden sharing formula	Flat or negotiated fees
How are resources allocated?	Established in budget	Established in budget	Established in budget	Allocated in negotiations between donor, UN entity and recipient	Various
Who takes allocation decision?	UN members	UN members	Participating UN members	Specific parties concerned	Various

FIGURE 2: Main sources of funding to UN operational activities (development and humanitarian) 2000-2014[5]



Source: QCPR report 2016, A /71/63 – E /2016/8, 31 December 2015[6]

As pictured in table 1, assessed contributions refer to arrangements whereby countries are requested to pay a fixed amount calculated by means of an agreed formula which represents the cost of membership. Core contributions is the term used by some UN entities to denote voluntary contributions that are non-earmarked. These are sometimes referred to also as 'regular resources' or 'voluntary non-specified resources'. Negotiated pledges refer to an agreement, which is legally binding on the countries that agree to the particular formula in question; though this instrument is not duly utilised by the UNDS at this stage, the World Bank's International Development Association (IDA) provides an example. Earmarked funding, sometimes called 'non-core resources', refers to voluntary contributions that are tied, either to a certain use or theme and/or to a country/region.
In addition, there is a growing collection of separate fees for knowledge, management and product services.

Sources of financing

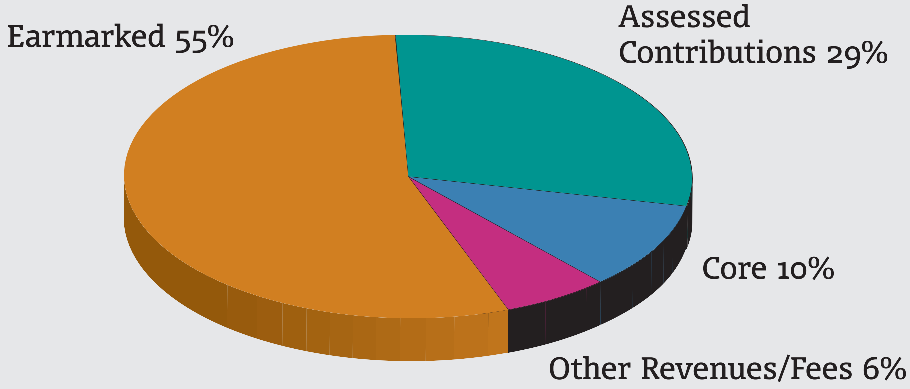
The UNDS is composed of 34 entities[4] that receive contributions for operational activities for development. They are 12 funds and programmes, 13 specialised agencies and 9 other entities. At present, the UNDS receives its funding from a number of sources: direct government contributions to UN organisations, non-state contributions and contributions from intermediary organisations (either other international organisations or hybrid entities such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)).

Direct government contributions can come from central ministries or sectorial ministries. The source within governments may well influence the selected funding instrument. Public funding may come from the collection of separate taxes or levies. To date these are channeled through governments, but it would potentially be possible for the UNDS to receive income generated from global taxes to be directly allocated to the UN. However, it is improbable that such a system would be agreed in the near future.

Non-state contributions come from a myriad of sources: corporations, civil society, individuals, foundations, universities, regional and local authorities. These contributions can be either voluntary core contributions to the overall budget of the entity or earmarked funding. Another source of contribution is income generated by the charging of fees for services provided. As management fees charged on public funds, this in practice usually generates income streams for the overall (core) budget of the entity.

Figure 2 looks at the main sources of funding to the UN since 2000. It groups the main income funding sources into four: OECD-Development Assistance Committee (DAC) Governments, Non-DAC Governments, European Commission and Others. 'Others' refers here to non-state contributions such as corporations, civil society, private resources, including individual contributions and global funds.

FIGURE 3: Percentage of total UN system revenue by financial instrument in 2014



Over half of the UN system funding is tied to specific projects or programmes

Source: CEB data base 2014, Note: Methodology in endnotes[7]

Overview

Overview of Resources to the UN system

Figure 3 and Table 2 give a breakdown of funding by type of financing instrument. Overall, the total revenue of the UN system stood at US$ 48 billion in 2014, see details in table 2 on next page. Earmarked funding constituted the biggest proportion of funding with 55% of the total UN system revenue in 2014, followed by assessed contribution (29%) and core funding (10%). Revenue from other services such as Fees amounted to 6%. Overall, the total revenue has increased by 4% compared to 2013 primarily due to an increase in humanitarian funding. Core funding continued to decline overall, while earmarked funding is steadily growing. It is important to differentiate between total income to the UN system and income to the UN Development System and the financing of operational activities.

Assessed Contributions

As discussed earlier, in its earliest phase, the financing of the UN system was secured predominantly as grants in the form of assessed contributions. Assessments were the price of membership to those communities of interest which lay at the heart of the system of UN organisations. In a subsequent phase, reflecting the reality of decolonisation and the monumental development challenges faced by a large number of newly emerging states, assessed budgets were supplemented by voluntary contributions to support development activities. Assessed contributions continued to be paid as the price of membership in agencies that had core global functions and responsibilities. Funding for development was, from the beginning, voluntary in nature. It was at this time largely unearmarked. During the course of the 90s, there was a further dramatic shift in the character of the contributions made for development purposes from core to earmarked contributions.

With the UN System being called upon to support the strengthening of the normative and standard-setting agendas that the acceleration of globalisation called for, one might have expected to see a significant increase of assessed funding in real terms to support the capacity of the UN system to perform its relevant functions. But assessed budgets grew only modestly in real terms during the MDG era. Moreover, many UN organisations that support national governments and others for integrating norms and standards into legislation, policies and development plans, and for implementing these policies based on international norms, standards and conventions, are not on the list of organisations that receive assessed contributions.

Perhaps not surprisingly, it is in the smaller, functionally specific agencies that the proportion of assessed funding is 60% or over in relation to the total. It seems clear that the greater the functional specificity, the greater the confidence in providing assessed contributions. In 2014, 80% of the budgets of the World Trade Organization (WTO) and World Meteorological Organization (WMO) were covered by assessed contributions. Similarly these contributions accounted for 72% of the revenue of the World Tourism Organization (UNWTO), and for the International Telecommunication Union (ITU), International Maritime Organization (IMO), and International Atomic Energy Agency (IAEA), over 60% of the funding for each organisation came from assessed contributions (see Table 3, page 23).

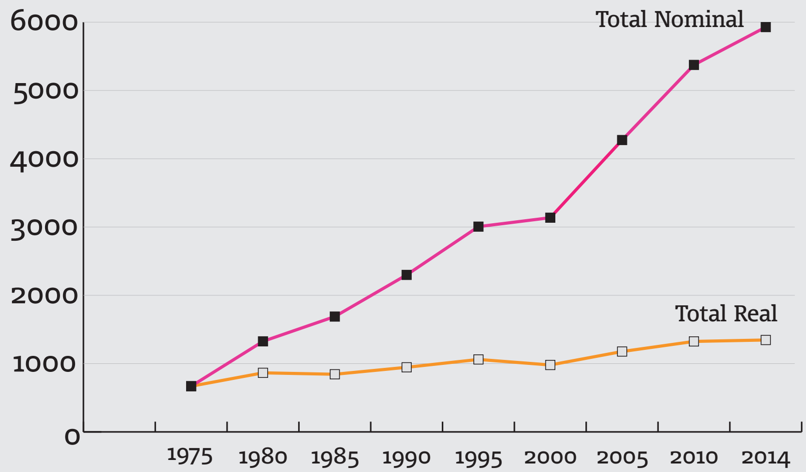
TABLE 2: Overview of the total revenue of the UN system in 2014 by organisation and by financial instrument (in Million US$)

Agency	Assessed	Core	Earmarked	Other revenue	Total 2014
United Nations Secretariat	2,612		2,321	106	**5,038**
UN Peacekeeping	7,800		145	55	**7,999**
FAO	512		805	46	**1,363**
IAEA	411		205	8	**625**
ICAO	78		131	18	**227**
IFAD		353	30		**382**
ILO	401		278	21	**700**
IMO	47		7	20	**74**
IOM	46	4	1,296	141	**1,487**
ITC	41	15	50	1	**107**
ITU	111		12	59	**182**
PAHO	106		876	744	**1,726**
UNAIDS		230	40	7	**278**
UNDP		835	3,809	356	**5,001**
UNEP	188		508	6	**702**
UNESCO	367		365	50	**782**
UNFPA		477	529	61	**1,068**
UN-HABITAT	12	7	170	4	**193**
UNHCR	41	549	2,445	21	**3,056**
UNICEF		1,232	3,843	94	**5,169**
UNIDO	88		183		**271**
UNITAR			19	9	**29**
UNODC	31	7	283	8	**329**
UNOPS			4	670	**674**
UNRWA		446	874	21	**1,342**
UNU			66	6	**72**
UNWOMEN	8	164	159	2	**333**
UNWTO	16		2	4	**22**
UPU	36		14	16	**65**
WFP		438	4,943	69	**5,450**
WHO	493	132	1,970	34	**2,629**
WIPO	18		9	348	**375**
WMO	66		11	4	**82**
WTO	199		21	25	**245**
Total	13,728	4,889	26,423	3,034	48,077

Source: CEB data 2014

Note: All figures are in Million US$, figures have been rounded up and might minimally differ from CEB original data.

FIGURE 4: Trend of total assessed contributions of the UN and its agencies in nominal and real terms (1975-2014)



Source: CEB data 1975-2014
Note: All figures are in Million US$. Methodology explained in endnote[8]

Over the last decade, the case for increases in assessed contributions has not been on the table. It has been widely seen as a political no-go area. It would appear that the time might be ripe for a more in-depth analysis of the alignment between functions and financing through assessed budgets, where the function makes this the most appropriate financial instrument. This would most likely require a more robust definition of 'normative work' to be used for the CEB data collection, and from there deeper follow-up analysis.

The issue of assessed budgets has recently been given high profile in the areas of financing of normative and standard-setting activities and the financing of development activities that are integral to peace operations. The case for financing normative work from assessed budgets rests on the need to avoid donors cherry picking the norm they will finance. The emergence of a complex multi-polar world makes the legitimacy and universality of globally agreed norms and standards critical. This is precisely why the UN system is seen as being a key actor in this sphere. The position of trust and confidence that the UN occupies in this regard needs to be reinforced with a source of financing that strengthens this position rather than undermines it. The strongest way to provide this reinforcement is for the financing to be provided as the price of membership of the UN entities that are mandated to pursue normative agendas.

The case for financing development activities that are integral to peace operations from assessed budgets has been most recently articulated in two reports. The Report of the High Level Independent Panel on Peace Operations[10] makes the case that Peace Operations budgets need to include provision for the development programmes that are integral to the overall mission.

Similarly, the Report of the Advisory Group of Experts for the 2015 Review of the UN Peacebuilding Architecture[11] makes the case for investing more resources to provide a base for peacebuilding activities by allocating one percent of the funding to peace operations from assessed contributions of the UN's member states to the UN Peacebuilding Fund (UN PBF).

At its core, the argument points to the inherent dysfunctionality in the financing of peace operations which is based on two silos, the military one with assessed funding and the developmental with voluntary funding that may or may not be available within the timeframe set by the military component. This illustrates precisely the shortcomings inherent in a silo approach, an issue which is addressed in Agenda 2030. Financing for recovery is another area in which the silo approach has so far reduced the potential for synergy among different financing streams. The UNDS has identified the need for a balanced funding across the nexus of humanitarian, peace and security and development interventions, which would include more dedicated funding for preparedness and resilience building.

The Report of the Secretary-General for the World Humanitarian Summit 'One humanity: shared responsibility'[12] argues further that humanitarian aid requires shifting from grant funding to financing offering the right finance tool for the right actor at the right time. Collective outcomes by humanitarian and development actors could be achieved through combining short-term grant funding with a broader range of financing options, including risk-pooling and transfer tools, impact bonds, micro-levies, loans, guarantees and a variety of partnerships that draw on the capacities and skill sets of the private sector.

TABLE 3: Overview of assessed contributions to UN and its agencies (1975-2014)

Organisation	1975	1980	1985	1990	1995	2000	2005	2010	2014	in % of Total Revenue
UN Secretariat	268	510	618	888	1 135	1 089	1 828	2 167	2 612	**52**
FAO	54	139	211	278	311	322	377	507	512	**41**
IAEA	32	81	95	155	203	217	278	392	411	**66**
ICAO	14	21	31	34	49	49	59	77	78	**34**
ILO	48	105	127	165	233	234	265	409	401	**57**
IMO	3	10	12	23	27	30	36	43	47	**64**
IOM[A]					29	21	32	38	46	**3**
ITC						17	26	35	41	**47**
ITU	21	44	53	84	107	84	98	135	111	**61**
PAHO						85	92	98	106	**6**
UNEP[B]					44	40	62	87	188	**40**
UNESCO	89	152	187	182	224	272	305	377	367	**47**
UNIDO			40	90	123	66	91	103	88	**32**
UNHABITAT[C]						6	9	11	12	**6**
UNHCR[D]	6	13	15	20	25	20	39	39	41	**1**
UNODC[E]						14	21	44	31	**9**
UNWTO						7	11	16	16	**72**
UNWOMEN[F]									8	**2**
UPU	4	10	11	19	28	21	27	37	36	**55**
WHO	119	214	260	307	408	421	429	473	493	**19**
WIPO	2	10	10	19	19	11	13	18	18	**5**
WMO	9	17	19	35	41	39	48	66	66	**82**
WTO						72	128	202	199	**89**
Total	669	1326	1689	2299	3006	3137	4274	5374	5 928	12

Source: CEB data 1975-2014, Global Policy Forum, Klaus Hufner, 1971-2011, Assessed contributions to UN Specialised Agencies 1996-2014

Note: All figures are in Million US$. Methodology and letters explained in endnote[9]

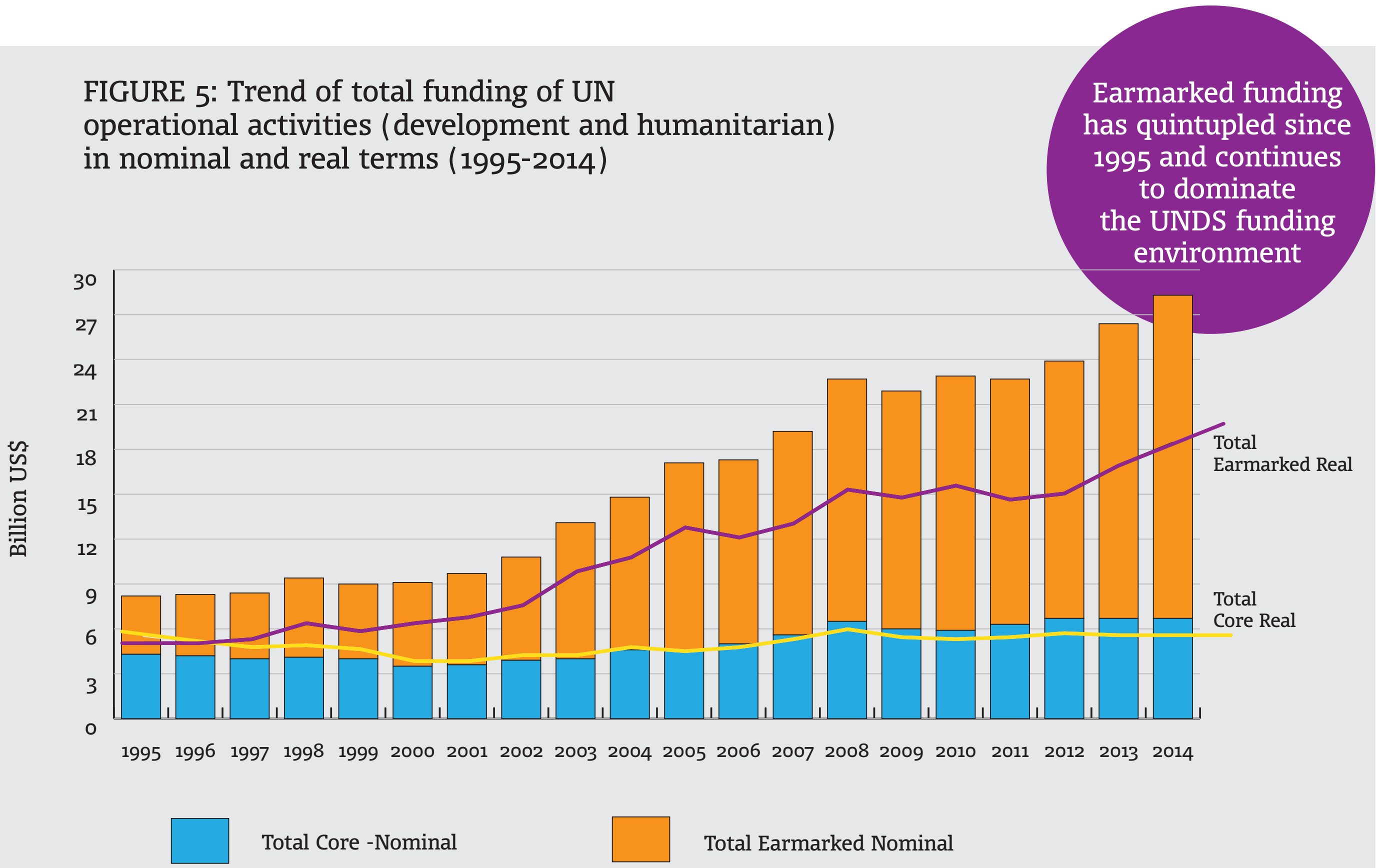
Core and Earmarked Contributions

Figure 5 on the following page provides a 20-year overview of both core and earmarked funding for the operational activities of the UNDS. The following two figures (6 & 7) focus respectively on development and humanitarian activities. Table 4 provides an overview by agency over the last decade of earmarked funding for the operational activities of the UNDS. Finally Figure 8 provides a more visual presentation of the position of the major agencies, programmes and funds on the spectrum of core/assessed to earmarked financing.

This series of graphs and tables highlights the reality of the emerging dominance of earmarked funding. The implications of the emergence of earmarked funding for the UNDS as a whole has been the subject of extensive analysis and multiple intergovernmental resolutions. The need to find ways of rebalancing the relationship between core and earmarked remains a central issue in any analysis and discussion of the future of the UNDS financial architecture.

For the purposes of this report, we provide updates on a number of the initiatives already referred to in last year's report which are designed to contribute to rebalancing core and earmarked finance by increasing the core-like qualities of earmarked contributions. In particular, we provide brief updates on integrated budgeting as well as the United Nations Environment Programme's (UNEP) VISC (voluntary indicative scale of contributions) model.

FIGURE 5: Trend of total funding of UN operational activities (development and humanitarian) in nominal and real terms (1995-2014)



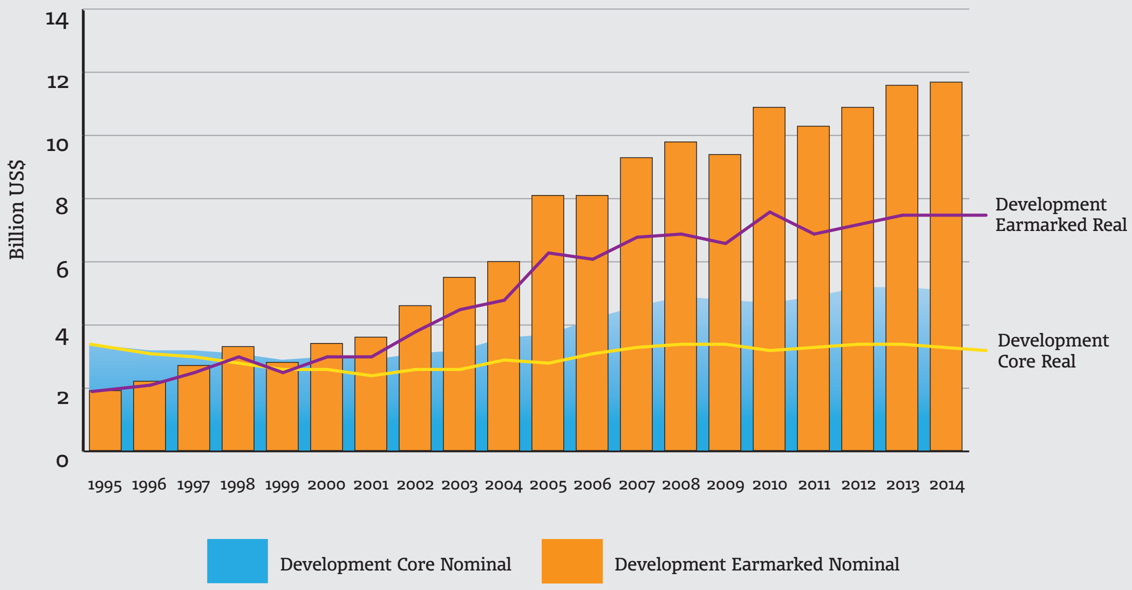
Source: CEB data 1995-2014, QCPR report 2016, A /71/63 – E /2016/8, 31 December 2015

Note: All figures are in Billion US$. For the calculation of the real values the US Bureau of Labor Statistics was used with 1995 as a base year.

Figures 5-7 and Table 4 also show the changes in purpose of earmarked funding, with a rapid increase in humanitarian funding since 2012, compared to little to no growth in earmarked funding for development interventions. Thus the US$ 5.5 billion growth in overall earmarked funding between 2012–2014 is largely concentrated in UN entities focusing on humanitarian action, such as UNHCR, UNICEF, UNRWA and WFP, as well as the UN Secretariat. Further, as noted in the most recent Secretary General's report on the implementation of the Quadrennial Comprehensive Policy Review (QCPR), the overall increase in non-core funding is geographically concentrated to programmes in Western Asia, which saw its share of UN – operational activities for development rise from 8% in 2011 to 17% in 2014, largely due to the humanitarian crises in and around Syria and Iraq[13].

The growth and dominance of earmarked funding compared to the stagnation of core and of assessed budgets for the specialised agencies has led to major efforts, both at agency and system level, to try and find ways of rebalancing the relationship between core and earmarked financing. Among the most prominent efforts are thematic funding by organisations such as UNICEF, UNDP and UNFPA, and integrated budgeting.

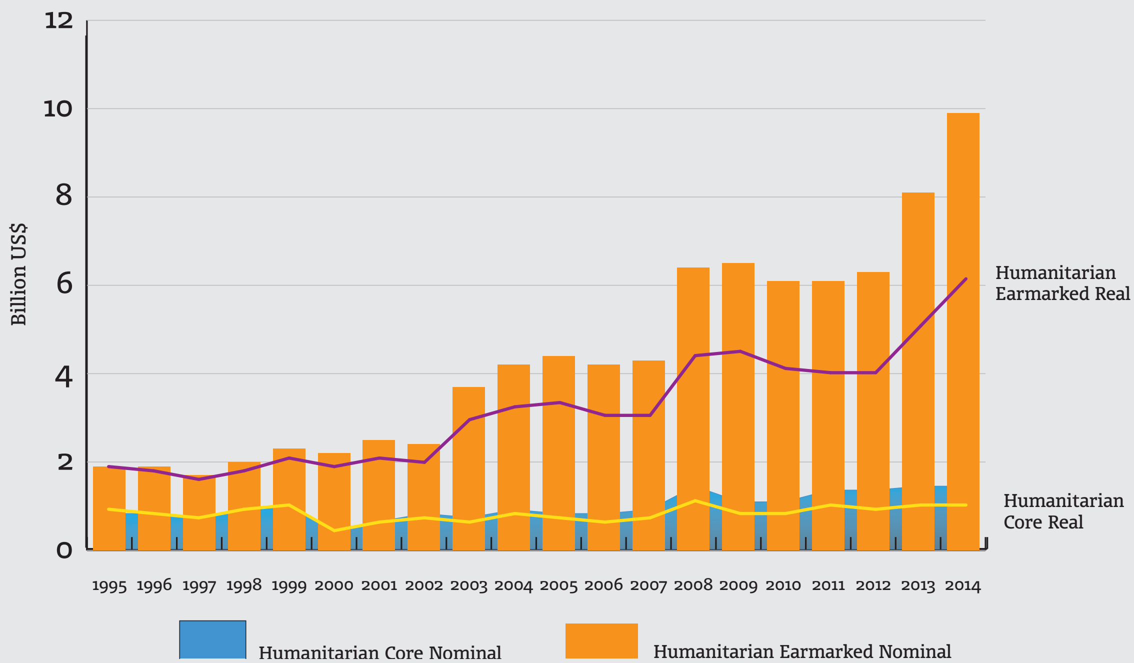
FIGURE 6: Trend of total funding of UN operational activities (development related) (core and earmarked, 1995-2014)



Source: CEB data 1995- 2014, QCPR report 2016, A /71/63 – E /2016/8, 31 December 2015

Note: All figures are in Billion US$. For the calculation of the real values the US Bureau of Labor Statistics was used with 1995 as a base year.

FIGURE 7: Trend of total funding of UN operational activities (humanitarian related) (core and earmarked, 1995-2014)



Source: CEB data 1995-2014, QCPR report 2016, A /71/63 – E /2016/8, 31 December 2015

Note: All figures are in Billion US$. For the calculation of the real values the US Bureau of Labor Statistics was used with 1995 as a base year.

TABLE 4: Earmarked funding by agency over the last decade (2005-2014)

Organisation	2005	2006	2008	2010	2012	2013	2014
United Nations Secretariat	848	899	1,347	1,361	1,388	1,440	**2,321**
UN Peacekeeping	23	21	24	33	68	30	**145**
FAO	364	481	637	891	775	744	**805**
IAEA	124	129	127	202	209	227	**205**
IFAD	39	50	138	80	75	97	**30**
ICAO	154	185	235	129	113	132	**131**
ILO	179	191	245	248	271	281	**278**
IMO	14	17	17	11	13	8	**7**
IOM	962	707	812	1,051	1,089	1,066	**1,296**
ITC	32	33	34	40	20	26	**50**
ITU	16	12	17	12	11	19	**12**
PAHO	65	137	165	741	779	954	**876**
UN Habitat	125	126	155	166	136	173	**170**
UNAIDS	26	38	37	34	30	46	**40**
UNDP	3,609	3,637	4,156	4,311	3,857	3,897	**3,809**
UNEP	79	56	121	174	371	440	**508**
UNESCO	349	344	308	323	391	370	**365**
UNFPA	199	216	376	357	534	504	**529**
UNHCR	1,089	1,072	1,588	1,521	1,712	2,389	**2,445**
UNICEF	1,921	1,713	2,294	2,718	2,703	3,588	**3,843**
UNIDO	157	94	148	229	190	157	**183**
UNITAR	16	12	18	19	20	20	**19**
UNODC	124	125	288	238	321	282	**283**
UNOPS						6	**4**
UNRWA	528	566	767	13	376	548	**874**
UNU	20	24	35	37	51	46	**66**
UN Women					94	118	**159**
UNWTO	3	3	7	8	5	3	**2**
UPU	6	6	6		21	21	**14**
WFP	2,963	2,354	4,304	3,845	3,552	4,095	**4,943**
WHO	1,117	1,497	1,309	1,442	1,573	1,929	**1,970**
WIPO	5	4	8	10	11	10	**9**
WMO	19	15	27	25	27	33	**11**
WTO	21	24	25	31	24	24	**21**
Total	15,196	14,791	19,775	20,298	20,808	23,725	26,423

Source: CEB data 1995-2014

Note: All figures are in Million US$

Integrated Budgeting

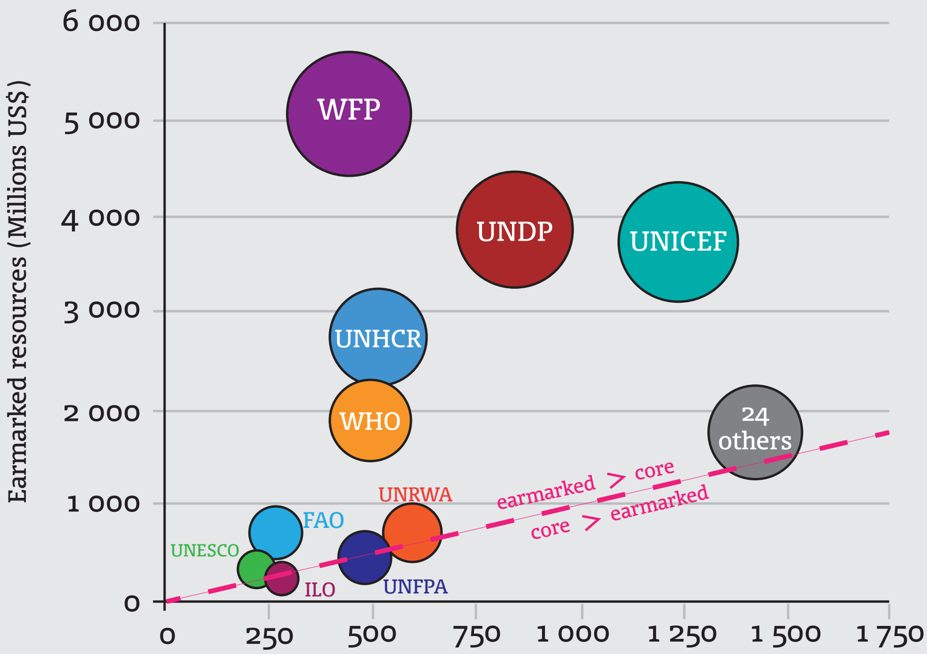
The mechanism of integrated budgets addresses the need to have a clear financing strategy for an organisation's strategic plan that provides a holistic financial picture and compensates for the lack of balance between core and earmarked income by finding ways of increasing qualities of earmarked resources to make them more 'core like'. The starting point is to consolidate all available and projected core and earmarked resources within one comprehensive integrated budget, based on the agreed priorities in the strategic plans. Increasing the quality of earmarked contributions can be made either by raising the level at which the earmarking is done or by introducing more flexible provisions. The main idea is that with the assurance provided by an approved structure of an integrated budget, donors might be willing to introduce such flexibilities thus ensuring a more evenly funded programme budget.

