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**Funding analysis of Operational Activities for
Development - Addendum 2**

Summary

The analysis contained in this addendum is submitted in accordance to General Assembly resolution 71/243. It provides an overview of the overall status of the funding of operational activities for development, with a focus on 2017. The analysis includes a review of the progress made in addressing the funding-related challenges highlighted in the QCPR resolution and General Assembly resolution 72/279

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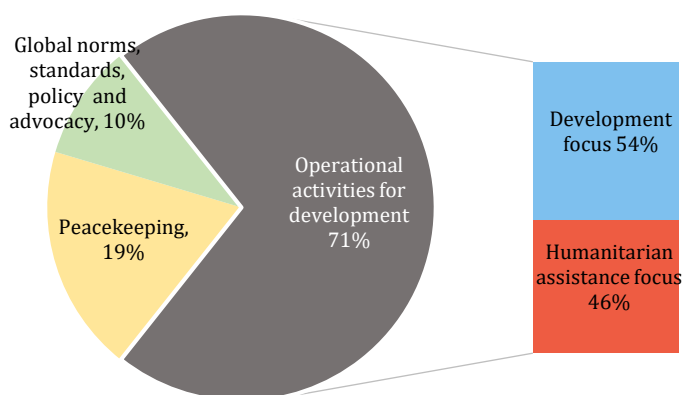
I. Quantity & Quality of Funding

1. Overview & Trends

Context of UN operational activities for development

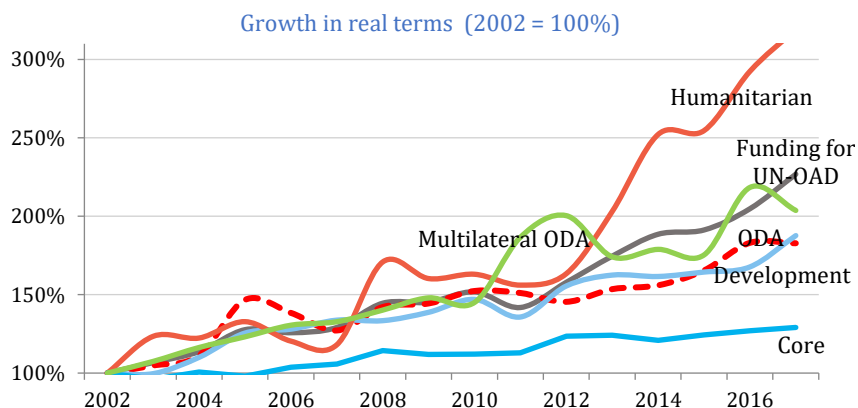
1. Expenditure on operational activities for development amounted to \$34.3 billion in 2017. This represented about 71 per cent of the \$48.3 billion in expenditure on all UN system-wide activities. Peacekeeping operations accounted for just under one fifth of total expenditures; while global norm- and standard-setting, policy, advocacy, and other functions of the UN system made up the remaining 10 per cent.

Figure 1.1.1: Financing of UN system-wide activities: 2017



2. Total contributions for OAD reached \$33.6 billion in 2017,¹ which equals 23.3 per cent of total ODA. The figure below shows that the growth rate of OAD funding has followed a similar track to the growth in overall global ODA since 2002. In the past five years, however, UNDS² funding has exceeded the ODA growth rate. Core funding to the UNDS has grown at a significantly slower pace than ODA over this 15 year period (see figure 1.1.2).

Figure 1.1.2: Growth in ODA and funding for UN operational activities for development, 2002-2017



¹ This amount differs slightly from the \$34.3bn in expenditures by the UNDS in 2017 since contributions are not necessarily expended in the same calendar year as they are received.