A key component of an effective integrated budgeting approach is full transparency of all parts of the programme budget, preferably as an online reporting tool that captures in real-time both surpluses and shortfalls in the allocation of non-core income within the budgetary framework.

An increasing number of UN entities are adopting versions of an integrated budgeting approach, covering all revenue, often in conjunction with regular structured financing dialogues with their donors. A major objective is to increase the flexibility in the use of earmarked funding. WHO was a pioneer and has experimented with this mechanism since 2013 when the first dialogue was held (see Box 3).

The majority of UN organisations are dependent on earmarked funding.

FIGURE 8: Contributions to UN entities 2014



Core resources (Millions US$)
Size of bubbles are propertional to total contributions

Source: QCPR report 2016, A /71/63 – E /2016/8, 31 December 2015

BOX 3:
WHO's experience with 'financing dialogues'

The objectives of WHO's financing dialogue are to increase the level and predictability of funding for WHO's programme, both in terms of generating more core funding (assessed and voluntary core) and to improve the quality of earmarked contributions. Four principles guide the approach: flexibility and alignment, predictability, transparency and broadening the donor base. While the level of progress on these principles has been mixed, the approach has resulted in overall improvement of WHO's general funding situation, and shaped a more targeted and coordinated resource mobilisation.

Flexibility and alignment
While increased volumes of core/flexible funding have not yet materialised, WHO has adopted a strategic approach to allocate flexible funds which has led to a high level of alignment of funding at the category level. The allocation of flexible funds is done in several tranches and is based on systematic analysis of funding shortfalls in order to ensure that all programmes are operational. Good contributors' practices include the introduction of a clause in their agreements allowing WHO to, in the case that some areas are overfunded, move 'their' funds to underfunded areas. Other donors are then more willing to place their money upfront in underfunded areas. Broadening the earmarked focus, e.g. from country to region, is another example of flexibility.

Predictability
The programme budget is now approved by member states in its entirety (assessed and voluntary). This is an important shift from past practice where only the budget financed from assessed contributions was approved. The programme budget for 2014-2015 was for the first time approved in its entirety and this was also the case for the 2016-2017 programme budget. As of 1 January 2016, 83% of the base programme budget was funded including projected funding for the biennium. Looking further into the future however, predictability of funding beyond 2017 is of concern as well as for some chronically under-funded programme areas.

Transparency
The online web portal is the key tool as it shows the whole programme of work with all its deliverables and budget. Available and projected funding, financial flows and results achieved are easily accessible with the option to drill down into details for specific programme areas, offices and countries. The financing dialogue has also led to more open and closer donor-WHO dialogue through regular exchanges and meetings.

Broadening the donor base
Steady, but slow progress. The top 20 donors contribute 76% of all funding and other donors 24% (2014-2015). This can be compared to 82% and 18% respectively 2010-2011. New contributors are mainly funding responses to emergencies, and only a few to flexible resources.

Has the financing dialogue led to increased funding? Financing to WHO has increased over the past 5 years with a fully funded budget 2012-2013 but how much this is a result of the financing reform is an open question. It should be noted that WHO has made a conscious shift from an aspirational to realistic budget. WHO is currently working with OECD to develop a set of indicators to better measure progress on the dialogue's principles, with one important way of measuring progress being how much of earmarked funding is shifted to under-funded areas. The financing reform process is work in progress and it is recognised that it will take time for the change in mindset and culture needed to do things differently, both within the WHO Secretariat and among contributors.

UNEP's VISC model

UNEP has introduced the concept of a Voluntary Indicative Scale of Contributions (VISC) with reference to its Environment Fund, which is the principle vehicle for its assessed financing. Created in 2002, the VISC aim to complement the funding gap of the Environment Fund by taking into account UN scale of assessment and member states economic and social circumstances.

In the first five years of its lifetime, the contributions to the VISC model experienced a 68% growth in nominal terms (and an average annual growth of 7% in real terms) from US$ 48 million in 2003 to US$ 89 million in paid pledges in the year 2008[14]. Over the last seven years however, it has remained stable receiving only US$ 86 Million in paid pledges for the year 2014[15] - a sign that the model has not been entirely successful in increasing assessed funding over the years.

The case of IFAD: a replenishment model

The International Fund for Agricultural Development (IFAD) maintains the concept of a triennial replenishment as its main source of financing. A voluntary multi-year replenishment is being utilised by IFAD as its core financing model. Every three years IFAD and its Member States engage in regular consultations to set the strategic priorities for IFAD in the coming Replenishment period and agree upon a target of resources Members will contribute to the Fund.

In the IFAD9 replenishment (2013-2015) 109 Member States out of 173 pledged their contributions, which represents around two-thirds of the Membership in IFAD. Thus far, ten replenishments have taken place since the establishment of the Fund (over and above the initial contributions made by Member States).

The Consultation on the Tenth Replenishment of IFAD's Resources (IFAD10) was held in 2014. Member States agreed to a replenishment target of US$ 1.44 billion in new contributions to finance agriculture and rural development projects. Despite the difficult global financial situation, IFAD received strong financial support from its Members, including borrowing countries. 95 Member States have already contributed with their pledges and the process of pledging is ongoing.

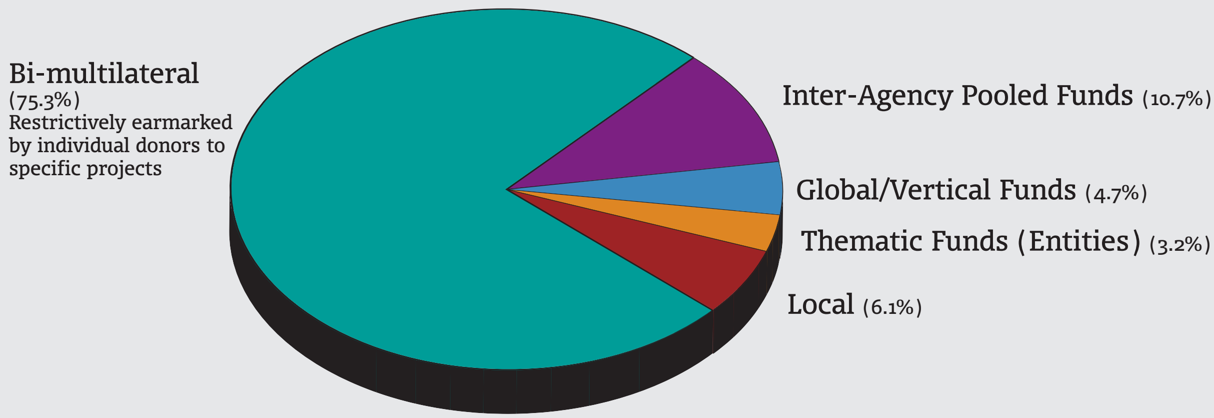
Member States hold regular replenishment meetings to assure continuity in the Fund's operations. The replenishment process typically consists of four formal meetings held over the course of one year. The process directly links the volume to the perceived needs and defined objectives and represents un-earmarked funding allocated to country-recipients through the performance-based allocation system. Member States agree to the replenishment funding target and achieving the target becomes a collective responsibility. Since 1997, IFAD has steadily increased its funding through this system. From IFAD7 to IFAD8 there was an increase in funding of 60%. A 20% increase was achieved from IFAD8 to IFAD9 (US$ 1.2 billion to US$1.5 billion). As far as the donor range is concerned, the replenishment model has made some progress: contributions from developing countries have doubled from IFAD7 to IFAD9 with Brazil, China and India as major contributors.

IFAD's replenishment process is a rather complex mechanism involving full review on the policies pursued by the Fund, including a performance based system for allocating resources and making an assessment of results and of the impact of field operations.

In 2014, IFAD members agreed that IFAD needs to examine the options for broadening its strategy for resource mobilisation, including borrowing to leverage IFAD's resources. The latest consultation report underlined the need to look into the options of borrowing from sovereign states and state supported institutions, and for the longer term, exploring the scope for borrowing from the market. Options also include expanding the programme of work through supplementary funding and a more strategic and targeted approach to co-financing[16].

In 2015, IFAD's Executive Board approved the Sovereign Borrowing Framework prepared in consultation with the Member States. The framework, established to guide future sovereign borrowing, represents an innovative financial policy tool to meet the increased need for investing in the Fund's agricultural development projects. It also provides the means to leverage additional funding for IFAD's work in remote areas where few others venture to go, especially in terms of financing the post-2015 agenda. Such financing tools are essential to transforming rural areas into vibrant places where women and men can thrive.

FIGURE 9: Non-core funding modalities for UN operational activities: 2014



Source: QCPR report 2016, A /71/63 – E /2016/8, 31 December 2015

Inter-agency pooled fund mechanisms

Over the past 15 years real-term growth of funding for UN Operational Activities for Development (UN-OAD) has been positive for both development and humanitarian assistance activities. Growth in core resources has, however, been minimal compared to growth in non-core resources for both development-related activities and humanitarian assistance activities.[17]

Non-core pooled funding mechanisms have been developed over time to enable pooling of non-core funding from different sources and channeling them into the UN system entities. These modalities are a result of efforts by the international community to promote coherence, alignment and aid effectiveness, counterbalancing high fragmentation caused by the predominantly single-donor and single-programme nature of non-core resource flows.

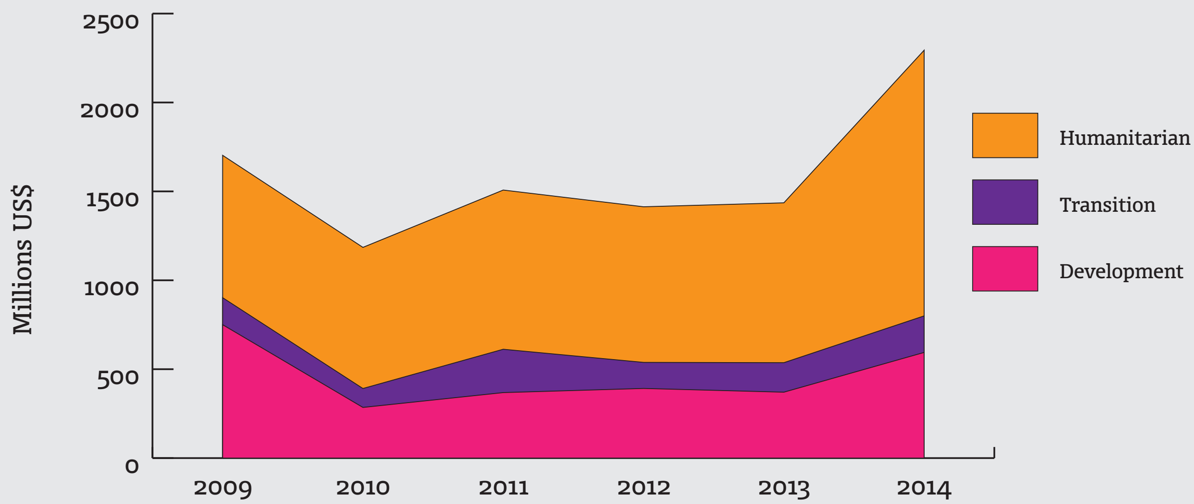
As Figure 9 demonstrates, most non-core funding (75.3%) is restrictively earmarked by individual donors to specific projects. In 2014 only 10.7%[18] of overall non-core resource flows were channeled through UN inter-agency pooled funding instruments. These included multi-donor trust funds and joint programmes, established for humanitarian, transition and development purposes. Figure 11 shows how the trend in deposits for UN inter-agency pooled funds broken down per theme has evolved since 2009.

Analysing the trends of non-core financing and pooled funding (see Figure 10) revealed no pattern of inverse correlation between non-core and pooled funding, confirming the zero-sum-game assumption.[19] Inter-agency pooled fund resources added to the increase in the annual amount of non-core resources of the UN System.

The importance of inter-agency pooled financing mechanisms to finance the UNDS has substantially grown over the past 10 years, in line with the increased focus on issue-based financing and system coherence. Starting from a marginal base at the turn of the century, UN inter-agency pooled funding mechanisms together channel about US$ 1.8 billion per year today[20]. The MPTFO of UNDP, which serves as a UN service provider of pooled fund design and administration services, in 2014 received US$ 0.9 billion for UN humanitarian, transition, and development inter-agency UN trust funds. On the humanitarian side around US$ 0.48 billion was received in 2014 by the Central Emergency Response Fund (CERF).

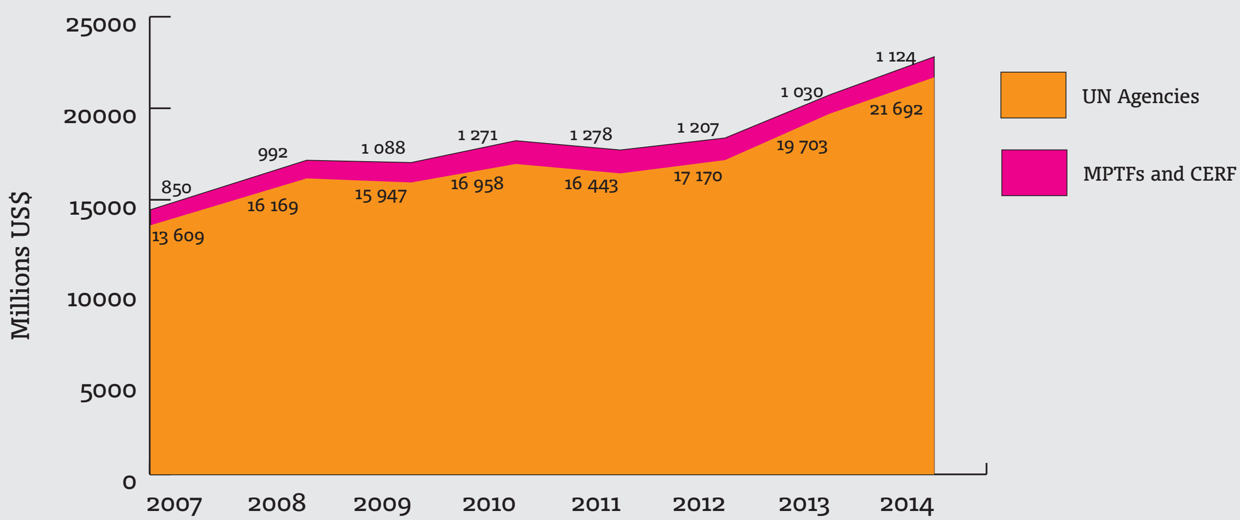
The number of countries that use inter-agency pooled funds to deliver substantial volume of their programmes remains low. While the 2012 QCPR resolution encourages Member States making non-core contributions to give priority to pooled, thematic and joint funding mechanisms, the implementation of this point in the resolution remains weak. The analysis shown in Figure 12 on page 32 of the QCPR indicator of countries with more than 20% of funding flowing through inter-agency pooled funds reveals that only 10 programme countries (6% of all countries) achieved this indicator.[21] Five of those countries (Central African Republic, Iraq, Somalia, South Sudan and Sudan) have strong humanitarian pooled funding mechanisms and a sizeable transition pooled funding portfolio.

FIGURE 10: Deposits to UN inter-agency pooled funds 2009-2014



UNDG discussion paper:
'The Role of UN Pooled Financing Mechanisms to deliver the 2030 Sustainable Development Agenda: Discussion paper',
March 2016; based on data analysis by MPTF Office

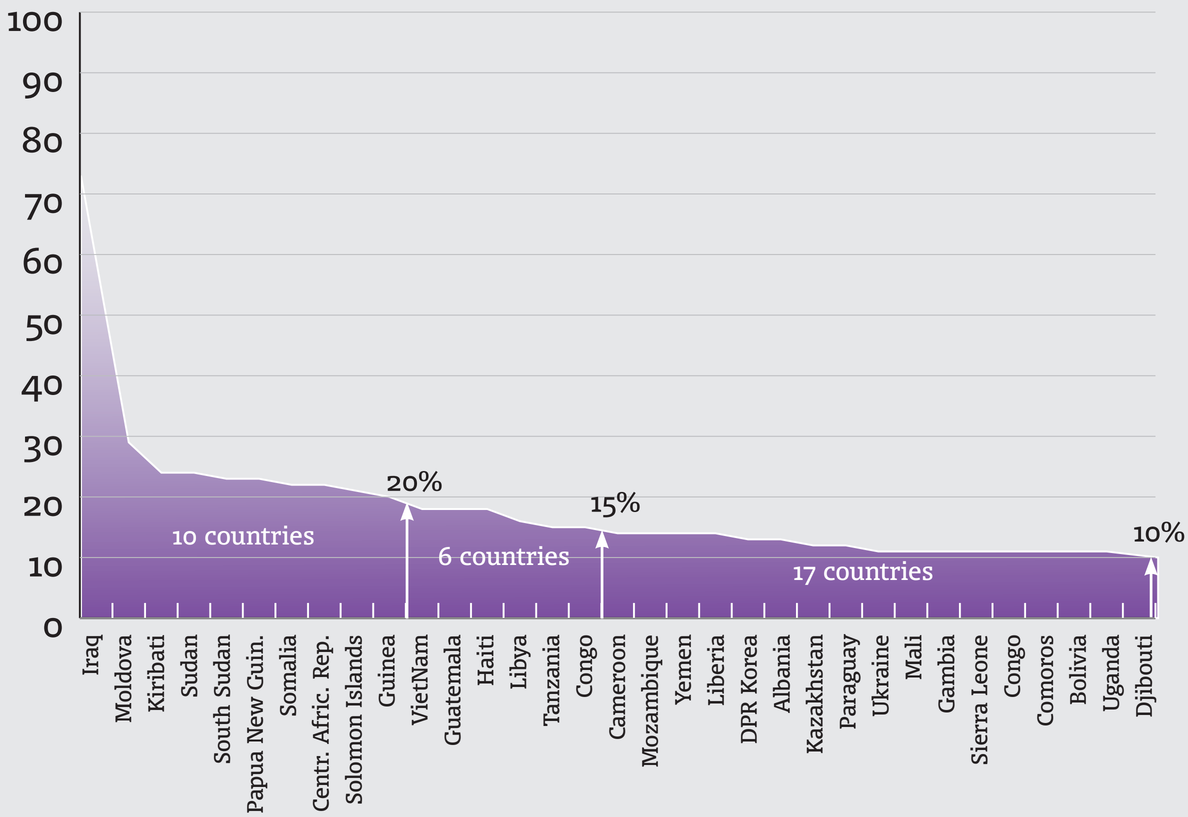
FIGURE 11: Deposits to UN agencies non-core vs MPTF Office administered MPTFs and CERF



UNDG discussion paper:
'The Role of UN Pooled Financing Mechanisms to deliver the 2030 Sustainable Development Agenda: Discussion paper',
March 2016; based on data analysis by MPTF Office

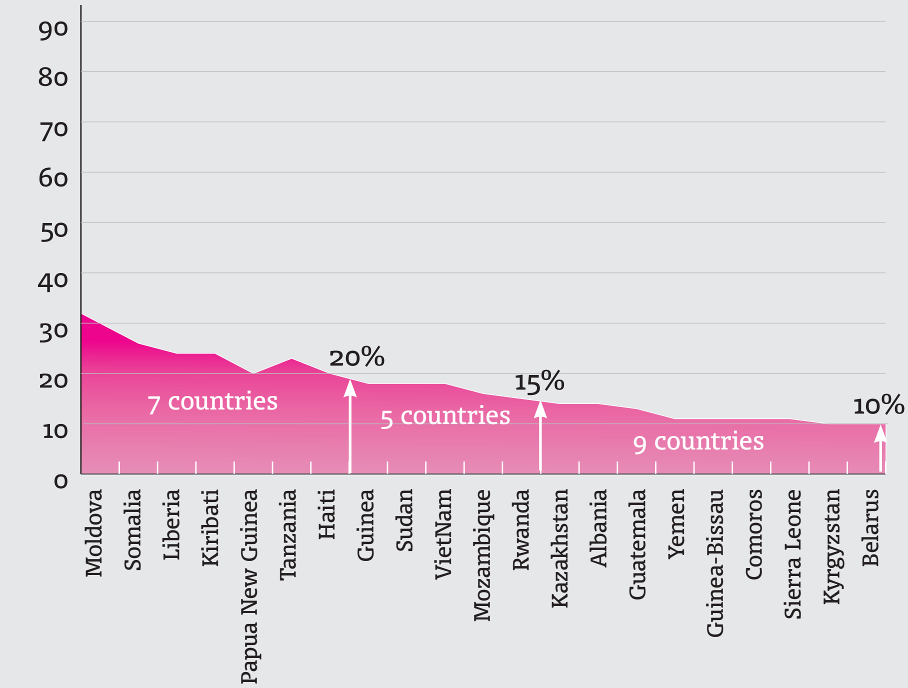
FIGURE 12: Countries with 10% or more of funding through UN interagency pooled funds

a.) *Countries with 10% or more of total funding (humanitarian and development) through UN inter-agency pooled funds*



Sources:
(a) UNDG discussion paper: '*The Role of UN Pooled Financing Mechanisms to deliver the 2030 Sustainable Development Agenda: Discussion paper*', March 2016; based on data analysis by MPTF Office
(b) data analysis by MPTF Office
(c) data analysis by MPTF Office

b.) *Countries with 10% or more of development-related funding through UN inter-agency pooled funds*



c.) *Countries with 10% or more of humanitarian-related funding through UN inter-agency pooled funds*

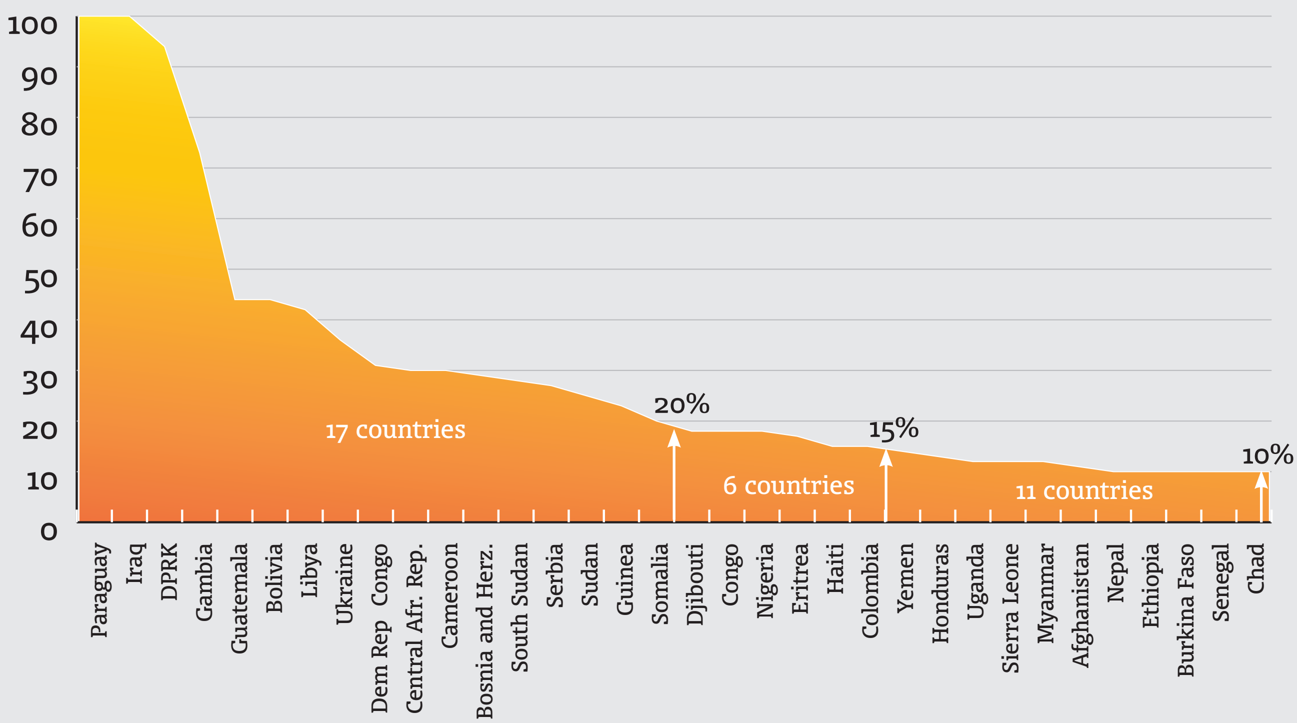
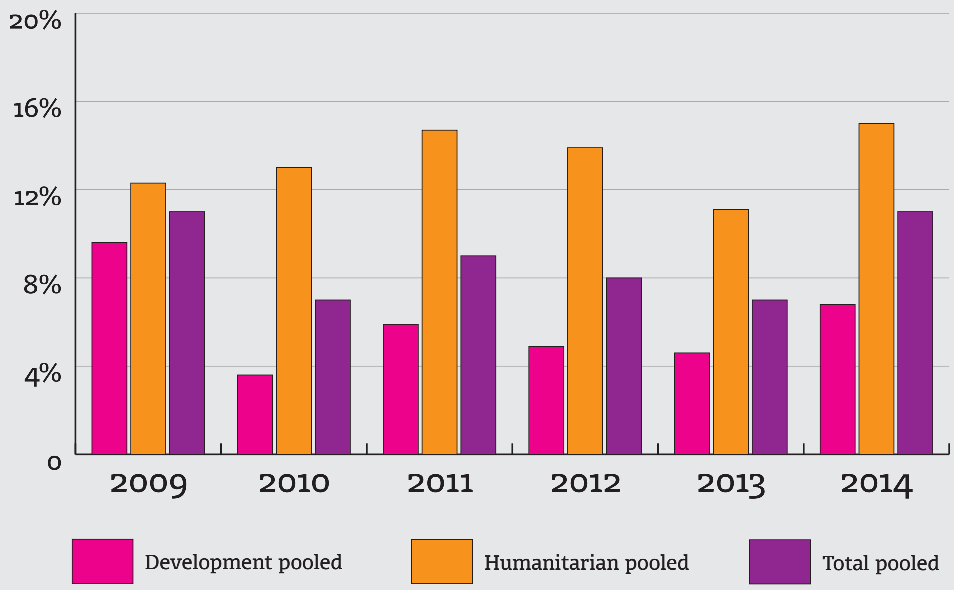


FIGURE 13: Percentage of non-core funding channeled through pooled funds



Source: Data analysis by MPTF Office based on data provided by UNDESA and UN fund administrators.

Looking at country groupings over the 5-year time period from 2009 to 2014 in Figure 13 above, we see that the combined level of pooled funding (humanitarian and development) ranged between a low of 7% in 2010 and a high point year of 11% in 2014. The percentage of pooled funds in the non-core development portfolio was significantly lower and ranged between a low of 3.6% in 2010 to a high of 9.6% in 2009 at the height of the MDG Achievement Fund period. Both percentages fall well short of the QCPR indicator agreed in 2012 of 20% of non-core going through pooled funds as a means of strengthening UN coherence.

Non-member state sources of income

The table on the next page provides an overview of earmarked contributions from donors that are not bilateral donors to the UN, such as the European Commission, International Financial Institutions, private sector, individual donors etc. However it does not present a comprehensive overview of the total number of non-member state income as it excludes core income from individuals and fees. This category groups together different types of revenues that don't fit in the other categories, but because the term earmarked contributions is used here it does not include core income from individuals and fees. This perhaps reflects an implicit assumption that non-member state contributions are earmarked for specific purposes.

Table 5 is important because it is the key table which attempts to capture financing from non-member state donors. The classifications used are those adopted by the UN's Chief Executive Board for Coordination (CEB). Some of the issues coming out of this presentation point to the need for more clarity on how we present non-member state finance in a way that makes sense to policy makers.

For example, the current table relates to non-member state donors and therefore includes three columns – the European Commission, UN organisations and IFIs – which comply with this definition but are not relevant to an analysis of non-member state actors. In each of these three cases, we are looking at intergovernmental intermediaries, but all ultimately derive their resources from states. This category of financier is important in its own right and merits more detailed exposition. For example, the relationship between the UNDS and the World Bank group is one of great interest and it would be important to have a more detailed understanding of the resource flows involved, and the different partnership models that underpin these resource flows.

Of particular importance for this report, a more comprehensive analysis of the components of the column entitled 'Revenue from non-state donors' is needed. This is of considerable strategic importance as

TABLE 5: Overview of earmarked contributions received by agency from non-member state donors, 2014

Agency	Revenue from European Commission	Revenue from UN Organisations	Revenue from IFIs	Revenue from Non-member state donors	Total
FAO	136	85	26	66	**313**
IAEA	4	1		1	**6**
ICAO	2	1		3	**6**
IFAD	37				**38**
ILO	25	18	9	8	**60**
IMO		2			**2**
IOM	135	169		336	**640**
ITC	10	2	3	1	**16**
ITU		1		3	**4**
PAHO	6	1		7	**13**
UN	53	108	4	473	**637**
UNAIDS		2	2	5	**9**
UNDP	379	118	17	803	**1,317**
UNEP	38	16	159	13	**225**
UNESCO	16	21	18	61	**116**
UNFPA	13	50	1	10	**74**
UN-HABITAT	32	46	3	11	**93**
UNHCR	167	110		237	**514**
UNICEF	355	498		127	**980**
UNIDO	25	100		1	**126**
UNITAR		2		8	**10**
UNODC	41	8	2	5	**56**
UNRWA	176	43	6	40	**265**
UNU	1	1		7	**9**
UNWOMEN	12	31	1	20	**64**
UNWTO		1			**1**
WFP	371	268	6	115	**759**
WHO	62	259	40	658	**1,020**
WMO				1	**1**
WTO	1	5			**6**
Total	2,098	1,969	296	3,018	7,382

Source: CEB data base 2014

Note: in Million US$, No data could be provided for WIPO, DPKO, UPU and UNOPS.

the UNDS is attempting to steer the right path forwards on the evolving relationship between the UNDS and the private sector, civil society, foundations and individuals.

Two kinds of non-member state income constitute reliable and quite predictable sources of regular core income to some UN organisations: individual donations, as evidenced by UNICEF's successful experience, and fees, a pillar of World Intellectual Property Organization's (WIPO) financing model. In both cases, income from these sources represents significant core funding.

This report follows on from last year's by covering the specific areas of individual contributions and fees. We are committed in next year's report to clarifying some of these broader issues and our proposal in this regard is outlined in Box 6.

Individual contributions

For some UN agencies, individual contributions have grown to be one of the most reliable and sustainable sources of financing and a major source of core un-earmarked revenue.

Between 2007 and 2012 gross proceeds from individual contributors at UNICEF[22] grew by 85%, reaching US$ 556 million in 2012. By the end of 2017, UNICEF expects pledge-giving by individuals to generate US$ 1 billion per year, with an estimated 5.88 million individuals. In 2014, 92% of the total amount of individual contributions were remitted as core funding.[23]

Similar to UNICEF,[24] UNHCR has in the last few years successfully developed and invested in its private sector fundraising efforts. Individual contributions have grown to become a key financial source for UNHCR.

In 2014, UNHCR mobilised US$ 137 million from individual contributors which is an increase of close to 300% in four years (47 million in 2010). The number of individuals giving to UNHCR in 2014 was close to one million, a 17% increase in just one year. UNHCR anticipates that by the end of 2018, there will be a total of 2.5 million individuals contributing with a total of US$ 500 million.

Fees

Fees can play a critical role in the financing of UN operations. Fees cover a number of services, including product, knowledge and management fees.

Product and Service fees

In the case of the World Intellectual Property Organization (WIPO), 90% of its total revenue (in 2014 around US$ 348 million) comes from the Global Intellectual Property (IP) Systems. The predominant part of fee income is derived from the Patent Cooperation Treaty, part of the Global IP Systems, which is estimated to account

BOX 4: Elements of UNICEF and UNHCR strategy to increase individual contributions

- Strong vision and branding of agencies work programme
- Invest. Designated internal fundraising offices working specifically on private sector and individual contributions
- Fundraising strategy plan: clear identification of priority revenue streams
- Global presence: effective use of country offices and national committees that play a significant role in advocating agencies vision, brand and maximise fundraising goals
- Synergies between fundraising, programme, communication and advocacy work
- Effective deployment of investment funds: every dollar invested should receive double in return
- Emphasis on face-to-face fundraising
- Use of innovative and captivating digital media and communication

for 78% of the total revenue of the Organization in 2014. The service fee assists applicants in seeking patent protection internationally for their inventions, helps patent offices with their patent granting decisions, and facilitates public access to a wealth of technical information relating to those inventions. This income is not earmarked and is relatively predictable due to the low degree of volatility of WIPO's volume of business.

The International Maritime Organization (IMO) generates 27% of its annual revenue from commercial activities which bring in fees through technical assessment of products and substances through its Trading Fund, software sale or the sale of publications. 95% of its publications are purchased online and the income ends up as core revenue. Another example is the International Civil Aviation Organization which generates 6% of its total revenue mainly from publications sales and printing services, as well as events, licensing and membership fees.

Management fees

Management fees are another major type of fee. As a service provider for the UN System, governments and other partners, the United Nations Office for Project Services (UNOPS), a self-financing and not-for-profit organisation of the United Nations, finances its operations through management fees, charged on implemented projects. It operates on the basis of full cost-recovery.

UNOPS management fees are calculated individually for every project using a range of factors that impact on UNOPS costs. The management fee for projects can range from 2% to 35% of project delivery. This range reflects the specific factors in each project, for example, the level of risk, the scale and the complexity. During the past five years their management fee averaged around 5.5% of delivery. Applying a project management fee to support its core budget makes UNOPS very dependent on its level of project capitalisation per year.

Expenditure

Last year's report did not include a section on Expenditures. Considerable analysis is already available on the use of resources so this was not the focus of our report. However, for the sake of completeness, this year we have introduced a brief section that gives a broad overview from the perspective of expenditures. This section includes a total of six tables and figures that together provide an overview of UNDS expenditures.

Table 6 provides an overview of expenditures over the last decade by agency. Table 7 provides expenditure data for 2014 by agency and category. Table 8 focuses on developmental and humanitarian expenditures by country income category. Figure 15 provides information on operational expenditures by region. And finally Figure 16 presents expenditures by type of function.

Table 7 is included to bring attention to the pressing need for useful and credible reporting. Each UN entity decides how to categorise expenditures in a given year, with similar expenditures possibly being classified differently from one year to another. Furthermore, some major UN entities categorise all operational expenditures as being related to development or humanitarian assistance. Under the current highly decentralised procedures for data collection, the resulting financial data may be of insufficient quality to form the basis for a solid analysis of overall expenditure trends. The UN system spent US$ 47 billion in 2014 and yet there is no single presentation and classification that provides an easy insight into the major functions performed across the system.

Expenditure in countries affected by fragility and protracted crisis

The UN is heavily invested in countries affected by protracted crisis and fragility and is often the largest player. This is reflected in the way that the UN finances its interventions in these types of settings. Not only does the UN have a wide range of well-capitalised financing instruments that have been extensively used in countries affected by protracted crisis and fragility, these instruments are also used for interventions across the humanitarian, peace and security, human rights and development nexus. A further characteristic is that the UN financing toolkit is very resilient to changing dynamics on the ground. This enables the UN to carry through programmatic interventions in all phases, from development to preparedness, to emergency response, to recovery (or relapse into conflict).

Table 8 provides details of the developmental and humanitarian expenditures, by country income category, on operational activities. The table indicates an expected trend from higher average per country expenditures for conflict-affected states in the left column to lower average per country expenditures in the right side column. Furthermore, the table underscores the high dependence of the UN system on earmarked funding for country level activities, with operational activities at country level being financed on average from 80 to 92% through earmarked contributions. Finally, it points to the high concentration of UN country-level expenses for operational activities in countries affected by protracted crisis and fragility.

The strong presence of the UN on the ground in countries affected by fragility and protracted crisis becomes even more apparent when the expense figures for peacekeeping (i.e peacekeeping and political missions and special envoys) are added to the expense figures for operational activities for development and humanitarian. Overall, in combined 2014 UN expenses in countries affected by conflict and protracted crisis for financing across the humanitarian – peace – development nexus was over US$ 19.5 billion.

TABLE 6: Expenditure by agency by year (2006-2014, million US$)

Organisation	2006	2007	2008	2009	2010	2011	2012	2013	2014
United Nations Secretariat	2,977	3,868	4,139	5,136	3,953	4,357	4,205	4,310	5,145
UN Peacekeeping					7,616	7,574	7,544	7,273	7,863
FAO	887	887	1,095	1,095	1,415	1,500	1,343	1,380	1,246
IAEA	468	527	534	570	585	522	592	606	581
ICAO	223	276	189	245	235	213	220	249	222
IFAD	133	152	162	157	784	936	186	187	183
ILO	444	519	504	587	587	635	629	724	611
IMO	56	63	59	58	68	71	80	77	70
IOM	733	784	1,013	1,027	1,359	1,310	1,231	1,233	1,465
ITC	62	66	66	71	71	87	76	79	88
ITU	129	133	128	140	193	208	215	213	188
PAHO	177	197	236	243	927	836	908	1,070	1,646
UN Habitat	142	127	149	170	201	226	180	168	196
UNAIDS	200	241	245	279	284	321	280	295	296
UNDP	4,777	4,775	5,388	5,527	5,750	5,516	5,244	5,244	5,314
UNEP	252	290	139	231	449	611	479	602	563
UNESCO	575	562	494	535	797	938	806	814	802
UNFPA	537	629	702	800	824	825	811	913	1002
UNHCR	1,101	1,342	1,597	1,754	1,878	2,181	2,306	2,704	3,361
UNICEF	2,337	2,767	3,081	3,279	3,631	3,794	3,613	4,082	4,540
UNIDO	197	227	222	246	225	246	315	318	233
UNITAR	13	14	18	17	20	22	21	21	24
UNODC	114	150	212	243	211	239	266	258	325
UNOPS					654	760	677	704	667
UNRWA	605	704	807	772	555	617	664	711	1,298
UNU	38	42	91	65	60	55	62	67	76
UN Women						198	236	264	271
UNWTO	17	22	23	25	22	23	24	24	25
UPU					50	57	74	76	63
WFP	2,876	2,966	3,694	4,228	4,315	4,181	4,450	4,768	4,997
WHO	1,798	2,312	1,706	2,159	2,078	2,515	2,080	2,261	2,317
WIPO	214	255	276	295	324	341	353	369	337
WMO	85	82	77	92	88	83	93	84	98
WTO	164	180	190	188	226	231	263	297	255
Total	22,331	25,158	27,237	30,236	40,436	42,229	40,527	42,446	46,368

Source: CEB data base 2014.
Note: in Million US$

TABLE 7: Expenditure by agency and by category (2014, million US$)

Agency	Development assistance	Humanitarian assistance	Peace-keeping operations	Technical cooperation	Normative activities	Total expenses
UN	7	1,830	26	155	3,126	**5,145**
DPKO			7,863			**7,863**
FAO	424	404			417	**1,246**
IAEA				93	488	**581**
ICAO				113	109	**222**
IFAD	183					**183**
ILO				246	365	**611**
IMO				14	56	**70**
IOM	126	792		541	5	**1,465**
ITC	88					**88**
ITU				13	175	**188**
PAHO				1,646		**1,646**
UNAIDS				296		**296**
UNDP	5,314					**5,314**
UNEP	474				89	**563**
UNESCO	481			160	160	**802**
UNFPA	1,002					**1,002**
UN-HABITAT	56	17		77	45	**196**
UNHCR		3,361				**3,361**
UNICEF	2,821	1,719				**4,540**
UNIDO	233					**233**
UNITAR				24		**24**
UNODC				325		**325**
UNOPS		59	306	302		**667**
UNRWA		1,298				**1,298**
UNU					76	**76**
UN WOMEN	271					**271**
UNWTO				3	22	**25**
UPU				2	62	**63**
WFP	384	4,613				**4,997**
WHO	125	297		225	1,670	**2,317**
WIPO	89				248	**337**
WMO				98		**98**
WTO				21	234	**255**
Total	12,080	14,391	8,194	4,355	7,346	46,368

Source: CEB data base 2014
Note: in Million US$

TABLE 8: Expenditure by income status (operational activities), 2014

	Conflict-affected States	Other Lower Income	Other Lower Middle	Other Upper Middle	High Income	Grand Total
No. of countries	38	31	52	53	63	**199**
Total core and earmarked	11,082	7,690	7,173	4,177	690	**19,729**
of which earmarked	86%	86%	82%	83%	91%	**84%**
Core and earmarked for development	4,570	4,437	3,656	1,907	594	**10,593**
of which earmarked	86%	81%	80%	84%	92%	**82%**
Core and earmarked for humanitarian	6,512	3,252	3,517	2,270	96	**9,136**
of which earmarked	85%	92%	85%	82%	85%	**87%**

Source: QCPR, Conflict-affected states include the list of fragile states according to World Bank classification plus Lebanon and Jordan, Methodology in endnotes[25]
Note: Numbers are in Millions US$

These US$ 19.5 billion were broken down as follows:

- US$ 4.6 billion for development-related activities in protracted crises (43% of UN total for all countries)
- US$ 6.5 billion in humanitarian-related activities in protracted crises (71% of UN total for all countries)
- US$ 8.4 billion for peacekeeping & political missions in protracted crises (> 90% of total UN country-level peace and security expenses, channeled through DPA and DPKO)

Figure 14 on the next page provides a breakdown of the expenses per country for this group of countries, using the World Bank list of fragile states as a basis while adding in Lebanon and Jordan as countries that are the most heavily impacted by the Syrian refugee crisis. Total expenditures for the top six countries on this list amounted to US$ 10 billion in 2014, while country level expenses (country level expenses for operational activities and peace-keeping) in the top 13 countries on the list accounted for one third of the UN's global expenses (or US$ 16 billion) in that year. In comparison, when the overall country level expenditures for humanitarian, peace and security and development are considered across the full spectrum of UN programme countries, only four countries (Ethiopia, Pakistan, Nigeria and Kenya) would make it into the top 20 of countries in terms of total level of UN expenditures. However, none of these four countries would have featured in the top 12 of a ranking of UN programme countries based on the combined expenditures at country level for humanitarian, peace and development.

A detailed analysis of the UN financing toolkit for countries in fragility and protracted crisis was recently undertaken as part of a joint effort by the UN with the World Bank and OECD/DAC to map the existing multilateral and bilateral financing instruments. The summary result of the mapping from the UN side is included as Annex 1 to this publication. Apart from listing the key UN financing instruments and describing their key characteristics, the mapping exercise also looked at the advantages and disadvantages of the various instruments. Based on this exercise, a key conclusion was that the UN financing tool-kit is increasingly fit for purpose in crisis settings, thanks to concerted UN action to increase speed and flexibility, scope for risk management, UN coherence, cost effective-ness, and partnerships with IFIs and NGOs.

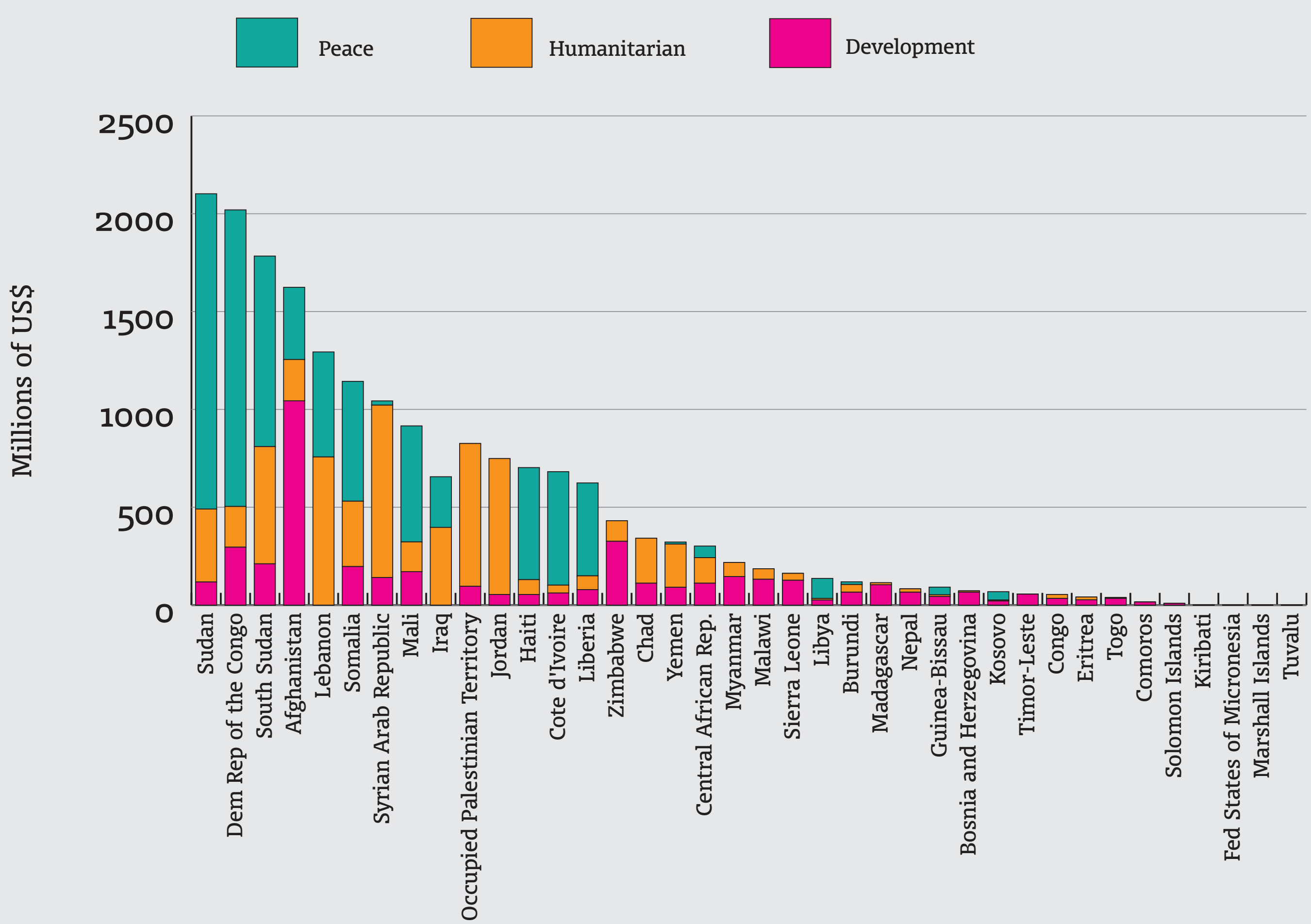
Figure 15 gives an overview of the expenditure on operational activities by region. The impact of the Syrian crisis on the country and its neighbours has led to a significant shift in recent years in the regional distribution of the UN's overall humanitarian and development expenditures. With five countries heavily affected by conflict and fragility all situated in its region, the Western Asian share in overall expenditures for UN operational activities more than doubled between 2012 and 2014, from 8% in 2012 to 17% in 2014. In the same period, the overall share of Asia and Americas regions decreased by 4 and 3% respectively, to reach 14 and 6%. The African region – another region with a high concentration of conflict-affected countries - remained the largest region in terms of expenditure on operational activities; however, its relative share also decreased, from 36% in 2012 to 31% in 2014.

Expenditure on global norms, standards and policy work

There seems to be a general consensus that the role of the UN in normative and standard-setting activities is a core function and that this is a clear comparative advantage of the organisation. But, by contrast, there is currently no agreed definition within the UN on what types of activities comprise normative work and there is no common understanding of how to account for the nature of results of normative work.

There are two challenges: the first is to reach agreement on a definition of what is constituted by normative activities, the second is to have a system-wide approach to how this data is presented.

FIGURE 14: Expenditure by country on peacekeeping and operational activities



Source: CEB data 2014; Report of the Secretary General A/70/348 (political missions, special envoys); Financial Report and Audited Financial Statements A/69/5 vol II (peacekeeping missions); list of countries include the list of fragile states according to World Bank classification plus Lebanon and Jordan; on status of Kosovo, see Security Council Resolution 1244.

With regard to the first, two definitions are offered in Box 5 on next page. The first is the definition used by the CEB. The second is a definition offered by the United Nations Evaluation Group (UNEG).

These two definitions give rise to significantly different interpretations and this raises issues which need further analysis and discussion. For example, an issue that reduces the usefulness of the CEB data for analysis of normative work lies in the definition used for 'normative activities'. The CEB expenses category that is used is entitled 'the normative, standard setting function and the knowledge creation activities', and hence UN organisations are requested to combine the expenses for their normative function and for their knowledge creation function. As a result, a strong normative organisation such as UNEP may have a very similar level of expenses reported in this combined category, i.e. US$ 89 million, as United Nations University (UNU), which is known foremost as a knowledge generating entity and reports US$ 76 million in the same category. On the other hand the implications of the UNEG definition are that the support to governments and others in integrating the norms and standards in e.g. policies and development plans, and the subsequent support to implementation, is an integral part of UN organisations' operational activities, and will hence most often be labelled as such.

With regard to the second challenge, we can identify the problem by looking at Table 7 and Figure 16.

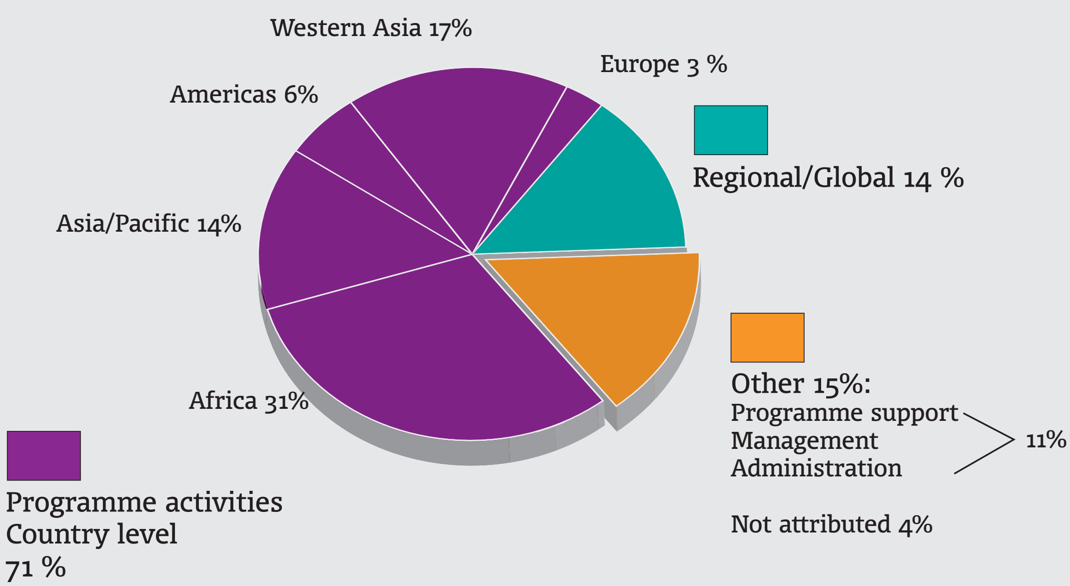
As discussed with reference to Table 7, a column is devoted to normative activities but in reality there is no system-wide definition of what types of activity should be allocated to this column. In practice (and almost by the CEB's definition – see above) this column often performs a residual accounting function.

Similarly, the component parts of the 21% allocated to global norms, standards, policy and advocacy in Figure 16 include expenditures that provide for a very broad category that encompasses considerably more than normative activities as often understood.

As the world embarks upon the implementation of Agenda 2030, the prominence given to the UN's normative function should be translated into better UN financial data on expenditures for this function and the financial instruments used. The UN system could agree on a sharper, more refined definition of 'normative activities', which would then provide better guidance to UN entities for identifying the actual expenditure to be reported against the normative function. UN agencies could more systematically link the outcomes and budgets of their strategic plans to their normative function, thereby making it easier to determine the overall financial outlay for the UN's normative function, the way it is financed and the results being produced.
A proposal to pursue this work is incorporated in Box 6.

Expenditure

FIGURE 15: Expenditure of operational activities by region



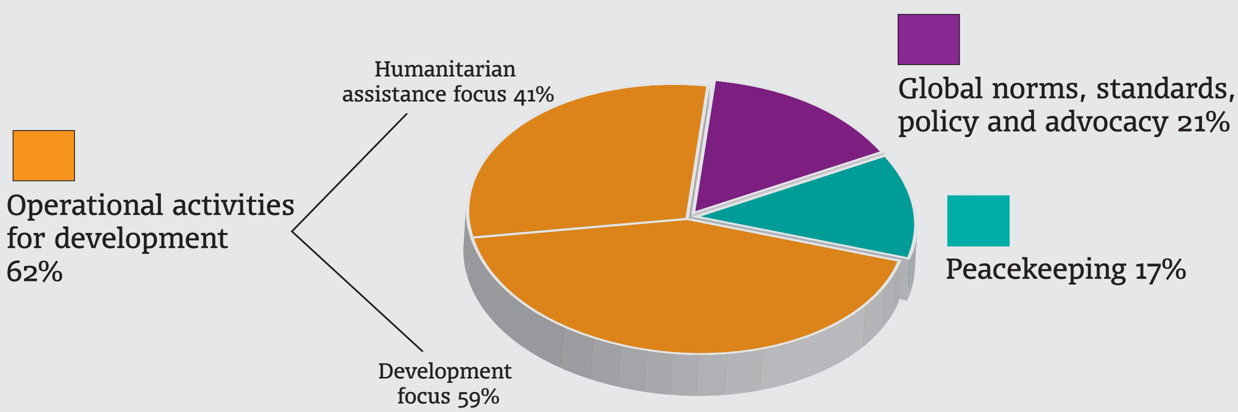
Source: QCPR report 2016, A /71/63 – E /2016/8, 31 December 2015

BOX 5: Defining Normative Activities

The UN Chief Executives Board for Coordination defines normative activities as:
"a wide range of activities not considered to fit into the development assistance, humanitarian assistance, technical cooperation (TC) and peacekeeping operations. UN organisations may establish standards (i.e. normative behaviour) which may or may not be mandatory or binding on governments / Member States. They may also undertake programmes of work as a result of International agreements and Treaties. Finally, most agencies undertake a wide range of activities such as establishing policies and performing research with the goal of enhancing or creating 'knowledge'."

The UN Evaluation Group defines normative work as:
"support to the development of norms and standards in conventions, declarations, regulatory frameworks, agreements, guidelines, codes of practice and other standardsetting instruments, at global, regional and national level. Normative work also includes the support to the implementation of these instruments at the policy level, i.e. their integration into legislation, policies and development plans, and to their implementation at the programme level." This definition specifies three categories of normative work:
"a) the development of norms and standards;
b) the support to governments and others to integrate the norms and standards into legislation, policies and development plans; and
c) the support to governments and others to implement legislation, policies and development plans based on the international norms, standards and conventions".

FIGURE 16: Financing of UN system-wide activities 2014



BOX 6: Contributing to Strategic System-Wide Data

Within the framework of the annual publication of the Report on the Financing of the UN Development System, the MPTFO and the Dag Hammarskjöld Foundation are committed to partnering with others to support the generation of strategically important UNDS system-wide data. From the analysis provided in this report, we are committed to pursuing three pathways with our partners.

The first is to share and highlight in future reports a number of the best practices deployed by the MPTFO in the generation of transparent system-wide data in their online reporting systems.

The second is to collect information from a range of partners on best practice relating to the measurement of results in the context of the increasing importance of the UN's work in strengthening norms as well as the increasing significance of multi-stakeholder partnerships in the implementation of Agenda 2030.

The third pursuit will be to explore, with our partners, the possibility of enhancing the credibility of elements in the data being generated. We will start by taking up two challenges: on the one hand issues relating to expenditure on normative activities and on the other hand issues relating to non-member state income (multi-lateral organisations, private sources etc).

PART TWO:

Trends and emerging challenges in the UN system

Financing for Sustainable Development Goals

Introduction

The ambition of the 2030 Agenda for Sustainable Development challenges the UN System to unite its efforts and provide integrated support to countries delivering on the SDGs. For the UN system to be fully fit-for-purpose, this ambition will require more integrated normative, policy and operational support and far less fragmented financing. Overall resource requirements to deliver on Agenda 2030 have been estimated at US$ 2-3 trillion over a 15-year period[26]. Many recent UN and independent expert reports in the development, peace and humanitarian domains have echoed the calls for less fragmentation and for enhancing the role of inter-agency financing instruments to support common goals, thereby improving coherence and synergies across this new development platform.

The Addis Agenda for Action 2015 similarly calls for a coherent, efficient and comprehensive approach to financing the 2030 Agenda for Sustainable Development across all actors. It outlines a local, national and global financing framework that includes domestic resource mobilisation, private and public investment, innovation in financing and a continued role for Official Development Assistance. For the UN Development System (UNDS), this implies new approaches to coherent and predictable financing at country, regional and global levels within and across institutions of the System. A combination of elements and instruments would together help ensure the UNDS's offer is optimal for countries. These would include adequate and predictable funding to support development results, nationally owned UN Development Frameworks aligned with the SDGs and with clear financing strategies, multi-stakeholder financing partnerships, a clearly articulated value-added UN programme focus and more coherent multi-year financing architecture for comprehensible results.

In response to the 2030 challenge, three strategic considerations for financing to bolster UNDS performance in support of Sustainable Development Goal (SDG) implementation emerge. They include:

• ***UN coherence and diversity combined:***
Given the scale, universality and ambition of the 2030 Agenda, the UN System will have a critical role to play in assuring coherence, efficiency and efficacy in SDG implementation. The comparative advantages – specialised, technical, normative and operational - of its diverse family of organisations and agencies are the UN's biggest potential asset when it comes to supporting high-impact integrated SDG implementation. A central consideration is how to leverage this comparative advantage through funding approaches such as multi-year and pooled funding. These instruments have the potential to support a clear cut division of labour between UN agencies, to boost the UN System's combined impacts, and to show how its wide diversity can underpin its strong value proposition. Joint instruments and financing not only unite the UN System to deliver results, they can also allow for needed flexibility and innovation that generates improved outcomes in the long run. This is equally important for country-level architecture, regional and global.

• ***The UN functioning as a real system:***
The multiplicity of UN entities functioning to deliver collective impact 'as a system' is critical to achieving the SDGs. To be truly transformative, innovative approaches that are integrated, universal and multi-sectorial in nature need to be more strongly positioned. Over the last decade, aligned pooled funding instruments such as the MDG Achievement Fund, the Peacebuilding Fund, and the Delivering As One Funds have demonstrated how new approaches to financing can support high-

performing multi-stakeholder partnerships and inclusive, transparent governance mechanisms. These approaches have shown a UN that can articulate its capacity, knowledge and added value, showcasing a relevant and coherent 'system' poised for strengthening results and impact.

• ***Blended finance, leveraging and diversity:***
An abundance of disjointed efforts and a large number of small financing streams and bilateral single-project funding can undermine efforts to integrate development finance and attain cohesive implementation. The 2030 Agenda calls for strategic approaches to blending UN System and International Finance Institution (IFI) funding to better deliver concessional and grant financing. New and innovative approaches to blending strategic (UN) and concessional (IFI) financing are being tested in the framework of the new Financing Initiative to Support the Middle East and North Africa. This has been demonstrated, for example, by the Somalia Reconstruction and Development Facility. This Facility brings UN Agencies together under the UN Window, which functions jointly with the World Bank and African Development Bank Windows, and allows the UN system as a whole to align itself in an orderly and coherent fashion. This type of blending and pooled instrument, with its clear added value, has also attracted additional resources, broadened the donor base and drawn in resources supporting a clearly leading national strategy.