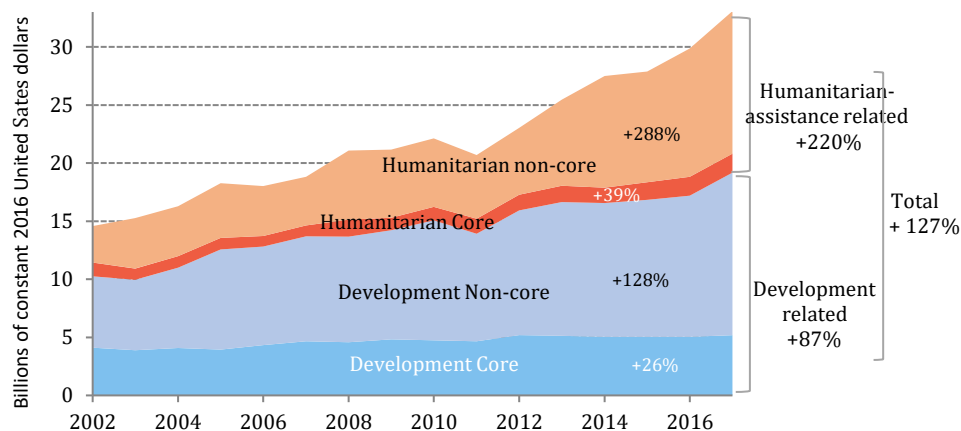
² The report uses the designation “United Nations development system” to identify 43 United Nations entities that undertake operational activities for development and are eligible for official development assistance (ODA)”. See online technical annex for more information.

- The above figure also shows that multilateral ODA has grown faster than ODA in general (and at about the same pace as funding for UN operational activities for development). The growth of global vertical funds is a prime factor for the increase in multilateral ODA, specifically the Global Alliance for Vaccines and Immunization (GAVI), the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) and the Asian Infrastructure Investment Bank. Global funds have rapidly become more prominent and add to the competition many UNDS entities face within a growing multilateral system.

Trends in core and non-core funding

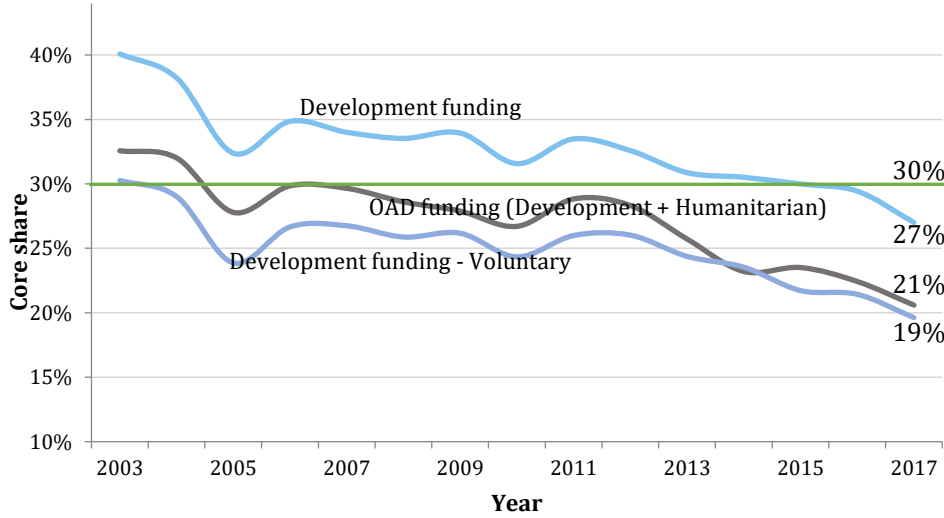
- The \$33.6 billion received in funding for operational activities for development in 2017 represents an increase of 12.6 per cent compared to 2016. Core funding increased by 3.4 per cent and non-core increased by 15.3 per cent between 2016 and 2017, resulting in a decline of core as a share of total funding from 22.4 per cent to an all-time low of 20.6 per cent.
- Figure 1.1.3 shows that a similar pattern exists in the longer term. Over the past 10 years, non-core funding to the UNDS has nearly doubled while core funding has grown at approximately one-fifth the non-core rate. Non-core funding to humanitarian assistance activities has been particularly robust, increasing by 185 per cent, or nearly tripling over the past decade. Core funding to development-related activities has grown by 8 per cent over the same period.