There is evidence already that a less fragmented and higher impact UN response in support of Agenda 2030 is emerging, even in the face of an increasingly complex and pressurised context for financing for development. New approaches, multi-year, transparent, pooled and blended financing instruments, field-based approaches, and inclusive multi-stakeholder partnerships, are all part of the path forward to more impactful UNDS financing for Agenda 2030.

Key aspects of these approaches are examined in the following contributions. Olav Kjorven in his piece raises the question as to whether the start of Agenda 2030 could be a unique window of opportunity to adjust funding models, while John Hendra argues that opening up national budgetary processes for more effective, transparent and accountable SDG financing will be a critical universal priority going forward.

Funding the UN in the SDG Era: Why We Should Link Funding With the Goals and Aspirations of Agenda 2030

By: Olav Kjørven, Director of the Public Partnerships Division, UNICEF

The Sustainable Development Goals (SDGs) are a demonstration and endorsement of the power of a collaborative, open and inclusive approach to getting things done in development. This is true when looking at how the SDGs came to be, and it is just as true when it comes to achieving them. Agenda 2030 makes clear that the SDGs must become 'everybody's business'. While insisting on 'national ownership', it also calls for 'multi-stakeholder partnerships' and people and communities everywhere as key drivers of progress towards the goals and targets. The sprawling collection of United Nations agencies working in development - known generally as the UN Development System - has been given a recognised role in moving the agenda forward. This includes working with governments to help establish baselines for tracking progress and set early priority areas of action. It also involves working at national, regional and global levels to help convene actors, shape strategies and forge partnerships required for an ambitious, long haul towards 2030 across the wide range of issues covered by the 17 goals. The expertise, experience and convening power of the UN and its agencies will be critical to the success of the SDG journey. So will its ability to raise resources, both for its own work and for the agenda more broadly. And herein lies a major challenge - and an opportunity.

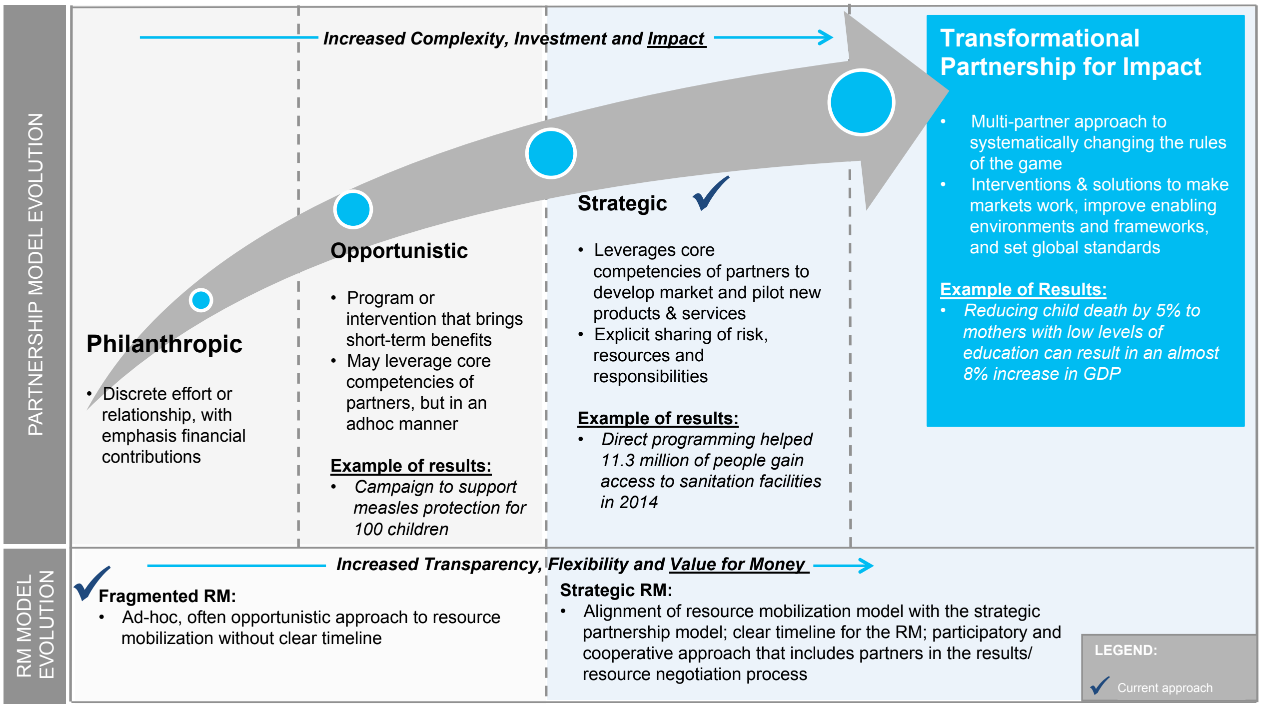
The overall growth of the multilateral aid system, where the investment flows increased in real terms by 31% between 2007 and 2012[27], has enabled a remarkable boost in UN agencies' financial capacities and their ability to support key areas of progress towards the MDGs. However, this growth has been largely concentrated in certain areas such as health and has come mostly in the form of earmarked funding provided for specific themes, programmes and countries, often to be spent, and with results achieved, within short time frames. This trend continues today, with most donors preferring to earmark in order to focus on specific priority areas and have closer oversight of the programming and results. While restricted funding helps meet specific programmatic or even thematic targets, for example, as in the case of UNICEF, within Water, Sanitation and Hygiene (WASH), Education, HIV/AIDS and Nutrition; it also complicates national ownership and the ability to allocate resources strategically between often-interconnected programmes and areas. It certainly makes it very hard to plan activities over several years or commit to long-term collaboration and partnership with others. The predictability simply isn't there.

Luckily, agencies still do have un-earmarked or flexible resources at their disposal, allowing them freedom of allocation and the ability to engage, for the long term, with governments and other partners. The problem is the absolute and, especially, relative decline in these resources over the last several years. If these trends prevail, the success of the SDGs will, to a large extent, rely on earmarked, short-term funding 'stitched' together as best one can to support the many ambitious long-term commitments of the new agenda. Pragmatic pursuit of funding opportunities will dictate action more than any real strategy, and will complicate the forging of effective partnerships for long-term results. This is far from ideal for a UN Development System under high pressure to deliver and prove its relevance and worth. It means longer odds for an already very ambitious agenda.

As shown in the diagram on the next page, while programming and partnership models are generally moving in the direction that Agenda 2030 demands, namely towards interventions for impact at scale, resource mobilisation is still lagging behind, relying on year-by-year and often fragmented fundraising tactics —reflecting both the demands and preferences of donors as well as internal dynamics within each organisation.

A key question now is whether the start of Agenda 2030 could be a unique window of opportunity to adjust funding models. What if we could come up with ways of mobilising our funding that would more effectively underpin, spur and support the kind of progress required by the SDGs? A funding model enabling and supporting a multi-year horizon, the forging of innovative part-

Figure 17: Evolution of partnership and resource mobilisation approaches



nerships, more results-based programming, improved coherence across agencies, and moving beyond output monitoring towards impact measurement?

I know this may sound a little utopian, and maybe it is. But some traditional donors, like Norway, have already announced their commitment to support the Multi-Year Strategic Partnership Agreement with World Food Programme, covering the period from 2016–2019, to reach the SDG #2 – Zero Hunger. This could be the start of something promising and very interesting. If other multi-year funding models were put forward soon—in the coming months—they would be right on time to respond to demands for a UNDS more fit for purpose and results. These demands are being heard loud and clear right now in the UN Economic and Social Council (ECOSOC) dialogue, from a wide range of UN Member States and other actors. Many of them see the issue of how the UN is funded as absolutely core.

The discussion goes beyond the development sphere. At the World Humanitarian Summit (WHS) in May 2016, Government partners, major UN agencies and NGOs discussed the idea of expanding multi-year funding for humanitarian programmes as well. This would enable humanitarian programming to better take longer-term solutions into consideration, which in turn would support a more holistic transition to development programmes. Indeed, shifting towards multi-year funding arrangements, both for humanitarian and development finance, would be a natural extension of existing planning mechanisms. Given the well-established and growing use of multi-year planning, results frameworks and reporting, multi-year resource mobilisation is, in many ways, the missing link.

For individual agencies, multi-year funding will reduce transaction costs and enhance coordination and efficiency in the way funds are received and distributed. By establishing a clear cycle and timeline for resource mobilisation directly linked to the commitment to support SDG achievement, UN agencies could greatly reduce the number of repetitive interactions with donors, including the drafting of countless proposals.

In a few broad brush strokes, a potential multi-year funding model for UN agencies could take the form of a forward-leaning offering to a broad range of partners to co-invest in a three or four-year programme of action that is largely synonymous with their Strategic Plans and fully aligned with the SDG targets most relevant to each agency. The role of agencies in supporting achievement of the targets would need to be clearly spelled out, including their support to integration and synergy across the SDGs as well as their collaborative partnership strategies. Funding needs would be assessed and volumes negotiated ahead of each cycle, based on the aggregation of realistic plans agreed at the country level and through broad and inclusive discussions involving all relevant partners—governments as well as other actors—at the global level. This would enhance opportunities for building a more broad-based, robust and predictable resource base and facilitate more strategic and transparent, multi-year programming for greater impact, based on known, or at least expected, funding levels. Programme countries and resource partners alike would be able to assess more clearly whether or not agencies are contributing effectively to progress in the SDGs. Overall, a successful model would imply that the share of predictable, regular resources would increase at the expense of highly earmarked contributions, a key desire of many Member States in the current 'fit for purpose' discussions at the UN.

Going in this direction would not be a walk in the park, however. Multi-year funding models demand effective and transparent reporting practices, based on results-based budgeting. Most agencies are already advancing in this direction, but more progress is needed. Also, well-entrenched fundraising habits, as well as the habit of many donors of favouring specific project finance, would need adjusting. Similarly, effective resource allocation requires consideration of not just needs but also performance across countries. It will be politically challenging to get that balance right. On the other hand, the fact that entities ranging from the World Bank to GAVI, the global Vaccine Alliance, apply a multi-year logic to funding, shows that it is doable, and that results can be impressive.

A multi-year model will demand change at many levels and involve challenging negotiations. But continuing with the year-by-year, sector-by-sector, project-by-project approach to funding will likely mean a continuation of the overall funding trends of recent years, weakening rather than strengthening agencies' ability to engage in predictable, strategic collaboration with national governments and other partners simply because the funding bedrock required to do that is eroding. No doubt there are other options that may work alongside or as alternative solutions to a comprehensive multi-year approach. Now is the time to put them forward and discuss all options on their merits. I believe our best shot is in constructing an approach that is fully aligned with Agenda 2030 in terms of both its open, collaborative and integrative spirit as well as its clear targets.

The world decided in September 2015 what it wants to look like by 2030. Let's work backward from that vision and build forward momentum towards it, rallying the broadest possible coalition of partners around it as we go. It's a journey many will want to be part of.

These are the personal views of the author and do not necessarily reflect the views of the United Nations

A Field Perspective: 'Leaving No One Behind' – Opening up National Budgets for More Accountable SDG Financing

by: John Hendra, Senior UN Coordinator 'Fit for Purpose' for the 2030 Sustainable Development Agenda

Simply put, the 2030 Agenda for Sustainable Development is an agenda for change. As many commentators have highlighted, the Sustainable Development Goals (SDGs) represent a significant departure from the previous Millennium Development Goals (MDGs); this is a much more transformative agenda, first and foremost because it's universal but also because it is rights-based and tackles the root causes of inequalities and discrimination; brings together climate change and development in the same framework; and, importantly, focuses on 'leaving no one behind' and eliminating extreme poverty. What's more, where the MDGs were vertical and siloed, the SDGs are more inter-linked and horizontal and require much more integrated approaches.

As a universal, transformative agenda the 2030 Agenda also requires a much more transformative response – not least with regard to development financing, as perhaps best marked by the phrase 'From Billions to Trillions', the title of a key report prepared by multilateral development banks in the run-up to last summer's Third International Conference on Financing for Development held in Addis Ababa, Ethiopia in July 2015[28]. While ODA, which had been falling, rose again in 2015 to US$ 135 billion, it will continue to be an important, but nevertheless just one, piece of the overall SDG financing puzzle. As recently calculated by Development Finance International and Oxfam, an extra US$ 1 trillion a year needs to be mobilised for the SDGs from different sources[29]. In the context of continued sluggish economic growth, sclerotic recovery and further humanitarian crises, a much more far-reaching approach to SDG development financing is needed.

The starting point for such an approach is the Addis Ababa Action Agenda (AAAA) agreed by all countries last July. Building on the principles underlining the Monterrey Consensus, the Addis Agenda goes well beyond ODA and addresses development financing in a more dynamic manner. This includes a stronger focus on international and national sources of financing such as private investment, philanthropy, remittances, South-South assistance, tax flows and foreign direct investment while also stressing the need to counter illicit financial flows, tax evasion and corruption. At the heart of the Addis Agenda lies both the need to create a more enabling international monetary, financial and trading system and the premise that, if properly aligned to the SDGs, existing national and international resources can form the financial backbone for realising the transformative vision of the 2030 Agenda.

An underlying principle of the AAAA is the recognition that "…each country has primary responsibility for its own economic and social development and that the role of national policies and development strategies cannot be overemphasised".[30] While perhaps few commentators realise that as much as 77% of spending on the MDGs came from national resources[31], the key headline message coming out of Addis is that national financing strategies will play an even more decisive role in implementing the SDGs. What's clear is that the bulk of future SDG financing will have to come from enhanced domestic resource mobilisation.

In this context, it's becoming clearer that national budgets – and in particular national budgetary processes – must fundamentally change if we are to have a more transparent approach to national SDG financing. The ambition, comprehensiveness and partnership approaches embedded in the SDGs demand a major change in the transparency of budgets and national budget processes.

That said however, up until now the governments in developed and developing countries alike have not been very forthcoming in publishing and making budgetary and financial expenditure information accessible. The International Budget Partnership's Open Budget Survey 2015 recently noted that out of the 102 countries reviewed, 72 failed to provide adequate information on their national budgets. What's more, around 30% of budget documents that should be published worldwide

What might be the potential consequences of enhanced domestic resource mobilisation? Are countries 'fit' for this new reality? If not, what can governments, international partners and the UN system do to help facilitate the change needed?

FIRST

From a domestic policy perspective, for many countries, developing and developed alike, it will be critically important to improve tax collection, halt illicit financial flows, eliminate tax havens, and actively combat corruption in order to invest in sustainable development. As argued elsewhere in this publication, governments will also need to better understand the myriad of potential sources of finance, innovative mechanisms and potential partnerships to help them achieve their nationally-driven SDG priorities.

SECOND

In order to truly 'leave no one behind', much greater transparency will have to become a sine qua non of future SDG financing. If the 2030 Agenda and the SDGs are based on a shared assumption that change will be driven by shared data and evidence, shared objectives and shared actionable targets that are regularly and openly monitored, then it will only truly succeed if both the targets and the means of implementation, most notably through the budget, are also fully transparent with data accessible to all.

are not publicly available or were published too late. While a critical element of aid transparency is to provide data that is useful, especially to governments in developing countries, in helping them frame strategies and execute budgets, it is clear that often budget documents lack sufficient detail.[32] It is also still too rare for budgets to be developed in a participatory manner; risk-averse officials do not often consider engaging with citizen groups and civil society organisations in financial planning processes to be beneficial. In addition, many budgets are not specifically aligned to wider development outcomes and national strategies.

So what's to be done?

Firstly, while most countries currently provide few opportunities for the public to participate in budget processes, there are a few innovative models to build on for more transparent SDG budgeting such as the country cases of Philippines, South Africa and South Korea show (Examples 1, 2 & 3).

Secondly, it's important that development partners 'walk the talk' both in terms of their commitment to aid transparency and, as already highlighted, in opening up their own domestic budget 'black boxes' at home.

Example 1: Participatory Budgetary Process in Philippines

In Philippines, the government has adopted an innovative approach to public engagement in the budget process, which includes both a mass-based mechanism, known as Grassroots Participatory Budgeting, and consultations at the national level with civil society organisations facilitated by Budget Partnership Agreements. These approaches allow the government to collect broad-based feedback directly from citizens, as well as conduct targeted consultations with civil society organisations that can bring their technical expertise to policy discussions. In addition to their engagement in budget preparation, the Budget Partnership Agreements will also enable civil society organisations to monitor budget implementation.

See Magno, F. 2015. "Public Participation and Fiscal Transparency in the Philippines", GIFT: Washington, DC.

While efforts to improve the transparency of Official Development Assistance (ODA) have been underway since the 2005 Paris Declaration on Aid Effectiveness, only ten traditional ODA providers have met their commitment to aid transparency, accounting for just 25% of total aid.[33] Most recent monitoring of ODA commitments show that just 64% of ODA scheduled for the government sector was actually reflected in government budgets.[34]

That said, initiatives such as the International Aid Transparency Initiative, have been supporting the global drive for publication of more timely, comprehensive and forward-looking information, with over 400 organisations now publishing data on their development activities[35]. The recent adoption of OECD-DAC's purpose codes (sector classifications) also makes it easier to map ODA to the national budget classifications of developing countries[36].

Thirdly, there will be an increasingly pressing need to find different mechanisms and means to help open up the budget process. When I served as UN Resident Coordinator in Tanzania over a decade ago (2002-2006), I remember how important Tanzania's Public Expenditure Review process was and the important role the UN Country Team, including the World Bank and the IMF, played in trying to facilitate a more open, inclusive and participatory budgetary process. While imperfect, it did provide a forum where various working groups comprised of representatives from Government, Parliament, development partners, academia, civil society and the private sector could agree on an analytical agenda to improve Government of Tanzania spending.

Example 2: Participatory Budgetary Process in South Africa

South Africa is another potential model. One of the top four performing countries of the 102 countries surveyed by the Open Budget Survey, South Africa performed well on all three key pillars of efficient, effective and accountable budget systems: (1) budget transparency; (2) public participation in the budget process; and (3) oversight by strong formal government institutions. Among the key factors that accounted for this success, of particular note was that: (a) improved transparency went from being championed by a single Minister (Finance) to becoming the strategic imperative of the National Treasury and embedded in the ethos and values of government; (b) authority for reforms came from robust public finance legislation, which was strategically used to embed policy reform principles; (c) the reform process was largely incremental, driven by need, with space for experimentation and learning from mistakes; and (d) major improvements in transparency were accompanied by related improvements in technology.

See Alam, Asad, Renosi Mokate and Kathrin A. Plangemann (editors) Making It Happen: Selected Case Studies of Institutional Reforms in South Africa, Directions in Development, Washington, DC: World Bank Group (2016).

Example 3: Participatory Budgetary Process in South Korea

In the context of the universal nature of the SDGs and the 2030 Agenda, it is critical that an opening up of budgetary processes for SDG financing also takes place in OECD developed countries. As the Open Budget Survey 2015 notes, South Korea ranks at the top in terms of public engagement and consultation: "The South Korean government has established two innovative mechanisms for civil society and the public to provide input on the performance of government programmes. Firstly, the government has established a two-step process to monitor and evaluate government programmes. In the first stage, line ministries work with a committee of policy experts and members of civil society organisations to conduct an assessment of the ministry's programmes and identify any instances of wasteful spending. In the second stage, the Ministry of Strategy and Finance reviews the line ministries' reports. Programmes that receive poor ratings can face cuts in their budget. Secondly, to gather more broad-based public feedback, the Ministry of Strategy and Finance has established a website to collect public input on wasteful spending and budget misappropriations. Between 1998 and 2013, citizens and civil servants reported 1,922 cases of wasteful spending or misappropriation, resulting in revenue increases of 13.5 trillion won (around US$ 11 billion) and expenditure savings of 2.3 trillion won (around US$ 2 billion)."

Extract from "Open Budget Survey 2015. Open Budgets. Transform Lives", International Budget Partnership (2015).

Going forward, the UN system could play an important role in helping facilitate more inclusive, society-wide dialogues about SDG financing, in line with its important normative function helping countries implement internationally agreed norms and standards around budget transparency, participation and accountability in fiscal policies[37] and accounting standards set by the UN, World Bank, the IMF – as well as more indirectly through the United Nations Statistical Commission, which helps to assure the integrity of official statistics.

Specifically, the UNDS can offer a number of important policy tools to help open up national budgetary processes for more transparent future SDG financing. These range from support to gender-responsive budgeting so that fiscal policies are aligned with gender equality objectives (led by UN Women) to the use of social audits and participatory approaches for monitoring access to, and satisfaction with, basic social services and social protection (supported by several UN entities). Another critical function is analytical work done by the UN to help governments better analyse the impact of national budget flows in specific sectors and spending performance, as was recently done by UNICEF in the context of Mozambique and the education sector (as just one of several examples)[38]. Many UN entities at the global, regional and country levels have made important contributions to the development of national capacities for the production of statistics, including in the generation and collection of reliable budget data. UNDP among other entities is also engaged in broader support strengthening transparency and accountability of public institutions, e-governance, and strengthening the network of civil society organisations.

UN entities can also help countries directly in setting up more transparent budgetary systems as was recently done in Serbia. To overcome the lack of budgetary transparency in Serbia, a system for real-time tracking of State budget expenditure was recently created that enables Serbian Parliamentarians to access real-time data on public expenditures. On a monthly basis the portal provides both dynamic and static reports on direct budget users and budgetary execution, including by source and functional classification.[39] Such fiscal transparency will not only help create better oversight but will also provide a more robust evidence base for assessing whether domestic resources are indeed being effectively invested in projects that contribute towards achieving the SDGs.

Practical experience has shown that when budgets are developed in a participatory manner and include the input of local communities development impact increases.[40] UN Women has been an active player in increasing the participation of women and integrating gender issues in fiscal planning processes, while UNICEF and UNDP among others have focused on integrating the voices of young people in municipal planning and budgeting.[41] Over 1.6 million residents of Mexico City, many of them mobilised through the Mexico City Youth Institute, engaged in the global My World survey on what should be the top sustainable development priorities. The Mexico city-wide initiative not only helped the government identify priorities at the local government level, setting the stage for the implementation of the new SDGs, but it also had a positive impact on local policy making and funding decisions made by the Mexico City government[42].

Finally, it will also be important that the UN and other partners align their future efforts and support with key multi-stakeholder initiatives such as the Global Initiative for Fiscal Transparency, the Open Government Partnership and new initiatives such as the World Bank's BOOST (Spending and performance, data and results) initiative and the Budget Data Package developed by the Open Knowledge Foundation with help from Google, the Omidyar Network and the International Budget Partnership (IBP)[43].

As outlined in the Open Budget Survey 2015, and argued above, effective implementation of the 2030 Agenda and sustainable financing of the SDGs will depend in no small part on national budgetary processes and whether resources are mobilised and spent in an effective, efficient and most critically, transparent manner. Transparent budgeting – whether in terms of availability of comprehensive budget information or meaningful participation of civil society and citizens in budget formulation, approval and oversight – in both the Global North as well as the Global South will play an even more central role in addressing global and country challenges in implementing the SDGs. Hence opening up national budgetary policies for more effective and much more transparent and accountable SDG financing will be a critical universal priority going forward and a key area for broader, and innovative, international partnership and UN support.

These are the personal views of the author and do not necessarily reflect the views of the United Nations.

Pooled Financing

Introduction

UN Pooled Financing for the 2030 Agenda for Sustainable Development Agenda

The rapid change and complexity of the development finance landscape as depicted in Part One of this report will have a significant impact on the UNDS's capacity to support an integrated implementation of the 2030 development agenda. As part of this evolution, UN pooled financing mechanisms are expected to play an increasingly strategic role in financing the new development agenda. Notably, the synthesis report of the Secretary General on the post-2015 sustainable development agenda states that for the UN to be more 'fit for purpose,' "sustained development financing for longer-term support, which enables pooling of resources and brings together development and humanitarian financing, will be critical, as will more coherent United Nations funding mechanisms that unite rather than fragment the development policy framework."

In addition to the Secretary-General's Report, at least a dozen recent inter-governmental and technical UN reports call for less fragmented and more coherent UN funding instruments. They recommend in particular a greater use of pooled funding mechanisms to effectively support and deliver the post-2015 Agenda and better bridge the humanitarian, peacebuilding, climate and development funding channeled through the UN System (collective financing to support collective action).

While pooled funds have long been used by the private sector to finance initiatives that are too risky or capital intensive for individual investors, such instruments are a relatively recent addition to the UN financial ecosystem. The first UN pooled fund was established in the immediate aftermath of the war in Iraq in 2004. For the first time, the Iraq Trust Fund made it possible for donors to contribute to the UN system as a whole, while relying on standing operating procedures of individual agencies. Since 2004, inter-agency trust funds make up about 8.5% of overall non-core of the UN system (or US$ 1.8 billion/year) and operate in a wide range of humanitarian, transitional, development and climate financing contexts in over 100 countries, as well as on different geopolitical scales (global, regional, national and sub-national funds).

While recognising that these financing mechanisms are only one element of a broader UNDS response and portfolio in the fast evolving development financing landscape, the first contribution in this section will discuss the key comparative advantages of pooled financing for the Agenda 2030. It draws upon and summarises the analysis and recommendations from a paper entitled 'The Role of Pooled Financing Mechanisms to Support the 2030 Development Agenda' prepared by United Nations Development Group (UNDG) Advisory Group and with support from the UN MPTFO. The paper was submitted to and recognised by the UN Development Group Principals and the UN Chief Executive Board in March-April 2016.

In the second contribution in this section Adriana Dinu and Oliver Waissbein explore the growing demand for the UN system to help developing countries navigate the variety and complexity of financial instruments available to address climate actions. Meanwhile on humanitarian pooled financing, Gwi-Yeop Son argues that pooled finance can play a catalytic role in improving the way humanitarian response is financed.

Advantages and Potential Drawbacks of UN Pooled Funds

Based on the UN's experience with pooled financing mechanisms over the past 10 years and a review of the existing literature, five key comparative advantages of relevance to Agenda 2030 emerge. These can be summarised as (a) improving aid coordination and coherence; (b) promoting better risk management; (c) broadening the donor base for the UN system; (d) facilitating transformative change; and (e) bridging the silos between humanitarian, peace and security, and development assistance.

a. *Coordination and coherence*

Aid is often fragmented across different donors or channeled through a proliferation of funding instruments. Experience, particularly in humanitarian and fragile contexts, has shown that a small number of well-capitalised pooled funds act as centres of gravity to improve effectiveness, reduce duplication and promote alignment among a wide range of actors.[45] Such funds have usedfinancial resources to unify interventions by UN agencies, multilateral development banks, bilateral institutions and civil society, in support of strategic national priorities. By doing so, they have created positive externalities, economies of scales and incentives for governments, donors and development partners to 'opt-in', rather than 'opt-out' of pooled funding mechanisms.

For example, the Government of Somalia, under the New Deal and in partnership with the international community, has established the Somalia Development and Reconstruction Facility (SDRF). The SDRF is a key element of a joint vision by the Government and international community as articulated in the Somali Compact to create a critical mass of resources that can be channeled more strategically, coherently and effectively.

The SDRF has successfully consolidated a number of different funding instruments and individual programmes under a single coordination platform, in support of a common reconstruction strategy. Development partners have agreed to reduce the number of parallel funding channels and gradually increase the amount of aid channeled through priorities under the SDRF as mutually agreed benchmarks are met.[46] Building on the positive experience between the UN and World Bank in the framework of the Iraq Trust Fund, the SDRF includes three major windows operated by the UN, the World Bank and the African Development Bank. The arrangement has facilitated a clear division of responsibilities across three institutions based on the comparative advantage of each institution to deliver on a set of shared goals. The UN window promotes inter-agency coherence through a number of large joint programmes.

Similarly, humanitarian pooled funds, which emerged from the 2005 Humanitarian Reform agenda, have been serving as centres of cohesion for greater alignment and coordination of emergency response. Country-based Pooled Funds (CBPFs) channel on average 5% of total humanitarian funding requirements (US$ 4.2 billion cumulatively).

Although the success of the One UN Funds as part of an integrated funding framework for the United Nations Development System has been modest[47], the experience of Tanzania, Rwanda and Papa New Guinea[48] among others has proven the ability of well-capitalised Delivering as One (DaO) funds to improve UN Development System coherence. Notably, the pooled funding operational effectiveness study, commissioned by the UN Development Operations Coordination Office (UN-DOCO), concluded that the pooled funds have contributed to strengthen coordination among UN organisations, between the UN and government, and by donors; 86% of the survey's respondents (including Offices of Resident Coordinators, UN Agencies, donors, governments and NGOs) confirmed that the pooled funds are "a good mechanism to encourage coordination between UN and government agencies".

Pooled funds also provide a best practice in terms of the UN system's capacity to manage resources in a unified manner based on standard operating procedures. Similarly, pooled funds have been particularly effective at promoting joint programming between UN agencies. For example, with a US$ 700 million contribution from Spain, the MDG Achievement Fund supported 130 joint UN programmes in 50 countries.

b. *Improving risk management*

Pooled funds potentially offer a number of options to better manage risk for individual development partners, particularly in fragile and conflict-affected contexts. The governance arrangement of a pooled fund, which brings together government, UN and development partners as a steering committee, provides a unique platform for development of a shared understanding and coordinated management of risks, including a better balance between contextual risk, programmatic and institutional risks. Shared decision making and oversight in pooled funds spread individual donor exposure to political and reputation risk.