Figure 1.1.3: Change over time of funding for UN-OAD, 2007-2017



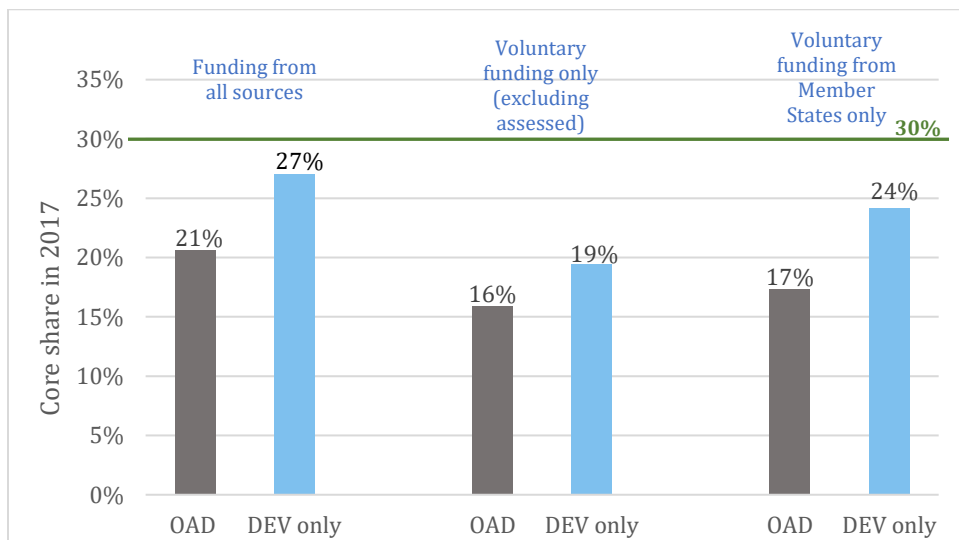
- The fact that the core share of total funding reached an all-time low was a key catalyst for the Funding Compact. Figure 1.1.4 shows the trend in the core share of total funding, and the trend in the core share when humanitarian funding or assessed contributions are excluded. The nature of the activities being funded is one factor contributing to the declining share of core resources since funding to humanitarian activities tends to be non-core by nature and, as shown in the previous figure, humanitarian activities make up an increasing proportion of the system’s overall activities.

Figure 1.1.4: Core share trends



7. The Funding Compact stipulates that, by 2023, 30 per cent of voluntary funding to development activities is made up of core resources. The last time the core share of voluntary funding to development activities exceeded 30 per cent was in 2003, and the 2017 baseline stood at 19.4 per cent. When assessed contributions are included, 27.0% of funding to development activities is in the form of core resources.
8. Another factor contributing to the declining core share is the rapid growth in funding coming from the European Commission, global funds, the private sector and NGOs, almost all which is non-core. However, as shown in the next figure, only 17 per cent of voluntary funding from Member States is core, or 24 per cent if humanitarian funding is excluded. Furthermore, the core share of contributions by Member States has been declining. A recent OECD/DAC survey partially explains the reasons for increased earmarkings by Member States. The survey found growing domestic scrutiny within DAC countries of how their resources are spent, coupled with concerns over inefficiencies of multilateral organizations. This underscores the importance of the Funding Compact in which UNDS entities commit to provide greater clarity on what they have achieved with the resources entrusted to them and to achieve efficiency gains.