Fully leveraging this risk management potential of pooled funds could support an earlier release of development finance. The SDRF, for example, has developed a comprehensive risk management strategy, which has facilitated the release of US$ 116 million (as of January 2016) to the UN window from eight contributing partners (including the European Union). However, the UN system's efforts in using pooled funds to manage risks in complex development contexts are still at a nascent stage and additional investment in staff capacity will be required to maximise the risk management potential of pooled funds. Complementary, continuous investment in transparency will need to be supported. The MPTFO's web-based portal, the Gateway[49], which offers public, real-time information, has often been commended by donors as a best practice in this regard.

c. Broadening the donor base

UN pooled funds have created an opportunity for the UN system to expand and diversify its donor base, particularly towards emerging and non-resident donors. The analysis of capitalisation of UN trust funds[50] demonstrates a steady increase in the number of non-traditional donors and associated financial flows. In 2004, UN trust funds were capitalised by 20 different donors, with 6.7% coming from non-top 10 donors[51]. In 2014 the donor base expanded to 53 donors with 21.1% coming from non-top 10 donors, including emerging and non-resident donors. At the height of the Ebola crisis the UN pooled fund on Ebola received 55% of its US$ 165 million contributions from 40 not-top 10 donors, including non-traditional donors and multiple private/individual funding sources, in addition to the Funding from major traditional donors. Since its inception in 2006 the Central Emergency Relief Fund (CERF) has received fully flexible un-earmarked contributions from more than 125 UN Member States and observers as well as from regional Governments, corporations and individuals.

Pooled financing instruments also provide a mechanism to develop, collect and channel resources from innovative financing instruments. While experience within UN pooled funds is limited, several vertical funds have developed innovative mechanisms. For example, the Vaccine Alliance GAVI and the Global Fund against AIDS, Tuberculosis and Malaria have relied on a number of innovative financing instruments such as the International Finance Initiative or the Pneumococcal Advance Market Commitments (AMC). Similarly, the Adaptation Fund is partly funded by a levy on international carbon market transactions. However, designing and implementing innovative financing mechanisms can be expensive, complex, time-consuming and fraught with political risks. For example, building the case for the Pneumococcal AMC required an investment of more than US$ 30 million. Pooled funds can offer the UN system a platform to achieve economies of scale and an expertise that would improve the relative cost-effectiveness of designing and implementing innovative finance mechanisms.

Pooled funds also provide a mechanism to improve the quality of non-core resources for UN agencies to support transformative change. Financial partners softly earmark contributions either at the thematic level or country level and leave the specific allocations to the UN, national government and other development and humanitarian partners to determine based on priorities.

d. Financing transformative change

Pooled funds are investment vehicles designed to promote integrated, cross-cutting initiatives over a long period of time. Compared to individual projects from individual institutions which support incremental change, well-designed pooled funds are based on comprehensive theories of change, which articulate the causal linkages and actions required by all partners in a development context in order to achieve transformative results.

These theories of change ensure that pooled financing is tightly linked to development analysis and planning. Notably, this enables pooled funds to identify and address critical gaps in UN financing that risk undermining interventions, thereby complementing rather than substituting agency specific funding and improving overall coherence.

The theories of change can also be translated into a fund result-based management system, which allows a fund to aggregate the performance of individual projects and report on fund output efficiency, outcome effectiveness and overall impact. The Central African Forest Initiative provides a good illustration of a fund underlined by a robust theory of change and aiming at achieving transformative results through addressing critical funding gaps.

The capacity of pooled funds to support cross-cutting initiatives over a long period of time to achieve transformative change could be particularly critical for addressing multiple SDGs simultaneously in a synergistic manner. Jointly developing the theories of change that would underlay these transformative initiatives could enable the UN system and its partners to better identify and articulate opportunities to work in a more integrated manner.

e. Bridging the silos between humanitarian, peace and security and development assistance

Silo funding for development and humanitarian action at country level can undermine the ability of the UN System to promote synergies and integrated multi-year action between humanitarian responses and longer-term development, particularly in a protracted crisis. A new generation of pooled funds facilitates blending, sequencing and cross-referring development and humanitarian funding.

There are two ways that pooled funds have demonstrated their ability to bridge silos. The first is by establishing parallel country humanitarian, transition, peacebuilding and development funds and managing them in an integrated manner under the triple 'hat' of the DSRSG/HC/RC. In such contexts, a system of cross referencing enables one pooled fund to refer projects that fall outside its scope to another.

For example, the water supply and sanitation needs of a community can initially be met by a humanitarian fund during an emergency. Should the emergency move to prolonged displacement, more sustainable water solutions could then be supported by a transition or development fund. The presence of both Country-based Pooled Funds and Recovery Funds, in a given country, offers opportunities to bridge silos through such cross referencing. However, experience in the Central African Republic, Democratic Republic of Congo, and South Sudan shows that this option tends to be under-utilised due to the limited familiarity of UN managers with fund cross-referencing modalities.

The second option is to develop bridging pooled funds. The Peacebuilding Fund (PBF), for example, with its greater risk tolerance and catalytic ambition, plays an important role in promoting UN integration at Headquarters and at the country level, while increasing cooperation with other partners. Experience has also shown that the PBF's ability to provide fast and flexible funding has catalysed and leveraged additional development assistance.

For example, in the Central African Republic, the PBF's US$ 4.6 million through the Central African Republic Multi-Partner Trust Fund, was critical in leveraging over US$ 15 million from other donors in 2014, including a first time contribution from the U.S. The UN Ebola Response Trust Fund, which was designed to address a complex set of humanitarian, emergency response and development issues, was funded by a blend of humanitarian and development financing. A third example is the new Global Acceleration Instrument. It is specifically designed to bridge the silos between humanitarian, peace, security and development finance by investing in enhancing women's engagement, leadership and empowerment across all phases of the crisis, peace, security, and development continuum. Bridging pooled funds have proven versatile and could further enhance the UN system's ability to address the interconnected nature of the SDGs.

Potential Drawbacks of Pooled Funding of the UNDS

1. *Additionality – is it a zero-sum game?*

One of the concerns about UN pooled financing mechanisms is that they might compete with agency specific fundraising efforts. However, evidence shows that the introduction and growth of pooled funding instruments in the UN system over the past 10 years has not been a zero-sum game in relation to agency-specific non-core funding. While pooled financing to UNDS agencies has grown by approximately 30% since 2007, the agency-specific non-core resources increased by 60% during the same period. This points to a complementary, portfolio optimising funding pattern between pooled and agency-specific mechanisms rather than a competitive one.

The existing documented cases of competition have been between different multi-partner trust fund solutions (UN, European Union, IFIs and bilateral trust funds) rather than between UN trust funds and other UN streams of finance. The UN's Global Financing Facility and EU Regional Trust Fund in response to the Syrian crisis are examples in this regard. As shown by the experience in Somalia, the UN system seems better positioned when aligned together around a pooled instrument rather than acting individually.

As highlighted above, pooled funds can also broaden the donor base, attracting resources that would otherwise have not been channeled through the UN system. Even where the donor base may overlap, pooled financing mechanisms only need mobilise between 15-20% of overall non-core funding portfolio in order to leverage their comparative advantages in terms of addressing funding gaps for coherence and using money as a unifier rather than as a divider. This way, they would complement and not substitute agency specific fundraising, and be designed and managed as such.

2. *Transaction costs*

Pooled funds do introduce a layer of intermediation and thus increase the risk of higher transaction costs for UN agencies compared to their core or direct non-core resources. UN inter-agency pooled fund mitigate this risk by operating as pass-through mechanisms. Thus, they do not require all participating organisations to comply with the operating procedures of a lead agency. Instead, pooled funds offer a flexible mechanism that enables participating organisations to handle implementation according to their own operating procedures for procurement and financial management. By avoiding any duplication of operating procedures, pass-through mechanisms minimise implementation delays and transaction costs.

The Pooled Funding Operational Effectiveness Study[52] revealed that any increase in transaction costs may have been due to the humanitarian and One UN reforms at the time, and not to a great extent due to the pooled fund mechanism itself. As pooled funds were meant to improve cooperative UN delivery, this implied higher coordination costs. However, over 70% of respondents (governments and donors) confirmed that the pooled funds did not increase transaction costs (in terms of planning, coordination processes & meetings), compared with other financing mechanisms. And 52% of UN Agency respondents reported no increase in transaction costs for planning and coordination resulting from their participation in pooled funds. These fund management and effectiveness issues must continue to be studied.

Similar conclusions emerge from the independent evaluation of lessons learned from the UN's Delivering as One approach to enhanced coordination at country level. For governments and partners, pooled funds seem to actually reduce transaction costs. As UN inter-agency pooled funds almost always reduce transaction costs for national governments and donors, it increases the UN value proposition as an operational partner-of-choice. For UN participating entities, it appears that transaction costs vary across funds. As shown by some poorly capitalised One Funds, the risk of higher transaction costs associated with coordination and reporting is directly related to the size of the fund itself and the average size of its transfers. Poorly capitalised funds tend to make small transfers, increasing the transaction costs for individual agencies. Funds are poorly capitalised when they are poorly designed and do not add value within the broader financing ecosystem; or when there is a proliferation of comparable pooled funding instruments.

Today, 66% of all UN Multi-Agency Trust Funds and over 90% of joint programmes are capitalised at above the UNDG established threshold for pooled fund operations (US$ 5 million/year for MDTFs and US$ 1 million per Participating UN Organisation for joint programmes). The efforts to improve the overall capitalisation of UN pooled funds continue and have led undercapitalised funds to be phased out or redesigned. Tightly earmarked contributions from donors to pooled funds also increase transaction costs for agencies. UNDG guidelines allow for broad earmarking only at the thematic or outcome level to discourage donors from this practice.

Conclusion

The UN has accumulated a wealth of experience over the past decade with system-wide development, humanitarian and recovery pooled funds. This experience has highlighted that pooled funds can become even more powerful mechanisms for better positioning the UN system to deliver the 2030 Agenda, as part of a portfolio of financing instruments. Funding drives change and well-designed collective funding can drive collective action and UN reforms. At the same time, they have potential drawbacks and could create new inefficiencies if not done in the right way.

The strength and success of UN-pooled financing instruments will depend on the capacity of the UN system and its financing partnerships at three levels: fund design and administration, fund operations and fund implementation. To leverage the potential benefits and limit the potential drawbacks, upfront investment in fund design will save time, increase the likelihood of capitalisation, lower transaction costs and increase impact. The analysis presented in the previous section points to a number of features that pooled funding mechanisms should present.

To increase capitalisation and performance of these instruments, efforts could be made to strengthen partnerships that consolidate small pooled funds into fewer and larger UN funds at the global, regional and country levels and with strong partnerships with IFIs. In addition, there is a need to invest in the capacity of the UN system and partners to identify, access, combine and sequence the right type of financing instruments to meet national priorities across the humanitarian-development continuum. UN managers will need support on different financing options at the global, regional and country levels; the comparative advantages and drawbacks of these options; when inter-agency pooled financing mechanisms are likely to be the most appropriate vehicles; and how to deploy and access these mechanisms in the most effective manner.

Given the rapid evolution of pooled financing instruments and the increasing range of fund modalities employed by the WB Group, EU, Regional Development Banks and other development partners, the UN system's coordination mechanisms should, in the future, be strengthened. This would ensure that innovation, quality assurance and communication around UN pooled financing mechanisms and financing-for-purpose is not a one-off, but an on-going process anchored in partnership with a broad range of financing instruments. This would encourage the development of new business solutions, especially in response to country-led demand, and also focus on improving the UNDS's capacity to strategically approach pooled funding. Pooled funds represent only a small component of the broader UNDS response required to bridge the SDGs financing gap. With the right strategic position and growth in the development financing landscape, pooled funding can continue to grow and provide even more resources and innovative approaches for implementing the SDGs in an integrated manner together with IFIs, private sector, key donors and other engaged stakeholders.

Climate Finance: Designing, Combining and Sequencing Financial Instruments to Catalyse Investment in Sustainable Development

by: Adriana Dinu and Oliver Waissbein, UNDP-Global Environmental Finance

Climate change and development are closely interlinked. This emerges clearly from the global discussions that are shaping the world's agenda for the next 15 years. The Sustainable Development Goals (SDGs) include a dedicated goal on climate change, and climate itself influences the goals on poverty, water, food security, energy, marine and terrestrial ecosystems, and responsible consumption, amongst others. The Addis Ababa Action Agenda states that finance needs to be climate-informed, and that addressing climate shocks and stresses is central to protecting development gains. In turn, the Paris Agreement, with its collective goal to strengthen the global response to climate change, explicitly situates climate efforts in the context of sustainable development.

Climate finance can be understood as funding which supports activities that reduce emissions (mitigation), or which supports countries to adapt to the impacts of climate change (adaptation). In 2009, developed countries made a commitment to increase international climate finance to US$ 100 billion per year by 2020, from both public and private sources. The Paris Agreement now builds on this commitment, setting a new collective goal from a floor of US$ 100 billion after 2020. In 2014, total international public climate finance was estimated at US$ 43.5 billion, of which US$ 33.5 billion was in mitigation, and US$ 10.0 billion was in adaptation[53].

A complex architecture exists for climate finance. Climate finance can be international or national, public or private, or market-based. Within international public climate finance, a variety of sources exist (including multilateral vertical funds, bilateral initiatives and donors, and development banks. The funds are then channeled via a range of actors (including multilateral, bilateral, national and non-governmental actors). These actors utilise a variety of financial instruments, encompassing both grant instruments and non-grant instruments (for example public loans, guarantees and public equity). The Green Climate Fund, the Global Environment Facility and the Adaptation Fund operate in this context, and following the Paris Agreement, will continue to play major roles (see Box 7).

Emerging Trends

Climate finance is increasingly characterised by two related trends.

Firstly, given the urgency, scale of action and vast financing needed to address climate change, it is clear that limited public capital will need to catalyse far greater sums of private capital. This is particularly the case in the area of climate change mitigation activities, where climate investments can offer an attractive return and can be well suited to private sector investment. As such, public climate finance is increasingly programmed with the objective of market transformation, supporting developing country governments to create an enabled investment environment which can attract additional public and private finance into climate activities.

Secondly, developing countries face real challenges navigating the variety and complexity of financial instruments available to address climate actions, and to access and blend the underlying sources of climate finance for these financial instruments and associated investments. To do this, developing country governments typically need to select and implement packages of measures. This involves an accurate diagnosis of the various barriers and risks that are currently holding back climate investments, and then selecting and implementing policy and financial instruments to target these risks, with the overall aim of creating a risk-return profile that can most cost-effectively attract investment.

BOX 7: The Green Climate Fund, Global Environment Facility and Adaptation Fund

The Green Climate Fund, Global Environment Facility and Adaptation Fund are vertical funds serving as financial mechanisms for the UN Framework Convention on Climate Change (UNFCCC).

The Green Climate Fund (GCF), established in 2010, is expected to be the principal fund for a substantial share of the annual US$ 100 billion of international climate finance. It is focused on achieving transformational impact in climate change, supporting a paradigm shift to low-carbon and climate resilient development. To date, as of April 2016, US$ 10.3 billion has been pledged to the GCF from 42 countries, including from nine developing countries. The GCF has to date accredited 32 entities as implementing partners, including UNDP, UNEP and WFP, and it approved its first eight projects in November 2015, for a total of US$ 168 million. These first eight approved projects included two adaptation projects, in Malawi and the Maldives, submitted by UNDP. The fund has stated it is expecting to approve additional projects totalling up to US$ 2.5 billion in 2016.

The Global Environment Facility (GEF) was established in 1991 to help tackle our planet's most pressing environmental problems. It was founded by the World Bank, UNDP and UNEP, which were also its original implementing agencies. The GEF now partners with 18 implementing agencies in total, including further UN system entities (IFAD, FAO and UNIDO). The GEF was originally entrusted as the financial mechanism of the UN's Rio climate conventions, and has since added several additional multilateral agreements on the way becoming the world's largest public funder of environmental projects. The GEF is replenished every four years and since its inception has provided US$ 14.5 billion in grants and mobilised US$ 75.4 billion in additional financing for almost 4,000 projects.

The Adaptation Fund (AF), established in 2001, finances interventions aimed at increasing climate resilience in agriculture, coastal zone management, disaster risk reduction, food security, rural development and water management. Since 2010, the AF has invested over US$ 330 million to support 61 countries, including 22 Least Developed Countries and 13 Small Island Developing States, and benefiting some 3.5 million people directly. To date, there are over 40 accredited entities to the AF, spanning national, regional, and multilateral entities (including UNDP, UNEP, UNESCO, UN-Habitat, WFP and WMO). The AF is financed by government and private donors, and also from a two percent share of proceeds under the Kyoto Protocol's Clean Development Mechanism.

The role of UN agencies has traditionally been to channel grant instruments to provide technical assistance to developing countries, focusing on policy measures. In this emerging climate finance landscape, there is a growing need for UN agencies to support developing countries in the designing, combining and sequencing of both grant and non-grant instruments to catalyse climate investment. In practice, this requires UN agencies to partner with international and national development finance institutions in coordinated and integrated actions, supporting developing countries to combine both policy and financial measures. In recent years, UNDP has increasingly been following this approach in its climate activities, as is showcased in the two examples (Boxes 8 and 9).

In conclusion, with increasing climate finance flows anticipated in coming years, the UN system will likely be called upon to respond to a growing demand from developing countries for support in accessing climate finance, in both scale and complexity. In this context UN agencies have the opportunity to evolve their programme offering, moving to support greater integration of grant and non-grant financial instruments, and with the potential of realising significant benefits for developing countries, both in addressing climate change and advancing sustainable development.

These are the personal views of the authors and do not necessarily reflect the views of the United Nations.

BOX 8:
Climate finance case study: A green mortgage scheme for rural homes in Uzbekistan

This US$ 6 million GEF-funded UNDP supported project, approved in 2015, will promote the greening of Uzbekistan's rural housing programme. This pre-existing programme will construct 75,000 standard (non-green) rural homes in the period 2016-2020, at an approximate cost of US$ 5 billion. The project seeks to use limited public resources to shift this housing programme to a greener trajectory.

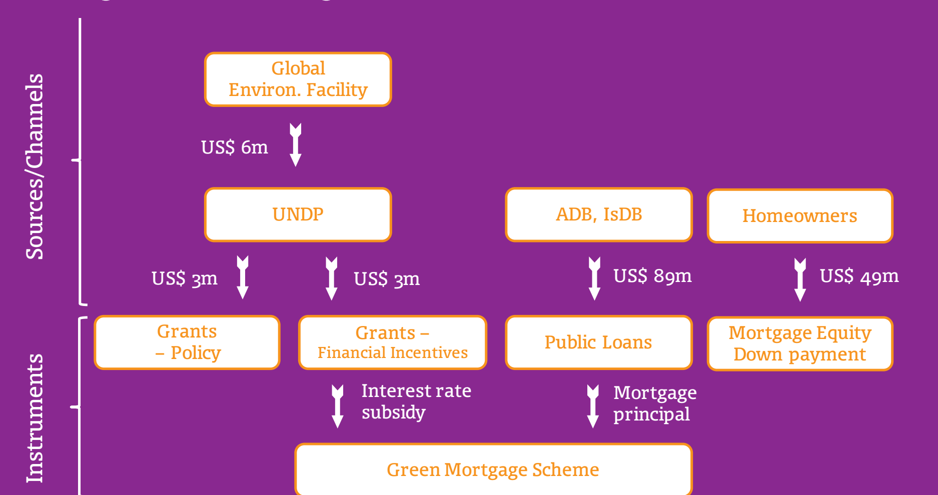
The project designs, combines and sequences multiple instruments and sources of financing.

The financial centrepiece of the project is a pilot green mortgage scheme, which will act to incentivise home-owners to opt for green homes (energy efficient, solar powered) via lower-cost green mortgages. The initial pilot is for 3,000 green mortgages. The scheme combines a US$ 3 million UNDP grant-instrument (providing a financial incentive for each green mortgage secured), with public loans from the Asian Development Bank (ADB) and Islamic Development Bank (IsDB). These loans, which will be recycled as mortgages, are estimated to total US$ 89 million for the pilot.

The pilot will also leverage domestic climate finance, supplied by the participating owners of green homes, who themselves are estimated to provide US$ 49 million in equity down-payments for the pilot.

A range of sector-wide, policy measures, including support for green building codes and for the domestic building materials supply chain, will be funded by an additional US$ 3 million UNDP grant instrument. These measures aim to create an enabled policy environment, laying the ground-work for a successful pilot, and the subsequent expansion and replication of the green mortgage scheme nationally, across the entire rural housing programme.

Combining and sequencing instruments



Source: UNDP-GEF project document

Anticipated SDG impacts

Access to food

2 — Reduced payments for energy provide every rural household with extra USD 165/year to be spent on food and basic services

Industry & Innovation

9 — Extra demand of USD 0.6m generated in manufacturing industries for every USD 1m Invested in green rural home construction.

Gender Equality

5 — Improved access to energy reduces household drudgery to provide at least 1-3 more hours a day of free time for women.

Climate Action

13 — 2.8 million tonnes of CO_2 emissions slashed over the 20 year lifetime of rural buildings.

Source: UNDP-GEF project document

BOX 9:
Climate finance case study: Derisking renewable energy investment in Tunisia

For more information, please visit www.undp.org/DREI

This US$ 4 million GEF-funded UNDP supported project, which began implementation in 2016, is supporting Tunisia to achieve the 2030 investment targets in the Tunisia Solar Plan (TSP).

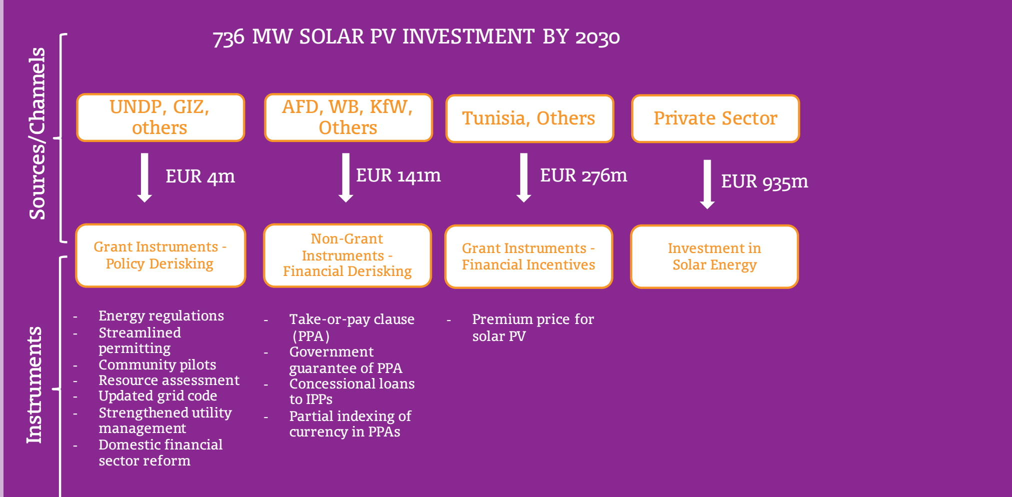
The TSP is Tunisia's official long-term plan to harness renewable energy and energy efficiency to advance sustainable development. It is the major component, accounting for 75% of emission reductions, in Tunisia's recently submitted Intended Nationally Determined Contribution (INDC) to the UNFCCC.

Based on modelling using UNDP's innovative 'De-risking' methodology, the project identifies the most cost-effective combination of public measures to address investment risks for private sector investment in renewable energy. Three categories of instruments are being designed, combined and sequenced:

- 'Policy derisking instruments,' for example, power market regulations and streamlined permitting procedures
- 'Financial derisking instruments', for example, loan guarantees and foreign exchange hedging
- 'Direct financial incentives', for example, a premium price for renewable energy generators

The modelling is demonstrating how carefully targeted combinations of public instruments can have significant benefits in bringing reliable, more affordable and cleaner power to Tunisia. Initial results have shown how derisking instruments estimated to cost EUR 145 million to 2030, complemented by financial incentives estimated at EUR 276 million, can catalyse EUR 935 million in private sector investment in solar energy. Such measures will create savings to Tunisia of EUR 359 million over the next 20 years, as compared to Tunisia's baseline energy costs.

Combining and Sequencing Instruments



Source: UNDP-GEF project document

Anticipated SDG impacts

Poverty

23% anticipated reduction in energy costs from solar power generation, benefiting households living in poverty.

Affordable & Clean Energy

Cumulative primary energy savings of 17 Mtoe from renewable energy over the period 2015-2030.

Decent Work

Approximately 14,000 jobs equivalents created in renewable energy by achieving the Tunisia Solar Plan.

Climate Action

46% reduction in carbon intensity compared to 2010 due to theimplementation of the Tunisia Solar Plan.

Source: UNDP-GEF project document

Humanitarian Pooled Financing

by: Gwi-Yeop Son, Director of Corporate Programmes Divison, OCHA

The 2030 Agenda to achieve the Sustainable Development Goals (SDGs) includes a vision for global solidarity with people in fragile environments, a renewed commitment to resolve or prevent conflict, and recognition of the important role of migrants, internally displaced people, and refugees in achieving these goals.

Recognising that many of the drivers of humanitarian crises 'threaten to reverse much of the development progress made in recent decades,' the Agenda calls for greater cooperation that will 'leave no one behind,' which also constitutes one of the core responsibilities formulated by the Secretary-General in his report for the World Humanitarian Summit 23-24 May 2016. Honouring this commitment requires reaching everyone in situations of conflict, disasters, vulnerability and risk.

Bold action will be required to meet current and future humanitarian needs in a meaningful and sustainable manner. This includes greater investments in national capacities, commitments to overcome protracted crises, breaking down silos and moving toward risk-informed humanitarian and development interventions that prevent crises and build resilience. This includes, in addition, multi-year humanitarian funding to achieve collective outcomes, and ensuring that a sufficient and diverse resource base and adequate instruments are in place to achieve higher efficiency and greater transparency of humanitarian action.

The Role of Humanitarian Pooled Funds in the Future

The gap between funding and needs has widened considerably in the last ten years despite the net growth in humanitarian donor contributions, which are at record levels. Only 55% of the US$ 19.5 billion humanitarian appeal for 2015 was covered, while the appeal amount at the start of 2016 is already higher, at US$ 20 billion. In this context, the proportion of funding channeled annually through the OCHA-managed humanitarian pooled funds, the Central Emergency Response Fund (CERF) at global level and country-based pooled funds (CBPFs) in individual humanitarian operations, however modest (roughly 5% of the 2015 global humanitarian appeal), reflects the potential of humanitarian pooled funds in individual humanitarian operations to help maximise the value of resources channeled through them (see Box 10 and 11).

Humanitarian pooled funds will play a catalytic role in improving the way humanitarian response is financed, and will contribute to ensuring that no one is left behind. Mechanisms like the CERF and CBPFs, which are highly contextualised and inclusive, empower humanitarian actors to locally programme and deliver assistance in a principled, timely and coordinated manner. CERF and CBPFs strengthen the leadership of Resident and Humanitarian Coordinators (RC/HCs) and their ability to use funding strategically to save lives when crises strike; promote early action and ameliorate the impact of crises on communities and their livelihoods; and improve operational conditions on the ground, therefore increasing the efficiency and effectiveness of the response.

The local and collaborative nature of humanitarian pooled funding under the leadership of RC/HCs also allows for more coherent coordination with other funding streams, including other pooled funding instruments.

Thus, the vision of the Secretary-General's Agenda for Humanity calls to fully fund inter-agency humanitarian appeals as soon as possible while immediately increasing the minimum funding level from 60% (current average) to 75%. As part of this vision, the Secretary-General is also calling to increase the size of CERF to US$ 1 billion and the overall proportion of humanitarian appeal funding requirements channeled through CBPFs to 15% by 2018.

This degree of expansion, combined with a commitment to make these mechanisms nimbler and faster, will allow humanitarian pooled funds to become fit for the future, improving coordination and enhancing HC leadership, and providing the humanitarian community at country-level with more flexible funding for collective humanitarian response. Specifically, CERF and CBFPS could do the things mentioned in the illustrations on the next page.

CERF could:

Make larger grants to individual humanitarian crises, thereby increasing CERF's strategic impact and added value, while reducing transactions costs.

Enhance the ability of the Emergency Relief Coordinator (ERC) to use CERF strategically at the global level as a response enabler and balancing instrument to ensure an equitable allocation of funds between emergencies.

Expand CERF's role in funding early response to imminent humanitarian shocks.

Significantly increase initial allocations to large scale sudden onset emergencies (including Level 3 emergencies) where an early injection of fast and flexible funding is critical for rapidly scaling up response.

Provide more robust support for the growing funding gaps in ongoing and protracted crises.

CBPFs could:

Further accelerate allocations to boost frontline response in mission-critical situations such as sudden onset and Level 3 emergencies.

Increase geographic coverage and apply a much faster, lighter and responsive CBPF setup process through the deployment and activation of "pop-up CBPFs" (i.e. simplified, temporary CBPFs that can be easily activated and deactivated, or can evolve into a fully-fledged CBPF should the situation demand it).

Strengthen the capacity of frontline responders, especially national NGOs, to engage in the programming and delivery of aid through direct access to funding.

In sum, increasing the amount of resources channeled through humanitarian pooled funds can significantly contribute to closing the funding gap, especially in neglected or underfunded emergencies; increase the efficiency and transparency of funding through nimble and well-coordinated allocations guided by actors on the ground and on the basis of need; increase global contingency reserves; support the delivery of humanitarian response plans at country level; and empower frontline responders, especially national NGOs, in the programming and delivery of assistance through direct access to funding.

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BOX 10: Central Emergency Response Fund (CERF)

CERF was initially set up as the Central Emergency Revolving Fund in 1992 under UN General Assembly Resolution 48/182, and consisted of a US$ 50 million revolving loan element. This was expanded in 2005 to become the Central Emergency Response Fund with the addition of a grant element with an annual fundraising target of US$ 450 million. During its first decade of operation CERF has received in excess of US$ 4.4 billion in contributions from more than 125 UN Member States and observers, as well as from regional Governments, corporations and individuals.

CERF's objectives are to:

- Promote early action and response to reduce loss of life
- Enhance response to time-critical requirements
- Strengthen core elements of humanitarian response in underfunded crises
- Enhance coordination and strengthen the leadership role of the HC

The UN Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator (ERC) approves all CERF allocations and manages the Fund on behalf of the UN Secretary-General. The ERC is supported by the CERF secretariat, which is situated within the Office for Coordination of Humanitarian Affairs (OCHA) in New York. At country level, Resident and Humanitarian Coordinators lead the CERF allocation process for humanitarian partners.

In an average year, CERF allocates US$ 450 million to humanitarian operations in some 50 countries. CERF grants are allocated to UN programmes, specialised agencies and funds, as well as to the International Organization for Migration. International and national non-governmental organisations are important partners in the CERF allocation decision-making processes. They receive CERF funding indirectly when they work in partnership with recipient UN organisations.

While CERF disbursements have increased in absolute terms they have declined from around 7% of humanitarian requirements in 2007 to 2.3% in 2015 due to growing levels of need as reflected in appeals. Similarly, CERF contributed 2.1% of the total global humanitarian contributions in 2014 compared to 3.5% in 2008. However, CERF has remained a significant source of humanitarian funding because other donor funding volumes have remained quite static. Global humanitarian contributions (appeal and non-appeal funding) have overall remained relatively unchanged since 2008, staying in the region of US$ 13-14 billion annually with a spike in 2010.

BOX 11: Country-based Pooled Funds (CBPF)

OCHA established the first CBPF in Angola in 1997; a small fund which mobilised less than US$ 2 million annually until 2002. Today, OCHA manages 18 CBPFs that allocate on average US$ 500 million combined per year for humanitarian assistance. CBPFs operate according to global guidelines that outline their principles, objectives, management and operational standards.

CBPFs are established by the ERC with advice from OCHA's senior leadership, and monitored and supported by the Funding Coordination Section in New York. CBPFs are managed by OCHA at country-level under the leadership of the HC. CBPFs rely on multi-stakeholder Advisory Boards that support the HC on the definition of allocation strategies, project selection, resource mobilisation, risk management and transparency.

CBPFs objectives are to:

- Provide timely, coordinated, principled assistance to save lives, alleviate suffering and maintain human dignity
- Improve the effectiveness of humanitarian response by directing funding towards priority humanitarian needs in support of Humanitarian Response Plans (HRPs) or the humanitarian planning framework in place
- Strengthen the leadership and coordination role of the HC

Although net donor contributions to CBPFs have increased over the years, CBPFs face a similar challenge in evenly reaching and maintaining critical mass in proportion to humanitarian appeal funding requirements (see table below). CBPF guidelines require all funds to align with and support the delivery of humanitarian response plans; however, a limited funding scale could hinder the programmatic impact and relevance of CBPFs.

Despite this challenge, increased donor support, especially throughout the last five years, is a clear recognition of the role of CBPFs as an optimal instrument for providing direct access to funding for frontline responders, in particular national NGOs (which according to evidence are particularly disadvantaged*). CBPFs are currently the largest source of direct international humanitarian funding for national and local NGOs. In 2015, CBPFs allocated 60% of funding to NGOs, including 17% to national NGOs (i.e. US$ 85 million in 2015, almost twice the amount reported as provided in total direct, humanitarian funding to local actors in 2013).

Size of CBPFs as percentage of the HRP funding requirements in 2015	
Haiti, Colombia, Myanmar, Occupied Palestine Territory (oPT) and Pakistan	1%
DRC and Syria funds**	2%
Somalia, Sudan and Yemen	3%
CAR	4%
South Sudan	5%
Iraq	6%
Afghanistan	7%
Ethiopia	12%
Average	**5%**

* According to Global Humanitarian Assistance the share of finance going directly to national and local non-governmental organizations dropped by half, from 0.4 per cent in 2012 to just 0.2 per cent in 2014

**Syria, Turkey, Lebanon and Jordan CBPFs.

Financing for Sustaining Peace

Introduction

In April 2016 the UN Security Council and the UN General Assembly adopted ground-breaking parallel resolutions (A/RES/70/262 and S/RES/2282 (2016)) that include the most comprehensive UN language on peacebuilding to date, emphasising that all three pillars of the UN – Peace and Security, Human Rights and Development – must work closely together on the shared task and responsibility of sustaining peace. It is recognised that sustaining peace requires coherence, sustained engagement and coordination between the General Assembly, the Security Council and the Economic and Social Council.[45]

Equally critical for sustaining peace is rapid, flexible and predictable funding for agreed priorities built on strong partnerships. In actuality, however, financing for peacebuilding remains scarce, inconsistent and unpredictable as is elaborated in the following contribution by Oscar Fernandez-Taranco. The lack of consensus around the concept of peacebuilding has undermined the ability to measure success and, in turn, to persuade donors to commit any significant amounts of funding. This is compounded by the challenge of producing evidence of the impact of peacebuilding interventions when change often manifests itself only after decades. Resources that are provided are typically granted with one or maximum two year commitments, often with preference for covering fixed costs rather than recurring ones and are rarely channelled through pooled instruments. This defies the evidence that peacebuilding is a long-term endeavour that typically takes 20 to 30 years as well as the detrimental impact of fragmentation that is in large part driven by incoherent financing.

Financing, in addition to the mobilisation of resources, encompasses the use of financial instruments, risk management and agreements between national and international partners (often discussed in the form of compacts) that articulate priorities and commitments.[56] The past years have shown some convergence on what ought to be prioritised in conflict affected or fragile states to strengthen peace and could form the basis for a compact. The International Dialogue on Peacebuilding and Statebuilding, the most global, participatory effort thus far to develop consensus around approaches and tools to measure peacebuilding, identified five agreed Peacebuilding and Statebuilding Goals that can provide a useful starting point for targeting and monitoring peacebuilding financing.[57] The interlinked and mutually reinforcing Sustainable Development Goals of the 2030 Agenda, including Goal 16 with its 12 targets related to peaceful and inclusive societies, also provides an agreed-upon basis.

In addition to a critical look at what is and what should be prioritised for receiving peacebuilding financing, an equally important question for consideration is who is being funded. Resolutions A/RES/70/262 and S/RES/2282 (2016) emphasise that while national ownership is critical to sustaining peace, broad participation is essential for advancing national peacebuilding processes and objectives in order to ensure that the needs of all segments of society are taken into account. This inclusiveness must be reflected in and supported by financial resources. While playing an essential and recognised role in efforts to build and sustain peace at local, national and international levels, civil society organisations are generally underfunded, with women's and youth organisations a particularly vulnerable subset. This requires a shift in prioritisation among donors and national governments with quota systems being considered to ensure that women and youth organisations receive adequate financial support to meaningfully fulfil their potential as peace actors.

In summary, effective financial support for sustaining peace will require collective action across policy communities that recognises it as a slow, iterative process with long time frames and most likely to succeed with vertical and horizontal coalitions that support a shared vision. This will not be possible without effective and efficient partnerships between the UN and the World Bank as well as with regional development banks that become more predictable and institutionalised.

The UN cannot succeed at revitalising and strengthening its ability to sustain peace and to save succeeding generations from the scourge of war without significant changes to how peacebuilding is financed. In the following contribution, Oscar Fernandez-Taranco suggests this can be done with the UN system consolidating financing requests for conflict-affected countries, covering the short, medium and long-term outcomes in humanitarian, development, mediation, reconciliation and peacebuilding sectors, as one.

UN Peacebuilding Financing

by: Oscar Fernandez-Taranco,
Assistant Secretary-General for Peacebuilding Support

"Financing is about much more than the flow of resources. It affects behaviour, aid architecture, the power and influence of different groups, priorities and capacity development. It signals approval or disapproval. And there is no neutral choice – making a financing decision always creates consequences that go far beyond the time scale and scope of the funded activity."

OECD,
Transition Financing:
Building a Better Response
(Paris, 2010)

Official Development Assistance (ODA) to conflict-affected countries has increased over the last dozen years or so. Yet, these flows are volatile and concentrated in a few countries, leaving several 'aid orphans' with minimal external assistance.

The majority of this increase is a result of aid channelled through traditional development and humanitarian financing instruments. Alongside these, however, multilateral organisations have also developed specific instruments targeting causes of conflict and providing financing for specific peacebuilding activities.

Whilst financing for peacebuilding has increased, overall it remains low in comparison to total aid flows to conflict-affected states, especially within 'aid orphans'. Furthermore, the growth of complexity in the absence of coordination mechanisms for peacebuilding financing has arguably contributed to gaps, particularly in areas balancing risk tolerance with long-term commitments.

Global financial architecture related to peacebuilding

The global architecture for peacebuilding has evolved significantly over the last 10 years. In 2005, when the UN's Peacebuilding Architecture was created, the UN was one of the few multilateral organisations – if not the only one – with financing instruments dedicated to peacebuilding.

Today, most multilateral organisations have established financial instruments and technical capacities targeting support to transitional or conflict-affected countries. They include, amongst others, the African Development Bank, the European Union and the World Bank Group.

These instruments reflect the comparative advantages of the originating institution. For example, the partnership of the UN with the World Bank builds on the reciprocity of the UN's strengths in politics, peacekeeping, logistics and deep-field presence and the Bank's strengths on policy analysis and financial resources.

In addition,

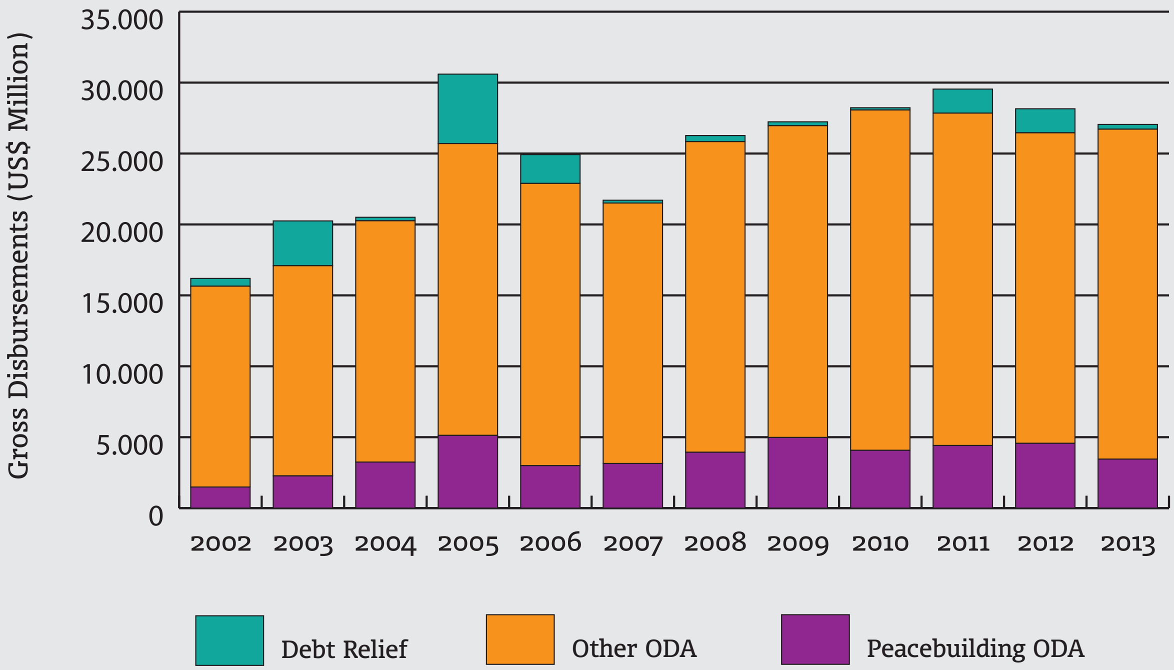
- the African Development Bank Fragile States Facility provides support for recovery operations (infrastructure development, building state capacity and accountability and financing regional projects); clears arrears for eligible countries; and supports interventions through non-sovereigns (e.g. Non-Governmental Organisations and UN agencies); and
- the European Union's Instrument for Stability and Peace provides technical and financial assistance to re-establish the conditions necessary for the implementation of the EU's development assistance under other long-term instruments and to address global, trans-regional and emerging threats.

The establishment of these instruments is partly a response to the increasing concentration of extreme poverty in conflict-affected states. Equally however, they are a reaction to the increased evidence[58] pointing to the misalignment of traditional financing instruments in addressing the needs of conflict-affected countries or, perhaps more importantly, in targeted interventions to stave off crisis. For example, there are a number of activities in the peace and security area that are more difficult to finance from Official Development Assistance (ODA).

Key issues: Financing for peacebuilding flows

Currently, there are no standardised definitions for what constitutes peacebuilding actions. As a consequence, there are no definite estimates of the size of global

FIGURE 18:
Peacebuilding categories versus total ODA, debt relief included, for 31 conflict-affected countries, 2002-2013



Source: IEP-PBSO study cited in the report, based on OECD-DAC ODA data.

peacebuilding expenditures, nor clear comparable country or sector-specific data on peacebuilding expenditures. A recent research paper by the Institute for Economics and Peace and the UN Peacebuilding Support Office (PBSO)[59], Stocktaking of Global Peacebuilding Expenditures, makes an attempt to change that state of affairs, and what follows is partly based on that paper. What is counted as peacebuilding in the paper is based on a coding of ODA categories and sub-categories under the first three priority areas identified in the 2009 report of the Secretary-General on Peacebuilding in the immediate aftermath of conflict (A/63/881-S/2009/304), which are 1) Basic safety and security; 2) Inclusive political processes; and 3) Core government functions. These three categories are similar to Peacebuilding and Statebuilding Goals 1, 2, 3 and part of 5 of the New Deal for Engagement in Fragile States.[60]

ODA for peacebuilding is small, volatile and distributed very unevenly

As recognised in the Addis Ababa Action Agenda[61], ODA represents one of the most important sources of financing for conflict-affected countries. [62]

Gross official development assistance[63] (excluding debt relief) in constant US$ to 31 conflict-affected countries[64] increased from US$ 11.7 billion in 2002 to US$ 35.8 billion in 2013 (see Figure 18). This compares to US$ 135.33 billion in total development aid to all countries from the members of the Development Assistance Committee of the OECD in 2013.

Yet, peacebuilding[65] accounts for only a relatively small proportion of total aid. In 2013, peacebuilding represented only 16% (or US$ 6.8 billion) of the US$ 42 billion in gross development assistance for the 31 conflict-affected countries (see Figure 18). During 2002-2013, peacebuilding expenditures averaged US$ 13 per capita for 31 conflict-affected countries. This compares to US$ 50 per capita for other ODA (excluding debt relief) over the period for the same group of countries. Because of the uneven distribution of peacebuilding expenditures, the median is only US$ 6 per capita, much lower than the average US$ 13 per capita. Not only per capita, but also the total amounts of peacebuilding expenditures are distributed in a highly uneven way. During the period 2002-2013, Afghanistan and Iraq received almost 50% of the total (or US$ 28.7 billion) of the US$ 60 billion that went to all 31 conflict-affected countries.

Peacebuilding as a percentage of total ODA has almost stagnated for conflict-affected countries. For the 31 conflict-affected countries, peacebuilding as a share of total ODA increased from 11 to 19% between 2002 and 2009. But, this rise is largely due to higher peacebuilding aid to Afghanistan. Removing Afghanistan from the figures reveals that peacebuilding in fact fell for three consecutive years between 2010 and 2012. Iraq also accounted for a large portion of the increase from 2004 to 2005. Peacebuilding as a share of total ODA in 31 conflict-affected countries typically accounted for 14-17% during the period 2005-2013. Yet, for individual countries, peacebuilding expenditures vary significantly from year to year.

Of the three aggregate categories, 'Inclusive political processes' is the largest, followed by 'Core government functions' and 'Basic safety and security', accounting for 54%, 35% and 11%, respectively, in the 31 conflict-affected countries. Within those three broad categories, current peacebuilding financing is concentrated in the subcategories related to 'Public sector policy and administrative management', 'Legal and judicial development' and 'Civilian peacebuilding, conflict prevention and resolution, which together account for 60% of all peacebuilding ODA.

UN financing for peacebuilding is inadequate, unpredictable and fragmented

Since 2002, overall ODA financing for peacebuilding has increased, but this figure is fragmented across instruments. The UN does not track peacebuilding expenditure itself. Yet, estimates made through a compilation of information from global and country trust funds monitored by the UN Multi-Partner Trust Fund Office also suggest that relatively small amounts were invested through the UN system. (See circles below.)

As noted below, individual countries face large fluctuations in ODA in general and peacebuilding ODA in particular. For the Peacebuilding Fund, this challenge is emphasised through the volatility of annual contributions, with income dropping by 58% from 2008 to 2009, and, after bouncing back over the following two years, falling again by 50% from 2012 to 2013 (see Figure 19).

For the first time in its history, the PBF will not have enough money to programme the US$ 100 million target of its Business Plan in 2016. Yet, as early as the first quarter 2016, the PBF had already amassed roughly US$ 125 million in requests that are in the pipeline. Given current expected contributions, the PBF will not be able to meet that demand – let alone scale up as recommended by the High-level Independent Panel on Peace Operations (A/70/95-S/2015/446, 17 June 2015). The Advisory Group of Experts on the 2015 Review of the UN's Peacebuilding Architecture recommended:
"In order to maximise the PBF's potential and predictability, the General Assembly should consider steps to ensure that core funding representing US$ 100 million or an approximate and symbolic one percent of the value (whichever is higher) of the total UN budgets for peace operations (peacekeeping and Special Political Missions together) be provided to it annually from assessed contributions under the UN budget."[66]
The United Nations Member States requested in the resolutions on the Peacebuilding Architecture review (A/RES/70/262 and S/RES/2282 (2016)) that the Secretary-General provides "options on increasing, restructuring and better prioritising funding dedicated to United Nations peacebuilding activities, including through assessed and voluntary contributions, with a view to ensuring sustainable financing, for the

In 2013, country multi-partner trust funds in the 31 conflict-affected countries received US$ 14.4 million on average per country, bringing the total received between 2004 and 2013 to US$ 1.9 billion, of which US$ 1.4 billion was received by the UNDG Iraq Trust Fund.

Financing from non-voluntary sources through the UN is allocated primarily to UN peacekeeping operations. Peacekeeping budgets have grown from about US$ 3 billion in 2003 to US$ 8.3 billion in 2015.

In 2015, the Peacebuilding Fund received US$ 53.5 million, bringing the total received since its creation to US$ 672 million.

In 2013, the UNDP Crisis Prevention and Recovery Trust Fund received US$ 60.5 million, allocated to recovery, disaster response and conflict prevention, bringing the total received between 2010 and 2013 to US$ 329.6 million.

consideration of Member States;" and "options for the adequate resourcing of the peacebuilding activities of United Nations country teams and the peacebuilding components of United Nations peacekeeping operations and special political missions …". The Secretary-General is requested to submit this in a report to the 72nd session of the General Assembly.

The international community has a poor sense of total global peacebuilding needs, except from the requests that the PBF receives. However it is generally accepted that current peacebuilding expenditures are not enough. The Addis Ababa Action Agenda noted that "We recognise the peacebuilding financing gap and the role played by the Peacebuilding Fund." [67] Yet, how big the gap is, is unknown. The Advisory Group of Experts on the 2015 peacebuilding review, therefore, recommended that "PBSO, together with relevant entities within the UN and amongst the IFIs, should initiate a process of preparing more detailed and accurate country-by-country estimates of the overall funding needs for sustaining peace over the longer-term."[68] PBSO has taken on the task, is working with partners on methodologies, and expects to reach some preliminary estimates of peacebuilding need late in 2016 or early 2017.

What does this mean for the UN system?

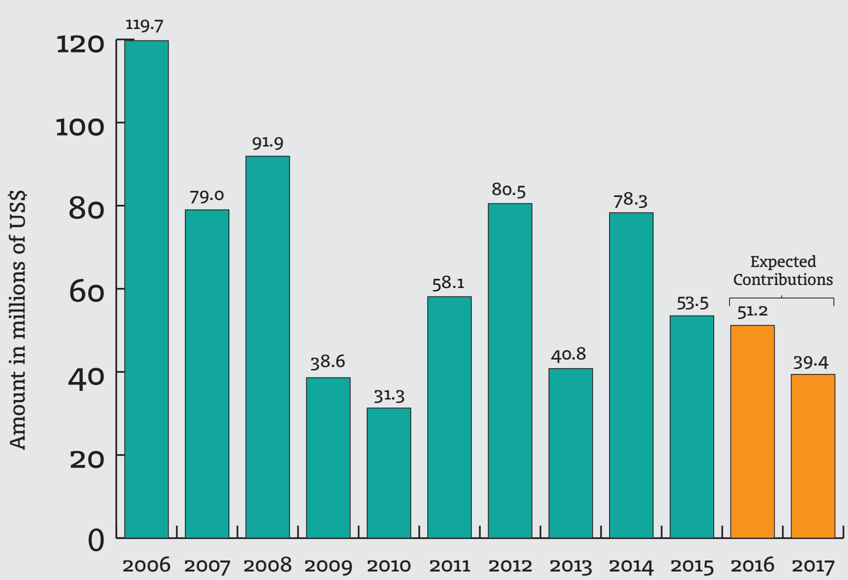
The various reviews of the peace and security sector undertaken in 2015[69] were very clear about the need for prevention and peacebuilding in order to live up to the UN Charter's obligation to save "succeeding generations from the scourge of war." Yet, the UN system has not been very effective at this, as exemplified by recent violent conflicts in Central African Republic, Libya, South Sudan, Syria and Yemen, among others. The lack of timely, predictable, sustained and adequate financing is part of the explanation – although certainly not the only one. Moreover, the financing architecture – with different funding streams for different activities – often drives the UN system apart, while prevention and peacebuilding require the very opposite because of the multi-dimensionality of the drivers of various conflicts. There is a real risk that financing fuels a fragmented approach, based on portfolios of separate projects rather than strategic investments in coherent plans or strategies that are based on a joint understanding of the drivers of conflict. As a result, major components of UN operations in peacebuilding contexts are driven by financing for short-term response activities.

Conclusion

The current architecture for financing peacebuilding is fragmented and does not deliver the resources that are required to react fast and sustain prevention and peacebuilding activities over the longer-term. We know that timing is critical and that developing the institutions that are necessary to mitigate conflicts and deliver public services to the population can take at least a generation. To maximise UN support and impact in conflict-affected countries, the UN system should make an effort to present a single financing request in support of collective short-, medium- and long-term outcomes, covering the spectrum from humanitarian, development, mediation, reconciliation to peacebuilding.

These are the personal views of the author and do not necessarily reflect the views of the United Nations.

FIGURE 19: Annual income of the Peacebuilding Fund



Source: PBSO

Financing for Peace

Innovative Financing and Leveraging

Introduction

Innovative financing encompasses a broad range of financial instruments and assets used for global development. It is unique because it can attract private companies that want to expand into new markets; investors and fund managers who want to create both financial and social returns; and governments that want to achieve more and better development impact in a resource-constrained environment. Most of these mechanisms combine public and private sector resources and expertise; successful innovative financing creates incentives for private companies to invest in projects that benefit people at the base of the pyramid or support the environment. Dalberg's 2014 Report on Innovative Finance for Development estimates that innovative financing instruments mobilised nearly US$ 100 billion and grew at 11% per year between 2000 and 2013.

Innovative financing instruments do not replace, but rather complement, traditional resource flows such as aid, foreign direct investment and remittances. By addressing specific market failures and institutional barriers, innovative financing can mobilise additional resources to eliminate poverty, raise living standards and protect the environment. Despite potential benefits, the arena of innovative finance also presents challenges to the development community. It is often limited by inefficient markets and constraints in the very areas, countries and sectors most needing finance and investment.

In last year's report, 'Financing the UNDS – Getting it Right in a Post-2015 World', we presented a range of examples highlighting the impact and interface of innovative financing and the UN Development System. We looked at innovative spending initiatives such as UNICEF's Advance Market Commitments, at innovative sourcing in the private and public sectors with pilot initiatives in the Green bond market and with levy schemes on the carbon market to finance the Climate Adaptation Fund.

In this report, we focus on examples related to risk-based innovative financing and the potential for a significant leveraging role for the UNDS in this regard. The first part of this section looks at the evolving case of the Pandemic Emergency Financing Facility, which will use insurance to cover epidemic and pandemic risk, employing new financing mechanisms meant to overcome some of the challenges associated with existing multilateral finance schemes. Patrik Silborn then discusses the innovative financing platforms the Global Fund has deployed, such as social impact bonds and blended finance, while Mohamed Beavogui outlines how the Africa Risk Capacity Initiative has transformed the disaster risk financing paradigm.

As you read the following contributions note that these novel instruments and other examples raise an interesting question around what the concept of leveraging means in the context of the UNDS, how it applies in the realm of global public goods, and in enhancing the UN's impact in Agenda 2030. They point to the importance of unique UN 'guarantee' functions - financial, substantive and political - to leverage the confidence of investors for transformative change especially in medium and high risk settings. These functions, coordinated policy and political support, robust risk management programme design, strengthened transparency in development finance represent some of a suite of de-risking products which will effectively leverage greater and appropriate investment capital required for Agenda 2030.

Pandemic Emergency Finance: A Facility for Global Pandemic Finance

Over the past 10 years the financing instruments for responding to as well as minimising the risk and impact of pandemics have evolved. Funding instruments, such as the World Bank's Avian and Human Influenza Facility, UN Central Fund for Influenza Action, and more recently, the UN Ebola Response Multi-Partner Trust Fund, provided critical, timely support to finance urgent, underfunded activities as part of the coordinated response to stop the epidemic. Presently new instruments are being explored to strengthen global preparedness to combat future pandemics, such as a pandemic emergency facility, which seeks to make resources available rapidly, through pandemic insurance, to respond to a disease outbreak before it takes on pandemic proportions. This section summarises a number of key elements of the Pandemic Emergency Finance discussion held at the Pandemic Financing Stakeholder meetings in Washington in September 2015 and Geneva in February 2016. This report takes responsibility for the content of the summary of the discussion.

The World Bank Group (WBG), together with WHO and partners, is developing a new global financing facility called the Pandemic Emergency Financing Facility (PEF). The goal of the PEF is to make financial resources rapidly available to support a strong and immediate response to disease outbreaks -- so that epidemics can be stopped before they become pandemics.

The PEF proposal, still under development, may include two options. The first mechanism is an insurance product developed with private insurance partners that could disburse funds soon after an outbreak begins. The second option is a financing structure underpinned by contingent, long-term pledges from development partners, against which the WBG would frontload funds for crisis response. The structure may also include a publicly-funded 'risk retention' window that could complement the private sector insurance mechanism and support country responses to more frequent events that may require smaller payments made on a rapid basis.

While the application of insurance to cover the risk of an epidemic or pandemic that threatens global public health is innovative, the underlying concept of using insurance to pre-finance sovereign risks is a well-recognised tool. Programmes such as Mexico's MultiCat (for earthquakes and hurricanes), the African Risk Capacity (for drought) and the Caribbean Catastrophe Risk Insurance Facility (for earthquakes, droughts and extreme rainfall) have been well-studied and are considered successes by multilateral organisations, donors, beneficiary governments and rating agencies. Furthermore, the PEF intends to build on existing WBG financing instruments. These include the IDA Crisis Response Window, which provides urgent financing to help the poorest countries respond to crises and the CAT DDO (Catastrophe Deferred Drawdown Option), which provides a line of credit that allows middle-income countries to access immediate financing following natural disasters.

The PEF will use insurance to cover epidemic and pandemic risk, employing new financing mechanisms meant to overcome some of the challenges associated with existing multilateral finance schemes. The PEF will speed up the release of financial resources, which have historically been too late and unavailable at the start of disease outbreaks. The PEF will offer an open operational platform through which resources can be channeled to those organisations best placed to address the crisis at hand, overcoming inefficiencies and inflexibilities in current arrangements. The facility will also organise finance and fundraising so that it is in place before an outbreak occurs, which will allow its beneficiaries to focus their attention on rapid response in the critical first weeks of an outbreak. While the PEF would not be able to cover the costs of a protracted epidemic or pandemic, it could provide the early resources the international community needs to organise and meet such a challenge.

Circumstances Driving the Establishment of the PEF

While stopping the spread of Zika virus in South America and ending the Ebola outbreak in West Africa are at the fore of current public health concerns, over the past decade a number of other major pandemics such as the Middle East respiratory syndrome (MERS); the severe acute respiratory syndrome (SARS); and the 2009 H1N1 influenza pandemic (swine flu) have also threatened global public health. These outbreaks, which caused enormous human suffering and loss of life, also wrought serious damage on the economic stability and social fabric of the regions in which they originated.

These pandemics have also repeatedly demonstrated the need for better preparedness and faster response to global public health crises. The lessons learned from Ebola, because it unfolded in some of the least developed countries in the world, were particularly poignant. The rise and spread of Ebola showed how poorly-functioning health systems coupled with a weakly coordinated global response and the lack of a fast disbursing financial mechanism prolonged the crisis, resulting not only in unfathomable human misery and loss of life, but also the significant erosion of economic stability and recent development gains in affected countries.

The outbreaks of these diseases have also underscored the enormous costs of pandemics – beyond immeasurable human suffering. Ebola, which continues to emerge, has caused billions of dollars in lost income in West Africa, while MERS contributed to South Korea's GDP growth declining to a six-year low. It is estimated that were the world to face a fast-moving airborne disease like the Spanish flu outbreak of 1918-19, more than 33 million people would die in under a year and global GDP would fall an estimated 4.8% – a loss of more than US$ 3.6 trillion.

The prevention of disease-related humanitarian crises hinges on global coordination, responsive alert mechanisms, comprehensive operational support and swift financial assistance. Country and global responses to public health emergencies must, inter alia, be timely and efficiently resourced to ensure that funding is available for preparedness, immediate response and rehabilitation. Unfortunately, countries routinely underinvest in preparedness planning, disease and risk monitoring and primary care, while health finance often falls short of internationally agreed targets (such as the Abuja pledge in 2001 where African Union countries agreed to allocate 15% of their annual budget to improve the health sector). Also, when public health crises have emerged, resources (financial and other) have not been immediately available, resulting in costly delays that protract the threat to public health. Furthermore, when epidemics have unfolded, countries and responding entities have had to dedicate critical time and energy to fundraising instead of focusing on stopping the threat of disease.

Provisioning accessible resources and assuring the timeliness of funding availability before an outbreak happens is not just necessary, but offers a cost effective way to limit the human and economic impacts of epidemics and to help stop them from turning into larger, global crises.

The Value and Role of the PEF

To address and meet these needs, the PEF will purchase insurance coverage from the private sector on behalf of developing countries to cover the costs associated with disease outbreak response. Unlike insurance that relies on time-consuming damage and loss reporting, the PEF would serve as a trigger-based mechanism. The trigger, derived from observable data such as pathogen characteristics, transmissibility, R0 or a cumulative death rate growth measure, would give an early estimation of the threat potential of a pandemic outbreak and release resources accordingly. The mechanism would likely cover diseases that cause outbreaks as well as those that may emerge in the future, while excluding endemic sicknesses such as malaria or HIV as well as those for which there are sufficient controls in place to tackle an outbreak. The outbreaks targeted for insurance would generally be classified by their low frequency, but high severity; and the goal would be to identify them early enough to stop their spread.

In the event of an epidemic, PEF finance would support, for instance, deployment of human resources; drugs and medicines; essential medical equipment; logistics and supply chain equipment like refrigeration for drug storage and transfer; non-medical equipment such as power generators; lifesaving goods such as food; civil works including temporary care centres and roads to facilities; administrative and other services; transportation; counselling and social services; incentive mechanisms, such as hazard pay; and communications and coordination essentials.

The PEF is meant to be a comprehensive insurance mechanism that takes into account the financial needs of countries and agencies during an outbreak and balances them against the market realities of pricing and transferring the risk of epidemics and/or pandemics. In the long-run, the facility may have a number of ancillary benefits. First and foremost, it would create and grow a new market for pandemic risk insurance in developing countries, and as it becomes more established, the price for risk coverage would likely fall. This was the case, for instance, with the Mexico Cat bond for which a reduction in spreads was driven by market demand for alternative risk transition products and Mexico's strong risk management culture, including increasing familiarity in the reinsurance and capital markets. The PEF mechanism itself would have many features and adjustments to reduce coverage gaps, increase the marketability of the transaction, and to reduce premiums. The PEF would also provide a tool upon which the private sector could build, offering pandemic insurance to commercial and retail customers.

The PEF may also incentivise preparedness and drive a more complete understanding of countries' behavioural risk profiles as well as overall risk. This would derive from the determination of premiums based on a country's behaviour as well as those risks outside a country's control. The identification of risks coupled with implementation of preparedness planning (likely requisite for participation in the PEF) would aid countries' overall readiness to handle health emergencies.

And finally, by bringing efficiency to the finance of rapid response functions and helping to drive crisis response readiness, the PEF can lend support to current efforts working to strengthen international and national health systems such as the UN Secretary General's High Level Panel, the Healthy Systems-Healthy Lives Roadmap, WHO Ebola Assessment and the International Organization for Migration's Global Health Risk Framework.

Future Considerations and Coherence

The World Bank Group (WBG) is currently in discussions with many partners, including WHO, the Centers for Disease Control and Prevention, UN Agencies, Funds and Programmes, multilateral and bilateral development agencies, reinsurance companies, private investors, civil society and other stakeholders to flesh out the design of this proposed facility so that when the next global health emergency is declared, the world is ready to deploy all the financial resources necessary to stop a disease outbreak and protect public health.

While the governments engaged with the WBG will drive the PEF requests on trigger at country level, the quality of response and impact of PEF disbursements on the ground will also imply the need for implementing entities, which include national government institutions, UN Agencies, and NGOs, to act in a coordinated and coherent manner of emergency response. Building on the experience of coordinating the Ebola response, during an emergency and with the disbursement of funds, a cohesive response would need to be launched across all recipient participating agencies and organisations, coordinated by the governments, the WBG and UN Resident Coordinators, representing the UN System. Other PEF implementing entities could be added to the mix through an accreditation process; and they too, would need to be incorporated into the fabric of a cohesive, coordinated and rapid crisis response.

Going forward, the WBG will continue collaborating closely with WHO and with the private sector, both of which will play critical roles with regard to the design and implementation of the PEF. WHO continually monitors global events to determine their potential impact on public health and serves as the guardian of the International Health Regulations (IHR, 2005). The private sector may be involved in a variety of key activities, not only developing insurance against the threat of disease outbreaks, but also the development of the human capacity, logistics and coordination mechanisms necessary to prevent and mitigate global public health crises.

The Global Fund and Innovative Financing

by: Patrik Silborn, Head of Private Sector Engagement and Innovative Financing, Global Fund

The Global Fund was established in 2002, as a 'war-chest' to combat HIV/AIDS, tuberculosis and malaria. In 2002, only 300,000 people received life-saving treatment for HIV globally – by the end of 2015 that number exceeded 16 million people, and over 8 million of those are supported by the Global Fund. Our strategic investments, collaborations and strength of our partnerships, have enabled us to save 17 million lives, and we remain on track to save a projected cumulative 22 million lives by the end of 2016.

As the financing landscape for global development evolves, the Global Fund has been continuously adapting its model, responding to demand-driven changes, and ensuring that it benefits from new sources of financing for global development, and specifically for HIV, tuberculosis and malaria. In our context, innovative financing means looking for new sources for funding health, and ensuring that we use these resources in the most effective way. Our approach to innovative financing stems from working closely with Ministries of Finance and Health, banks, private sector partners and foundations, to ensure that we support models that align the incentives and interests of each partner while mitigating risks. There is no one-size-fits-all approach to innovative financing: it is a bespoke collaboration between people, platforms and partnerships, developed to best suit each country's unique environment.

Our innovative financing platforms build partnerships with corporations (consumer marketing initiative – (RED)), development finance institutions (Blended Finance), creditor and debtor governments (debt-swaps); governments & impact investors (Social Impact Bonds) and others. A few of the innovative financing platforms we have been exploring and continue to support are listed below. This is by no means exhaustive, and we continue exploring models focusing on capital markets, diasporas, remittances and mobile money among other things.

(RED)

In 2006 Bono and Bobby Shriver created (RED), and by doing so established a new era of consumer engagement across the world. Through the (RED) model, every time a consumer purchases a (RED) product, a portion of profits are channel to the Global Fund, earmarked to fight HIV/AIDS in eight Sub-Saharan African countries: Ghana, Lesotho, Rwanda, South Africa, Swaziland, Zambia, Kenya and Tanzania. Today, (RED)'s success in advocacy towards HIV/AIDS and revenue generation is primarily due to the strength of its partnerships and champions: leading companies such as Apple, Starbucks, Bank of America, Salesforce, Coca Cola and others are our proud (RED) partners. It is these partnerships that have helped (RED) channel over US$ 350 million into the Global Fund over the past ten years.

Debt 2 Health (D2H)

Debt2Health, an innovative debt-swap to fund health programmes, allows creditor countries to relinquish a part of their rights to repayment of loans, on the condition that the beneficiary country invests the freed-up resources into programmes to fight AIDS, tuberculosis and malaria, approved by the Global Fund. Established in 2007, it is a simple yet effective tri-partite proposition that combines reduction of debt with an increase in domestic funding for health. To date, debts swapped under Debt2Health agreements total close to €170 million: Germany and Indonesia for €50 million, Germany and Pakistan for €40 million, Australia and Indonesia for AUD 75 million, Germany and Côte d'Ivoire for €19 million. The Global Fund continues to promote Debt2Health as a platform for countries to consider, and has many more deals in the pipeline.

Social Impact Bonds

A social impact bond (SIB) is a financial mechanism by which private investors provide upfront funding to service providers to improve a social outcome; they are paid back by a third party-called an outcome funder, if and only if, pre-agreed outcomes are met. The Global Fund is looking at ways in which social impact bonds focused on key affected populations can attract funding from new investors; leverage Global Fund's own investments; and improve health outcomes by encouraging data and evidence-driven approaches to programme implementation. We also take care to ensure that our SIB models align with the protection of the human rights of key populations and supplement existing government funding. The Global Fund has recently endorsed the South Africa Concept Note, which includes a request for funds to support the establishment of a Social Impact Bond on HIV prevention for key affected populations.

Blended Finance

The Global Fund is exploring ways to strategically combine its grant funding, with private, public and philanthropic funding for health programmes. In our context, blended finance is the alignment of grants with loans from development finance institutions and multilaterals to release concessional financing for health, and support countries in establishing long-term funding models for increasing domestic resource mobilisation. One blended finance partnership that we have been supporting is the Lives and Livelihoods Fund, which, through a collaboration between the Gates Foundation and Islamic Development Bank, offers countries an opportunity to get concessionary funding to fund health and priority areas. We will continue exploring new partnerships with development financing institutions across various countries.

These are the personal views of the author and do not necessarily reflect the views of the United Nations.

African Risk Capacity: An Innovative Financing Mechanism for Natural Disasters

by: Mohamed Beavogui, Director General and UN Assistant Secretary General, African Risk Capacity

While uncertain in their exact timing and magnitude, natural disasters are becoming increasingly predictable using available technologies and data to monitor and estimate the level of potential risk. In 2014, the estimated cost of natural disasters was US$ 110 billion[70], putting fiscal strain on governments and their partners and leaving vulnerable households in dire need. In order to maximise its value to the world's most vulnerable populations, the international aid community must endeavour to utilise available technologies to create an effective and equitable international emergency aid system. This requires a shift from a reactive emergency aid business model to a proactive risk management investment model. It is on this premise that the African Risk Capacity (ARC) was created as an innovative financing solution to natural disaster response.

Establishment of the African Risk Capacity

In 2010 African Union Ministers of Economy and Finance called on the United Nation's World Food Programme (WFP) to explore whether innovative tools could be developed to more efficiently finance natural disaster risk assessment across the African continent, and specifically, WFP was requested to focus on drought as the biggest concern on the continent. As a first step, it was necessary to develop a better understanding of the natural disaster risks that countries face and also to develop mechanisms to model them. In response to this, the Vulnerability and Mapping Unit within WFP developed Africa RiskView, a software platform that uses satellite based rainfall data to estimate the number of people affected and estimated response cost in near real time for any given rainfall deficit event. This enables financial requirements to be monitored and anticipated as they evolve during a given agricultural season.

The Africa RiskView software is a powerful tool which overlays satellite rainfall data with a drought index, customisable for every 10km x 10km^2 pixel, and household vulnerability data. This drought index enables mapping of esoteric information into meaningful indicators, such as the expected capital requirement for responding to a vulnerable population in a particular area should a drought of a given magnitude occur and thereby generating information that can be used by the responding agencies to plan. Indexing risk develops an understanding of the risk portfolio of a given country, or set of countries, and the financial implications of this with the intent of enabling better planning. The index offers an objective and transparent trigger, and when linked to suitable financial mechanisms, this trigger could be used to determine when there is a need for financing to be promptly channeled to the affected populations.

Building on the successful development of Africa

RiskView, WFP further supported African Union Member States with the establishment of the ARC as a Specialized Agency of the African Union (AU). ARC Agency subsequently established the African Risk Capacity Insurance Company Ltd (ARC Ltd) to carry out ARC's insurance functions. ARC Ltd currently uses the Africa RiskView index to underwrite drought risk. By the end of 2016, ARC will offer a model for tropical cyclones and by 2017 models for flood and outbreak of epidemic. All of these risks will be underwritten by ARC Ltd.

In May 2014, ARC Ltd launched its inaugural risk pool and issued drought insurance policies totalling nearly US$ 129 million in coverage for a total premium of US$ 17 million to a first group of African governments – Kenya, Mauritania, Niger and Senegal. In January 2015, ARC Ltd made its first insurance payouts of just over US$ 26 million to Mauritania, Niger and Senegal, as a result of drought conditions in these countries. This put ARC's model in the spotlight, demonstrating its effectiveness in delivering timely financing to governments and allowing them to target 1.3 million people, ahead of any humanitarian aid, spearheading efforts to help countries move from managing crises to effectively managing the risks in a timely manner. ARC thereby protects the livelihoods of the most vulnerable and safeguards development gains made to date in these countries.

As a pre-requisite for participation, governments are required to develop peer reviewed contingency plans that demonstrate how an ARC payout will be used to reach those affected before livelihoods are lost. ARC offers a comprehensive package, using an early warning tool providing timely contingency financing to be used to implement pre-defined contingency plans. This structure enables governments and their partners to channel funds within short periods of time to mobilise an early response.

Growing to Scale

In support of the G7 leaders' pledge in June 2015, by 2020 ARC aims to reach as many as 30 countries with US$ 1.5 billion of coverage against drought, flood and cyclones, indirectly insuring around 150 million people in Africa and radically transforming the way weather risks are managed across the continent by embedding disaster preparedness and financing in sovereign risk management systems.

Moreover, ARC will aim to secure an additional US$ 500 million in climate adaptation financing in response to climatic shifts should they occur through ARC's Extreme Climate Facility (XCF). The XCF, which is slated for launch in 2017, will be a data-driven, multi-year vehicle that uses both public and private funds and directly channels climate adaptation finance for eligible African governments based on the demonstrated need for enhanced adaptation measures to respond to the impacts of an observed increase in climate volatility.

A Cost-effective Approach to Financing Natural Disasters

ARC is a proven successful cost-effective solution to financing some of the most pervasive natural disasters on the African continent. By leveraging small amounts of donor financing, ARC has effectively attracted additional private risk capital through reinsurance, enabling financing to be channeled to governments and the vulnerable populations in times of need. ARC transfers the burden of risk away from governments – and the vulnerable households whom they protect – to ARC Ltd and the reinsurance market which is designed to absorb these risks more effectively. By doing so, ARC aims to protect investments and accumulated assets on the ground level while promoting fiscal stability through the prevention of budget dislocation in times of natural disaster. Rather than supporting costly humanitarian interventions, the cost savings gained through risk pooling should create space for government and its partners to back programmes that focus on long-term growth and encourage private sector investment.

In an ARC-commissioned cost-benefit analysis, experts found that US$ 1 used in early response mechanisms such as the ARC led to savings of over US$ 4 in traditional response[71]. This saving comes from the prevention of negative coping mechanisms amongst vulnerable households which deplete productive assets and cause irreversible development setbacks. Thus, by enabling a timely response, ARC further amplifies the cost-effectiveness of the finances channeled through it. ARC's model further utilises the natural diversification of weather patterns, because extreme weather events usually do not happen in the same year all across the continent. Pan-African solidarity in the creation of a disaster risk pool has proven to be financially efficient, with up to 50% of savings on premium for each participating country.

Transforming the Disaster Risk Financing Paradigm

ARC's approach speaks directly to the principles enshrined in the resilience framework. The resilience in many countries in Africa is significantly low. For many countries, a small shock in terms of a rainfall deficit or elevated food prices can precipitate a call for a major humanitarian intervention and emergency response. Investments that support long-term resilience against food insecurity can address these chronic risks and provide a base for predictable on-going assistance that can support poor and vulnerable households to build assets and livelihoods. Over time, this will increase the ability of households to cope with extreme weather events. In the meantime weather risks exist and vulnerability is one of the continent's biggest challenges, therefore ARC offers a valuable proposition to absorb shocks from extreme weather events, thereby safeguarding gains made in resilience-building initiatives and preventing development gains from being reversed.

The UN Secretary General, Ban Ki-moon, has recently launched a new initiative called Anticipate, Absorb, Reshape (A2R) which sets out to support countries to anticipate hazards, absorb shocks and reshape develop ment to reduce climate risks. A2R places emphasis on the importance of achieving resilience to scale and strengthening partnerships to achieve this. Insurance initiatives, as offered by ARC, can provide concrete solutions to absorb the risks of extreme weather events and the ARC's Extreme Climate Facility will channel financing to adaptation.

Through the ARC, WFP has presented an innovative method for financing natural disasters. By empowering governments to manage their risks through this efficient system, and by leveraging key partnerships, including the private sector, WFP is spearheading a shift to ex ante mechanisms and moving away from ex poste emergency financing. Since the establishment of the ARC as a Specialized Agency of the African Union, WFP has continued to provide technical, administrative, personnel and project management support through an Administrative Services Agreement with the ARC Agency. However, ARC is governed by its African Member States who drive this initiative and undertake full ownership of its mandate. WFP has effectively transferred capacity and ownership to African governments, fulfilling a critical part of risk management in a sustainable manner.

Building on the successes to date, ARC will offer UN agencies and other humanitarian actors the opportunity of matching countries' insurance policies, with replica coverage. By matching country policies, international resources would be channeled to subscribing humanitarian actors in a timely and transparent manner, similarly to the method used to disburse financing to governments. This will double the number of people covered by climate risk insurance and enable humanitarian actors to plan and respond effectively. Countries lacking financial and operational capacity to expand to greater coverage beyond that purchased by themselves would benefit from UN Agencies and other humanitarian actors providing both increased insurance-based funding and scaled, coordinated and timely operational execution.

At a time when financing the UN Development System is strained, there is significant value in utilising innovative methods of financing, transforming the potential of the UN to respond at crucial times.

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Conclusions

Current trends

The world has agreed to a new development framework for the next 15 years, the 2030 Agenda for Sustainable Development with its 17 goals and 169 targets, of relevance to all countries. The agenda is ambitious and complex, bringing together the development, humanitarian and human rights agendas, and it will be costly to achieve.

This agenda is being implemented in an increasingly globalised world, which has both benefits and inherent dangers, such as the potentially rapid spread of pandemics and the global impact of climate change.

For the majority of countries, domestic resource mobilisation will be the main source of funding for SDG achievement, but for the Least Developed Countries (LDCs) and for countries in or emerging from crisis, funding from the international community, mainly ODA, will continue to be of central importance.

The great majority of middle-income countries, however, are entering a post-ODA phase. Volumes related to Foreign Development Investment, trade, and domestic resource mobilisation far exceeds grant assistance. For these countries, public resources need to provide levers to gain access to the market, with the UN supporting the leveraging of resources outside the UNDS to support UN and national goals.

Over the last two decades, there have been attempts to streamline funding flows for the UNDS including the development of multi-partner trust funds and pooled funding mechanisms. However, there has been a trend in the opposite direction, away from flexibility and coherence, towards the relative and absolute increase of earmarked funding (earmarked to specific activities or countries, for example) which reduces the flexibility of the UN and the possibility to redirect funds to under-funded areas of development. A stronger voice is emerging from stakeholders to reverse this trend in favour of more pooled, coherent and multi-year mechanisms. This has been especially audible in recent discussions and decisions about financing humanitarian and peace operations.

The logic of Agenda 2030 and the Paris Climate Agreement requires the UNDS to reposition itself in the international multilateral architecture. In many countries, there will be an increased focus on norms and their effective operationalisation. This in turn will require revisiting the appropriate financing strategy and mix of financing instruments, and new ways of measuring results. Recently, the issue of assessed budgets in the UN has been given high profile within the financing of normative and standard-setting activities and the financing of development activities that are integral to peace operations. To facilitate such a discussion and potential evolution of the use of assessed contributions, the UN will need to agree on a clear definition of what constitutes normative activities, which in turn would provide better guidance to UN entities for identifying financial needs and expenditures for their normative function.

The Agenda 2030 financing architecture will need to embrace a culture of leveraging, reward the practice of partnerships and devise new ways to measure impact.

New directions

In an increasingly complex and globalised world, with new development goals providing both opportunities and challenges, the UN needs to take a critical look at its current systems, approaches and mechanisms with a view to making them more responsive and fitting to future demands.

The menu of financing mechanisms within the UN is already extensive but these instruments have on the whole been developed separately for development, humanitarian, peacebuilding and peace operations etc., most often with their own management systems. There is a clear need for strengthening the interfaces.

For the UN, support to the Least Developed Countries and countries in crisis will remain in focus. However the UN has a role to play globally when it comes to the UN normative frameworks. The UN will also continue to have a strong role to play in sudden-onset emergencies, humanitarian response, and response to global threats such as potential or actual pandemics and natural disasters. Examples of new thinking about how to meet threats to development up-front, with finance already pre-positioned, are illustrated in the contributions in Part Two.

Innovative funding approaches are being developed in the area of pandemic response, for example the use of insurance cover from the private sector for developing countries to cover the costs of disease outbreak response (PEF – the Pandemic Emergency Financing Facility).

As financial mechanisms become increasingly complex, and as innovative funding such as Global Pandemic Finance and the African Risk Capacity initiative is further developed together with the private sector, new management systems to utilise the funds flowing through the different parts of the system are necessary. There will be a corresponding need to enhance UN staff capacity to understand and manage the funding mechanisms. Furthermore, with new financing mechanisms developing, demands for transparency and for access to on-demand financial and results data systems for the contributors and beneficiaries will increase.

The UN Development System finances need to be used strategically and in collaboration with traditional donor partners, other multilateral partners and partners from the private sector. For some UN agencies, such as UNICEF and UNHCR, contributions from individuals have become increasingly important and this is a trend that may well continue. In addition to grant funding, a range of non-grant finance is available, such as public loans, guarantees and public equity, and they are being used in support, for example, of sustainable development: the Green Climate Fund, The Global Environment Facility and the Adaptation Fund.

In 2014 the resources of the UN system amounted to US$ 48 billion, from a wide spectrum of sources and through different financing mechanisms. Understanding and analysing the characteristics and potential of these contributions and mechanisms is critical to ensure a better and smarter resourced UNDS in implementing the 2030 Agenda. At the same time, traditional and new approaches need to be leveraged, catalytic connectors across the UN system strengthened, and an openness for innovative financing embraced.

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

Annex and End Notes

Annex 1: UN Toolkit of Financing Instruments with focus on countries affected by fragility and Protracted Crisis

Includes OECD/DAC aid effectiveness criteria for transition financing: coordination & harmonisation; national capacity building; speed & flexibility; scope for risk management

FINANCING INSTRUMENT	SHORT DESCRIPTION	SOURCE OF FINANCING	TYPE OF FINANCING	USED BY / INSTRUMENT ACCESSIBLE TO	PURPOSE / USED FOR	USED WHERE?	DECISION-MAKING STRUCTURE	FINANCIAL REQUIREMENT	INDICATIVE AMOUNT (in 2014)	ADVANTAGES	DIS-ADVANTAGES
Assessed grants (total UN-wide, global revenue of US$ 13.7 billion in 2014)											
1. Assessed contributions to UN entities	Covers contributions based on obligations that member states undertake as required in a treaty document, convention or other international legal instrument of the UN organisation	Member States through an assessed scale	Grants; ODA	23 UN entities (mainly UN Secretariat and UN specialised agencies)	For the mandate of UN entity concerned. This can be humanitarian, sustaining peace/transition, development and/or human rights. Used as well to finance normative work through standard setting instruments at global and regional level.	Globally / All regions / All countries	Governing body of the UN organisation concerned approves the budget based on proposal of UN entity concerned	Treaty document, Convention or other basic instrument of a UN entity	US$ 5.9 billion in revenue in 2014 for 23 UN entities in all countries[72]	1. Important source for UN entity's normative, policy and capacity building work at country level; 2. Speed and flexibility: in principle high; 3. Risk management: high, depending also on UN entity's risk management system	Normally not only source of financing for country level interventions and hence dependent on availability of other financing.
2. Assessed contributions for UN peace-keeping and political missions	Covers contributions based on approved budget for peace-keeping, UN special representatives and political missions	Member States through an assessed scale	Grants; largely non-ODA	DPKO, DPA, DFS Depending on budget and mandate, funding can also be accessed to some extent by other UN entities	Peacekeeping, peace consolidation	DPKO missions, DPA missions and Special Representatives	Security Council and USG for DPA, DPKO, DFS GA through the 5th committee oversees and approves the budget	Political decision: Security Council Financial decision: General Assembly (Fifth committee)	US$ 7. 8 billion in revenue in 2014[73]	This instrument can be combined and sequenced with financing from PBF and country based transition funds Risk management: very high; instrument normally used in situations of very high contextual risk.	Limited flexibility for reallocating among programmatic interventions
Voluntary core (total UN-wide, global revenue of US$ 5.0 billion in 2014)											
3. Voluntary core contributions	Voluntary, non–earmarked grant contributions left to the discretion of each contributor	In most cases Member States through voluntary annual or multi-year pledges	Grants; ODA	13 UN entities (mainly UN Funds and Programmes)	For the core mandate of UN entity concerned. This can be development assistance, humanitarian, sustaining peace/transition, and/or human rights. Used as well to finance normative work through standard setting instruments at global and regional level.	Globally / All regions / All countries	Governing body of the UN organisation concerned approves the budget based on proposal of UN entity. Often part of Integrated Results and Resources Framework of UN entity concerned.	Treaty document, Convention or other international legal instrument of a UN Organisation	US$ 5 billion in revenue for 15 UN entities in all countries [74]	1. Important source for UN entity normative, policy and capacity building work at country, regional or global levels; 2. Speed and flexibility: in principle very high; 3. Risk management: very high, depending also on UN entity risk management system	Only one of the sources of financing for UN interventions and hence very dependent on availability other financing as per UN entity financing strategy.

FINANCING INSTRUMENT	SHORT DESCRIPTION	SOURCE OF FINANCING	TYPE OF FINANCING	USED BY / INSTRUMENT ACCESSIBLE TO	PURPOSE / USED FOR	USED WHERE?	DECISION-MAKING STRUCTURE	FINANCIAL REQUIREMENT	INDICATIVE AMOUNT (in 2014)	ADVANTAGES	DIS-ADVANTAGES
Earmarked funding (total UN-wide, global revenue of US$ 26.3 billion in 2014)[75]											
4. Inter-agency pooled funds (global)	Multi-entity funding mechanisms designed to support a clearly defined global /regional programmatic scope and results framework through contributions that are co-mingled, not earmarked to a specific UN entity and held by a UN fund administrator.	Voluntary grants from bilateral and multi-lateral donors, developing country governments, private contributions etc.	Grants; ODA and non-ODA	UN entities; NGOs and governments (through specific arrangements with a UN entity)	For programmatic scope of pooled fund concerned. This can be humanitarian, sustaining peace/ transition, development and/or human rights. Can be used to finance normative work at global and regional level.	All countries, multiple countries simultaneously	Steering committee (normally consisting of multiple stakeholders) chaired or co-chaired by the UN UN takes a lead role in making fund allocation decisions.	Legal documents and TOR Minimum of US$ 5 million per year for Fund (1 million per agency for joint programmes); Ideally at least 10 – 15 % of total UN intervention. Harmonised rate of 7 % indirect cost for fund implementer.	US$ 898 million in total revenue for all global inter-agency pooled funds	1. Strong added value in promoting UN coherence, 2. Normally combined and sequenced with other financing instruments 3. Speed and flexibility: high 4. Risk management: high, depending also on risk profile of pooled fund	Only one of sources of financing for interventions and hence very dependent on availability funding through other financing instruments.
Example 1 Central Emergency Response Fund (CERF)	Global fund for humanitarian response for people affected by natural disasters and armed conflict	Over 150 contributors that include Member States, private sector and Foundations	Grants, ODA	UN Agencies	Fast, flexible and predictable financing for humanitarian projects.	More than 90 countries	ERC / USG for Humanitarian Affairs manages CERF on behalf of the UN SG. An Advisory Group provides policy guidance.	CERF secretariat & fund administrator: 3 %; Fund implementers: 7 % indirect cost	CERF 480 million in revenue of which 278 million was allocated to WB fragile states[76]	Provides fast and predictable and flexible funding to UN Agencies. Resources are not earmarked for specific countries or crises, and deployed quickly wherever needs are greatest	Decreasing share of pooled funds as part of total humanitarian funding
Example 2 Peacebuilding Fund (PBF)	SGI's fund for post-conflict and peacebuilding initiatives. The PBF has two mechanisms: The Immediate Response Facility and the Peace and Recovery Facility	Voluntary grants from > 50 contributors, incl. bilateral and multi-lateral donors, developing country governments, and private contributions	Grants; ODA and some non-ODA	UN Agencies, International NGOs, Regional Organisations	As the UN fund of first resort to sustain peace, the PBF provides fast, flexible and risk-tolerant financing to UN efforts supporting political solutions aimed at preventing the lapse and relapse into conflict.	Approximately 25 countries	SG fund that is managed by the PBSO. Advisory Group provides advice and oversight. At country level: Joint Steering Committees approve projects against country allocation	PBF secretariat: 3% Fund implementers: 7 % indirect cost Fund administrator: 1%.	US$ 100 million allocated in 2014	Instrument can be combined & sequenced with financing from assessed contributions for peace-keeping missions and country based funds Instrument scores high on speed and flexibility, and on scope for risk management.	While PBF has a programming target and capacity of > 100 million per year, due to low capitalisation rate only US$ 78 million could be allocated in 2015.

FINANCING INSTRUMENT	SHORT DESCRIPTION	SOURCE OF FINANCING	TYPE OF FINANCING	USED BY / INSTRUMENT ACCESSIBLE TO	PURPOSE / USED FOR	USED WHERE?	DECISION-MAKING STRUCTURE	FINANCIAL REQUIREMENT	INDICATIVE AMOUNT (in 2014)	ADVANTAGES	DIS-ADVANTAGES
(continue) Earmarked funding (total UN-wide, global revenue of US$ 26.3 billion in 2014)											
5. Inter-agency pooled funds (country)	Multi-entity funding mechanisms designed to support a clearly defined country-level programmatic scope and results framework through contributions that are co-mingled, not earmarked to a specific UN entity and held by a UN fund administrator.	Voluntary grants from bilateral and multi-lateral donors, developing country governments, private contributions etc.	Grants; ODA and non-ODA	UN entities, NGOs and governments	For programmatic scope of pooled fund concerned. This can be humanitarian, sustaining peace/transition, development and/or human rights	Any given country	Steering committee (consisting of multiple stakeholders) chaired or co-chaired by UN and government UN takes a lead role in making fund allocation decisions	Legal documents and TOR; Minimum of US$ 5 million per year for Fund (1 million per agency for joint programmes); Ideally at least 10 – 15 % of total UN intervention. Harmonised rate of 7 % indirect cost for fund implementer.	US$ 1.4 billion in total revenue for all country-level inter-agency pooled funds	1. Strong added value in promoting UN coherence, 2. Normally combined and sequenced with other financing instruments 3. Speed and flexibility: high 4. Risk management: high, depending also on risk profile of pooled fund	Normally not only source of financing for country level interventions and hence very dependent on availability other financing instruments.
Example 1 Country Based Humanitarian Pooled Funds	Country-based humanitarian pooled funding instruments for emergency response.	Voluntary grants from bilateral and multi-lateral donors, developing country governments, private contributions etc.	Grants, ODA	UN agencies; national and international NGOs (through UN Managing Agent)	To deliver timely, flexible and predictable humanitarian response to locally identified and prioritised needs	Six CHFs: Afghanistan, CAR, DRC, Somalia, Sudan, South Sudan ERFs: Colombia, Ethiopia, Haiti, Iraq, Jordan, Lebanon, oPt Myanmar, Pakistan, Syria, Turkey, Yemen	Advisory committee (normally consisting of multiple stakeholders), with final allocation decisions taken by the UN Humanitarian Coordinator	Fund implementers: 7 % indirect cost Fund administrator for CHFs: 1%.	US$ 368 million total revenue for 6 CHFs in 2014; US$ 147 million in total revenue for ERFs in 2014 US$ 500 million for Saudi Fund for Iraq	Leverage donor funding and allocate funds to locally identified and prioritised humanitarian needs Enhance leadership of HCs, improve functioning of cluster system & strengthen humanitarian accountability.	Decreasing share of pooled funds as part of total humanitarian funding (CBPFs covered 4 % of HRP funding requirements in countries concerned in 2015
Example 2 Country Based Transition Funds	Country-based recovery / reconstruction / resilience pooled funding instruments for fragile countries in transition	Voluntary grants from bilateral and multi-lateral donors, developing country governments, private contributions etc.	Grants; ODA	UN agencies; national and international NGOs (through UN Entity)	To provide timely, flexible and predictable response to countries in transition situations for recovery, reconstruction, resilience, stabilisation and other related interventions, that contribute to sustaining peace and/or respond to natural disasters.	In 2014 the following countries had operational transition funds: CAR, DRC, Mali, Darfur, South Sudan, Haiti, Yemen, Iraq, Lebanon, Libya, Nepal	Steering committee (normally consisting of multiple stakeholders) chaired or co-chaired by UN UN takes a lead role in making fund allocation decisions	Legal documents and TOR Minimum of US$ 5 million per year for Fund; Ideally at least 10 – 15 % of total UN intervention. Harmonised rate of 7 % indirect cost for fund implementers and 1 % for fund administrator	US$ 97.2 million in 2014 expenditures in countries on the WB list of fragile states for purposes other than humanitarian [77]	1. Strong added value in promoting UN coherence. 2. Normally combined and sequenced with UN and/or WB/IFI financing instruments. 3. Speed and flexibility: high 4. Risk management: high risk tolerance	Low share of transition pooled funds as part of total transition financing in given country context, with other funding being often very fragmented

FINANCING INSTRUMENT	SHORT DESCRIPTION	SOURCE OF FINANCING	TYPE OF FINANCING	USED BY / INSTRUMENT ACCESSIBLE TO	PURPOSE / USED FOR	USED WHERE?	DECISION-MAKING STRUCTURE	FINANCIAL REQUIREMENT	INDICATIVE AMOUNT (in 2014)	ADVANTAGES	DIS-ADVANTAGES
(continue) Earmarked funding (total UN-wide, global revenue of US$ 26.3 billion in 2014)											
6. Single-agency thematic funds (global)	Single-entity funding mechanisms designed to support specific high-level outcomes within an UN entity's strategic plan. The UN entity is fund administrator and fund implementer.	Voluntary grants from bilateral and multi-lateral donors, developing country governments, private contributions etc.	Grants; ODA and non-ODA	UN entity and through that entity other implementing partners (NGOs, governments etc)	Within mandate of UN entity and for programmatic scope of thematic fund concerned. Can be humanitarian, sustaining peace/transition, development and/or human rights related. Can be used to finance normative work at global and regional level.	All countries, multiple countries simultaneously	Outlined in TOR and legal documents; UN agency takes the lead role in making fund allocation decisions	Legal documents and TOR Cost structure depends on UN entity cost recovery policy	US$ 0.7 billion in revenue in 2014 for single-agency thematic funds of UNDP, UNFPA and UNICEF.	Increased flexible funding for UN entity compared to single project / programme specific contributions	For most UN entities share of single-agency thematic funds is low compared to level of single project / programme specific funding.
7. Revenues from Global Vertical funds	Funds focused 'vertically' on specific themes, but are not directly administered by a UN entity and do not have a UN lead role in the fund allocation process. Main UN's role is as fund implementer.	Vertical funds, including GAVI, GPE, GEF, GFATM, and Montreal Protocol	Grants; ODA and non-ODA	UN organisations accredited to the specific vertical funds Funding received is earmarked to specific projects	Global Public Goods	GAVI: 54 eligible countries GEF: Global, LDCs GPE: 61 countries GFATM: Over 100 countries MP: 147 countries	GAVI: Board GEF: the Assembly GPE: Board of Directors GFATM: Board (implementers and donors) MP: Executive Committee	Different depending on Global Vertical Fund concerned	Total US$ 1.0 billion in revenue in 2014	Can be combined and sequenced with other UN financing instruments Scope for risk management at the Fund level.	Highly earmarked, project specific contributions may reduce incentives for UN coherence.
8. Local resources	Grants from programme countries financed from government resources or through loans / credits for use in their own national development frameworks	Governments, IFI loans and credits	Grants	UN entities Earmarked to specific programmes and projects	Humanitarian, sustaining peace/ transition and/or development interventions, which are within the UN's mandate and included in national plans.	UNDP, for example, used this modality in 32 countries. Only one country (Chad) was on the WB list of fragile states.	Specific to each agreement and UN entity	UN entity specific	Total US$ 1.3 billion in revenue in 2014. (of which 64 % for UNDP)	Increases speed and flexibility of interventions on behalf of national governments. Normally accompanied by interventions to build national capacities.	
9. Project / programme specific contributions	Grants earmarked by the contributor(s) to a specific programme or project of a specific UN entity	Voluntary grants from bilateral and multi-lateral donors, developing country governments, private contributions etc.	Grants, ODA	UN entities Earmarked to specific programmes and projects	Humanitarian, sustaining peace/ transition, development and/or human rights. Can also be used to finance normative work and peacekeeping.	All countries	UN Entity specific programmatic document and contribution agreement Cost structure depends on UN entity cost recovery policy	UN entity specific	Estimated at US$ 21.7 billion in 2014	Direct link between funding provided and specific results to be provided in terms of time, scope and budget.	High share of project specific contributions is indicative of high level of fragmentation. Reduces incentives for UN coherence and scope for risk management at the portfolio level.

FINANCING INSTRUMENT	SHORT DESCRIPTION	SOURCE OF FINANCING	TYPE OF FINANCING	USED BY / INSTRUMENT ACCESSIBLE TO	PURPOSE / USED FOR	USED WHERE?	DECISION-MAKING STRUCTURE	FINANCIAL REQUIREMENT	INDICATIVE AMOUNT (in 2014)	ADVANTAGES	DIS-ADVANTAGES
Service delivery to national governments and other revenue (total UN-wide, global revenue of US$ 2.9 billion in 2014)											
10. National Pooled Funds	National funding mechanisms designed to support a clearly defined country-level programmatic scope and results framework through contributions that are co-mingled and held by a UN fund administrator.	Grants from bilateral donors, governments and private donors	Grants; ODA Fees for UN entity providing fund administration services are recorded as UN revenue.	Governments	To support mandate of national authorities in country concerned. Government can decide to also use UN entities as fund implementers.	CAR and Mali National Funds were operational in 2014	Steering committee (consisting of multiple stakeholders) chaired or co-chaired by UN and government	Threshold of 5 million per year for establishing new funds. Fund Secretariat cost is fund specific; Fund implementers: 7 % indirect cost if UN is used; Fund administrator: 1%.	US$ 23 million in expenses in 2014 (for national funds in WB fragile states)	Funding is normally on plan and on budget. Normally accompanied by capacity development interventions. Scope for risk management is high; instrument can be used as part of portfolio of financing instruments in high-risk settings.	Requires adequate set of control measures to address programmatic and fiduciary risks.
11. Procurement services	Procurement support to national government, NGOs and others wishing to leverage UN Agency global procurement expertise	Resources from Governments, NGOs and others	Fees for UN entity providing services are recorded as UN revenue.	Governments; NGOs; others	To support countries with cost efficient, effective procurement and to build procurement capacity	Countries that request for services	Specific to each agreement and UN entity. UN entities using this instrument include UNICEF, UNDP, UNFPA and UNOPS.	Fee structure is UN entity specific and product specific; it is meant to recover cost of rendering service.		Increases speed and flexibility of national governments procurement, while leveraging UN specialised technical procurement expertise.	
Loan disbursement instruments											
12. Concessional loans	Loans on substantially more generous terms than conventional loans	Mainly voluntary contributions from member states	Low-interest loans and grants	Governments, private sector, NGOs	To support low income countries with flexible funding for development projects within the UN entity's mandate and leveraging larger resources of public and private capital.	Low Income countries	Depending on the UN entity	Fulfilling the UN Entity's criteria			
Example 1: IFAD concessional loans and grants	Highly concessional loan; DSF Grants, intermediary (up to 2013); Blend loans (since 2013); Ordinary loans; HIPC Debt Relief; supplementary funds (i.e. earmarked funds mobilised from multi-bilateral donors)	Member State's negotiated replenishment pledges, refunds from loans etc	Low-interest loans and grants	Governments	Used to address the main causes of vulnerability to shocks through the financing of sustainable and inclusive rural transformation projects in contexts of weakened institutions and enhanced vulnerability	Mainly LDCs. Ten other low and lower middle income countries	Governing Council, Executive Board, President	Ordinary term: LIBOR+0,35%, 18 years maturity, 3 years grace Highly concessional rate: 0% interest with service charge of 0,75%, 40 years maturity, 10 years grace Blend Term: Fixed rate: 1.25% plus service charge of 0.75%; 25 years maturity; 5 years grace	Total disbursed grants and loans 2014 of US$ 310 million In Addition, US$ 23.6 million of debt to IFAD was cancelled in 2014		

FINANCING INSTRUMENT	SHORT DESCRIPTION	SOURCE OF FINANCING	TYPE OF FINANCING	USED BY / INSTRUMENT ACCESSIBLE TO	PURPOSE / USED FOR	USED WHERE?	DECISION-MAKING STRUCTURE	FINANCIAL REQUIREMENT	INDICATIVE AMOUNT (in 2014)	ADVANTAGES	DIS-ADVANTAGES
UN tools for combining and sequencing financing instruments											
13. UN to UN transfer	Standardised legal instrument that permits a UN entity that is the contributing entity to transfer funding to another UN entity that is the recipient entity	Contributing UN organisation	ODA, Grant	Recipient UN organisation	For programmatic scope that is common to the two UN entities concerned. To be used in cases where one UN entity would like to transfer funding to another agency to implement specific deliverable where the other UN entity has the required expertise.	Can be used in all situations of protracted crisis and fragility.	As defined in the standard UN-UN Transfer Agreement template.	Cost recovery rate of Recipient UN Agency, determined in accordance with its cost recovery policy.	Based on 2015 survey responses of 9 UN entities, tool was used in 2014 for close to 300 agreements with a total value of about US$ 100 million.	User-friendly tool that reduces transaction costs, increases transparency, UN coherence and allows for the rapid approval and transfer of funds between UN agencies.	Cannot be used when Contributing Entity's funding originates from certain contributors (e.g. GFATM, EC).
14. UN to WB and WB to UN transfer	Legal instruments that permit a World Bank Trust Fund to receive funding from a UN inter-agency pooled fund; or a UN inter-agency pooled fund to receive funding from a World Bank Fiduciary Intermediary Fund	UN inter-agency pooled fund or World Bank Fiduciary Intermediary Fund (FIF)	ODA, Grant	World Bank Trust Fund or UN inter-agency pooled fund	For programmatic scope that is common to UN inter-agency pooled fund and World Bank FIF / TF. Depending on preferred UN – WB joint financing architecture, decided upon during the design phase.	Can be used in all situations of protracted crisis and fragility.	Depends on governance and coordination architecture decided upon jointly by UN and WB and other stakeholders during the design phase.	WB and UN both use their normal approach for financing Secretariat costs and normal cost-recovery structure for fund implementers. WB and UN both charge costs for fund administration	UN to WB: US$ 2 million (2014) from PBF to WB TF for Guinea (Pipeline: CAFI) WB to UN: US$ 131 million (2010 – 2016) for Haiti Recovery (Pipeline: MENA Concessional Financing Facility)	1. Permits the combining and sequencing between UN and WB financing instruments in cases where one of the two institutions is the main Trustee / fund administrator. 2. Strong added value in promoting UN – WB coherence during fund design and implementation. 3. Increases collective scope of risk management between two institutions	Requires close partnership and consultation between UN and WB during the design stage of their respective funds. So far no standard legal templates (under development)

End Notes

[1] 1990: The World Summit for Children; World conference on education for all; Second UN conference on least developed countries; 1992: UN conference on environment and development; International Conference on Nutrition; 1993: World Conference on Human Rights; 1994: International conference on population and development; Global conference on sustainable development of small island developing states; 1995: Fourth world conference on women; World Summit for Social development; 1996: Second UN conference on human settlement; World Food Summit; 1999: 21st special session of the GA on the international conference on population and development-

[2] The least developed countries (LDCs) are a group of countries that have been classified by the UN as 'least developed' in terms of their low gross national income (GNI), their weak human assets and their high degree of economic vulnerability. The number of LDCs is currently 48.

[3] For the current 2016 fiscal year, middle-income economies are those with a GNI per capita of more than US$ 1,045 but less than US$ 12,736;. Lower-middle-income and upper-middle-income economies are separated at a GNI per capita of US$ 4,125 (World Bank definition)

[4] Funds and programmes: UNDP (incl. UNCDF, UNV), UN-Women, UNFPA, UNICEF, WFP, UNHCR, UNAIDS, UNCTAD (incl. ITC), UNEP, UN - Habitat, UNODC, UNRWA
Specialised agencies: FAO, IAEA, UNESCO, ICAO, ILO, IMO, ITU, UNIDO, UPU, WIPO, WHO, WMO, UNWTO
Regional commissions: ECA, ECE, ECLAC, ESCAP, ESCWA S
Secretariat departments: OCHA, DESA
Other entities: IFAD, OHCHR
http://www.un.org/en/sections/about-un/funds-programmes-specialized-agencies-and-others/index.html

[5] To calculate the real value, the US Bureau of Labor Statistics was used with 1975 as a base year. The peak of assessed funding in 2000 does not necessarily account for an increase of total assessed funding but rather highlights that the total number of assessed agencies has increased. Growth of Assessed funding has stagnated over time.

[6] Implementation of General Assembly resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations System Report of the Secretary – General, A /71/63 – E /2016/8, 31 December 2015
http://www.un.org/ga/search/view_doc.asp?symbol=E/2016/8

[7] The pie chart has been designed with the data from Table 2 provided by the recent QCPR report and updated by the CEB in January 2016.

[8] To calculate the real value, the US Bureau of Labor Statistics was used with 1975 as a base year. The peak of assessed funding in 2000 does not necessarily account for an increase of total assessed funding but rather highlights that the total number of assessed agencies has increased. Growth of assessed funding has stagnated over time.

[9] **(A)** An IOM assessment scale is fully equated to that of the United Nations and membership fee based on the UN Scale of Assessment. The entire administrative budget is funded from member state assessed contributions. Data has been added for 1995-2014
(B) Assessed contributions for UNEP comprise the United Nations regular budget, conventions and protocols and the Multilateral Fund. This table includes all 3. Data has been added for 1995-2014
(C) UN-HABITAT's secretariat is funded by the UN regular budget through assessed contributions, receiving approximately US$ 10m per year assessed contributions (7% of UN-Habitat's total budget). Data has been added for 2000-2014.
(D) Assessed contributions from UN regular budget around 2% of UNHCR total budget. Data has been filled from 2000-2014.
(E) Assessed contributions from UN regular budget around 9% of UNODC total budget. Assessed contributions have traditionally financed the administrative infrastructure and core normative work, with only limited amounts of such resources going to technical cooperation programmes. Annual reports from UNODC data gaps filled for 2000-2010
(F) Assessed contributions are issued from the United Nations regular budget, and are assessed and approved for a two-year budget period. The amount of these contributions is then apportioned between the two years and recognised on a monthly basis. UN WOMEN operational since 2011. 2014 latest number on assessed funding

[10] General Assembly, Security Council. A /70/95 – S /2015/446 (June 2015). Comprehensive review of the whole question of peacekeeping operations in all their aspects. Comprehensive review of special political missions Strengthening of the United Nations system
http://www.un.org/sg/pdf/HIPPO_Report_1_June_2015.pdf

[11] Letter dated 29 June 2015 from the Chair of the Secretary-General's Advisory Group of Experts on the 2015 Review of the United Nations Peacebuilding Architecture addressed to the Presidents of the Security Council and of the General Assembly
http://www.un.org/en/peacebuilding/pdf/150630%20Report%20of%20the%20AGE%20on%20the%202015%20Peacebuilding%20Review%20FINAL.pdf

[12] World Humanitarian Summit. Official Website.
https://www.worldhumanitariansummit.org/

[13] Implementation of General Assembly resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system. Report of the Secretary – General, A /71/63 – E /2016/8, 31 December 2015
http://www.un.org/ga/search/view_doc.asp?symbol=E/2016/8

[14] Independent Team of Advisors (ITA), 2016. A new funding architecture of the UN Development System for the 2030 Agenda: Options and Challenges.

[15] UNEP Annual Report 2008
http://www.un.org/en/ga/search/view_doc.asp?symbol=A/70/5/Add.7

[16] Report of the Consultation on the Tenth Replenishment of IFAD's Resources. February 2015.
https://webapps.ifad.org/members/gc/38/docs/GC-38-L-4-Rev-1.pdf

[17] Implementation of General Assembly Resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR): 2016

[18] Without the contribution of Saudi Arabia to the humanitarian pooled fund in Iraq, the share of the UN inter-agency pooled funding instruments would have been 8.5%

[19] This analysis included the 2014 QCPR data on non-core levels and MPTFs administered by the MPTF Office and CERF.

[20] In 2014 this figure reached US$ 2.3 billion due to the US$ 500 million one-off contribution of Saudi Arabia to the Humanitarian Fund for Iraq.

[21] Annex QCPR Monitoring Framework 2016
http://www.un.org/en/ecosoc/qcpr/pdf/QCPRMonitoringFrame-work2016.pdf

[22] 2014 UNICEF Investment Newsletter
https://papersmart.unmeetings.org/media2/3914577/investment_funds_newsletter-2014-print.pdf

[23] 2014 UNICEF Investment Newsletter
https://papersmart.unmeetings.org/media2/3914577/investment_funds_newsletter-2014-print.pdf

[24] Using Investment Funds to Increase Income from the Private Sector, 2013, UNICEF
http://www.unicef.org/about/execboard/files/EXB_informal_brief-ing-investment_funds-28Aug2013.pdf

[25] The table was constructed by a data set from the recent QCPR report available on this website: http://www.un.org/en/ecosoc/newfunct/qcpr_implement.shtml. The table does not take into account the territories. Fragile states are separate but also appear in the other categories.

[26] Financing Sustainable Development: Implementing the SDGs through Effective Investment Strategies and Partnerships Jeffrey D. Sachs and Guido Schmidt-Traub. May 2015.

[27] OECD, Tortora P. & Steensen, S., 2014

[28] "From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance" prepared jointly by the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the International Monetary Fund, and the World Bank (2015).

[29] M. Martin, J. Walker, 'Financing the Sustainable Development Goals. Lessons from government spending on the MDGs. Government Spending Watch 2015 Report.' (Development Finance International, Oxfam).

[30] 'Adds Ababa Action Agenda of the Third International Conference on Financing for Development', p. 5, United Nations (2015).

[31] M. Martin, J. Walker, 'Financing the Sustainable Development Goals. Lessons from government spending on the MDGs. Government Spending Watch 2015 Report.' (Development Finance International, Oxfam).

[32] 'Open Budget Survey 2015. Open Budgets Transform Lives', International Budget Partnership (2015).

[33] Publish What You Fund (2016), Aid Transparency Index

[34] OECD/UNDP (2014), Making Development Co-operation More Effective: 2014 Progress Report, OECD Publishing.

[35] 400 Organisations now report to IATI
http://www.aidtransparency.net/news/400-organisations-now-report-to-iati#sthash.jG0a6BEv.dpuf

[36] OECD. Purpose Codes: sector classification
https://via.hypothes.is/
http:/www.oecd.org/dac/stats/purposecodessectorclassification.htm

[37] UN Resolution 67/218 (2012)

[38] '2015 Education Budget Brief. Mozambique', UNICEF (2015).

[39] This budgetary interface was developed within the UNDP Project "Strengthening the Oversight Function and Transparency of the Parliament".

[40] A study on Porto Alegre, Brazil showed, that participatory budgeting had an extensive impact on the city. Access to water increased from 75% of total households to 98% by 1997, the number of schools quadrupled and the health and education budget increased from 13% to almost 40% by 1996. (see D. Bhatnagar, A. Rathore, M. Torres, P. Kanungo, 'Empowerment Case Studies: Participatory Budgeting in Brazil', (Indian Institute of Management, WB)).

[41] In Colombia for instance UNDP has been providing technical support to the Ministry of Interior and the Office of the National System of Youth with regards to legislative reforms needed to create Municipal Youth Councils in 1,101 municipalities around the country in order to strengthen the participation of young people in local governance and local budgeting. UNICEF through its Child Friendly City Initiative guides cities and local governments in integrating child rights into local policies and programmes.

[42] See MY World blog post:
https://blog.myworld2015.org/2015/11/16/celebrating-1-6-million-my-world-votes-of-mexico-city/

[43] See De Renzio, Paolo. "Monitoring Spending in a Post-2015 World: How Can It Work?" IBP blog, 7 May, 2015.

[44] "The Role of Pooled Financing Mechanisms to Deliver the 2030 Sustainable Development Agenda" – UNDG ASG Advisory Group Task Team and MPTF Office.

[45] For example, a number of evaluations (Scanteam, 2007 & 2009; Pricewaterhouse Coopers, 2011; Swiss Trust Fund, 2013) have noted that much of the impact of the Iraq Trust Fund was attributed to its significant size of multi-year funding by multiple donors (more than US$ 1.9 billion).

[46] Federal Republic of Somalia (2013). Somali Compact.

[47] UNDESA, Report of the Secretary-General, Implementation of General Assembly Resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR), February 2014, unedited version.

[48] Annex III provides a sample of well-capitalised UN pooled funds that play a critical role in improving coherence and coordination of international assistance.

[49] Website of the Multi Partner Trust Fund Office, Funds administration in real time. http://mptf.undp.org/

[50] The sample size of this analysis includes only UN MPTFs administered by the MPTF Office.

[51] Top 10 donors of UN MPTFs are UK, Spain, Norway, Sweden, Netherlands, EU, Japan, Australia, Canada, Denmark, and Ireland.

[52] Operational Effectiveness of the UN MDTF Mechanisms, May 31, 2011
53 OECD (2015), "Climate finance in 2013-2014 and the US$ 100 billion goal".

[54] https://interagencystandingcommittee.org/iasc-transformative-agenda/documents-public/iasc-transformative-agenda-what-does-iasc-humanitarian

[55] www.un.org/ga/search/view_doc.asp?symbol=A/70/714

[56] Dag Hammarskjöld Foundation, Development Dialogue Paper No. 14, Six Goals for Strenthening the UN's Ability to Sustain Peace, March 2016.

[57] http://www.pbsbdialogue.org/en/new-deal/new-deal-principles/

[58] See, for example, World Bank, World Development Report 2011: Conflict, Security, and Development (Washington, D.C., 2011); OECD, Aid Delivery in Post-conflict Transitions: Rethinking Policy, Changing Practice, OECD/DAC Guidelines and Reference Series (Paris, 2012).

[59] See IEP and PBSO, Stocktaking of Global Peacebuilding Expenditures, Research Brief (New York, 2016). The paper also looked at domestic peacebuilding expenditures in 15 countries, which spent on average about 4% of their budgets on peacebuilding. On ODA peacebuilding expenditures, see also Sarah Dalrymple, Investments in Peace and Security, Development Initiatives, March 2016.

[60] The five Peacebuilding and Statebuilding goals are: 1. Legitimate politics: Foster inclusive political settlements and conflict resolution.; 2. Security: Establish and strengthen people's security; 3. Justice: Address injustices and increase people's access to justice; 4. Economic Foundations: Generate employment and improve livelihoods; 5. Revenues & Services: Manage revenue and build capacity for accountable and fair service delivery.

[61] United Nations, Outcome document of the Third International Conference on Financing for Development: Addis Ababa Action Agenda (A.CONF.227/L.1, 15 July 2015).

[62] ODA ranks behind remittances, and above Foreign Direct Investment (FDI), as the largest source of financing to fragile and conflict-affected states (see OECD, States of Fragility 2015: Meeting the Post-2015 Ambitions, (Paris, 2015). However, these averages disguise large imbalances, with 50% of remittance flows heading to only 3 countries with large diaspora populations and most FDI heading to only 6 resource rich countries for investment in natural resource extraction.

[63] Gross ODA is on average 20 to 25% higher than net ODA. Gross becomes net once repayments of the principal on loans made in prior years (but not interest) are taken into account, as well as offsetting entries for forgiven debt and any recoveries made on grants. OECD does not provide net ODA figures along CRS codes.

[64] The list of 31 conflict-affected countries was compiled by using the following criteria:
a) Have an active multi-dimensional peacekeeping operation mandated by the UN Security Council;
b) Have an active special political mission with particular country focus mandated by the UN Security Council; or
c) Be eligible for funding by the Peacebuilding Fund (PBF).
This analysis was conducted before Sri Lanka was declared eligible for the PBF and is therefore not included.

[65] See IEP-PBSO, Stocktaking of Global Peacebuilding Expenditures, Research Brief (New York, 2016) for more detail on the 17 categories that are included.

[66] United Nations, Challenge of Sustaining Peace, Report of the Advisory Group of Experts on the Review of the Peacebuilding Architecture (A/69/968-S/2015/490, 30 June 2015), para. 171.

[67] United Nations, Outcome document of the Third International Conference on Financing for Development: Addis Ababa Action Agenda (A/CONF.227/L.1, 15 July 2015), paras. 8 and 67.

[68] United Nations, Challenge of Sustaining Peace, Report of the Advisory Group of Experts on the Review of the Peacebuilding Architecture (A/69/968-S/2015/490, 30 June 2015), para. 168.

[69] There were three reviews: 1) on peacekeeping (Report of the High-level Independent Panel on Peace Operations, Uniting our Strengths for Peace: Politics, Partnership and People (A/70/95-S/2015/446, 17 June 2015); 2) on peacebuilding (United Nations, Challenge of Sustaining Peace, Report of the Advisory Group of Experts on the Review of the Peacebuilding Architecture (A/69/968-S/2015/490, 30 June 2015)); and on the implementation of Security Council Resolution 1325 on Women, Peace and Security (Preventing Conflict, Transforming Justice, Securing the Peace, A Global Study on the implementing of United Nations Security Council Resolution 1325 (New York, 2015).

[70] UNOCHA (2015), World Humanitarian Data and Trends 2014

[71] Boston Consulting Group (BCG), 2012, African Risk Capacity Cost Benefit Analysis

[72] Assessed revenue, Central Executive Board (CEB) data 2014

[73] Assessed revenue, CEB data 2014

[74] Core revenue for the 14 UN entities receiving core, CEB data 2014. This included a portion of the US$ 1.4 billion for IFAD pledged for its 9th replenishment cycle (for 3 years)

[75] Total earmarked revenue, CEB data 2014.

[76] CERF
http://www.unocha.org/cerf/cerf-worldwide/allocations-country/2014

[77] MPTF Office Gateway

In 2014 the resources of the United Nations system amounted to US$ 48 billion, from a wide spectrum of sources and through different financing mechanisms. Understanding and analysing the characteristics and potential of these contributions and mechanisms is critical to ensure a better and smarter resourced United Nations Development System.

There is much to build on from what is already underway within the different UN entities, and also outside the UN system. But also very much needed, is a boldness to challenge outdated systems and procedures and a willingness to test new approaches. In this regard, catalytic connectors across the UN system need to be strengthened, and an openness for innovative financing embraced.

We aim with this report to contribute to current debates on the future of financing for the United Nations, to stimulate novel approaches and, as the title of the report says, new directions in financing.

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http://mptf.undp.org