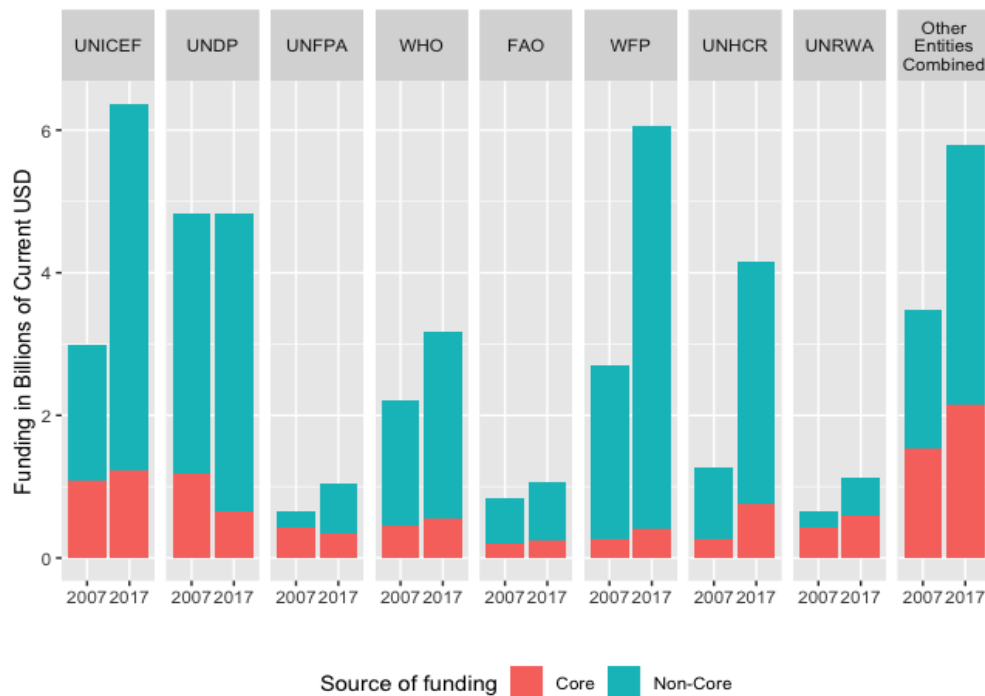
Figure 1.1.5: Core shares in 2017



Distribution of funding across entities

9. Funding is concentrated in a relatively small number of UNDS entities. In 2016, the top eight (WFP, UNDP, UNICEF, UNHCR, WHO, UNRWA, FAO, and UNFPA) accounted for 83 per cent of all contributions. The other 35 UNDS entities account for the remaining 17 per cent of funding for operational activities for development.
10. Figure 1.1.6 shows the core and non-core contributions received by the eight largest UNDS entities in 2017 relative to 2007. For each of these eight entities non-core contributions increased significantly. There were also notable increases in core funding for the three UNDS entities shown that primarily engage in humanitarian activities (WFP, UNCHR and UNRWA), as well as to UNICEF, which benefits from a relatively diverse group of core contributors that includes private contributions.
11. System-wide, only nine UNDS entities receive over 30 per cent of their voluntary contributions³ in the form of non-earmarked, core funding. This creates challenges for many entities as it limits their ability to reallocate funding to underfunded areas in their strategic plan. This issue is at the heart of the Funding Compact, particularly commitment 4.⁴

Figure 1.1.6: Funding trend for major entities



12. The growth in humanitarian disasters resulting from the impacts of climate change as well as the increase in conflicts in recent years has accelerated the growing imbalance between core and non-core resources (since humanitarian funding tends to be primarily non-core in nature). Apart from this, Member States have been increasingly earmarking their funding to development-related activities for decades. The Funding Compact aims to reverse this long-term trend and bring a better balance between core and non-core resources so that UNDS entities can effectively deliver on their strategic objectives and provide the holistic development solutions that the 2030 Agenda requires.

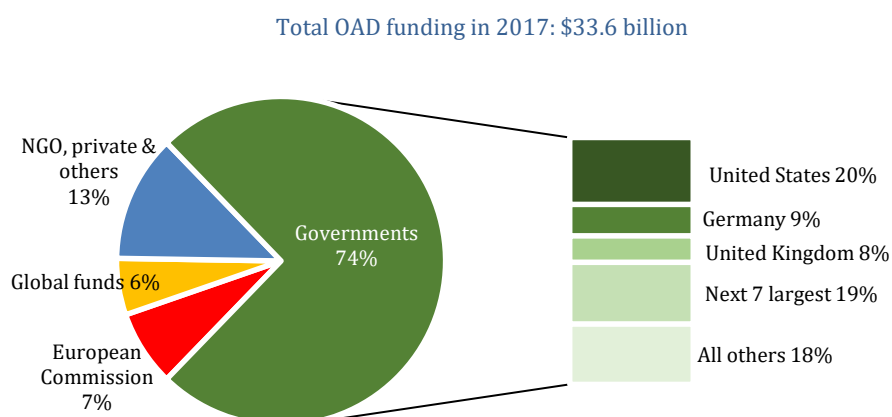
³ Excluding assessed contributions.

⁴ In commitment 4, Member States pledge to provide predictable funding to the specific requirements of UNSDG entities, as articulated in their strategic plans, and to UNDAF funding needs at country level.

2. Burden sharing

13. Government contributors account for nearly three-quarters of the funding for operational activities for development (see Figure 1.2.1). The next largest group consists of non-governmental organizations and the private sector, which accounted for over 13 per cent of funding in 2017, representing a significant increase from the 8 per cent share that this group of donors accounted for in 2011. This underscores the importance for UNDS entities to provide transparent, comprehensive reporting of funds received from the private sector and other non-state contributors.
14. The remaining contributions in 2017 came through other multilateral channels, including the European Commission, which accounted for over 7 per cent of total funding, and global funds, which accounted for 6 per cent of funding. Funding through these two channels have increased significantly in just the past three years, from under \$2.6 billion combined in 2014 to \$4.4 billion in 2017.

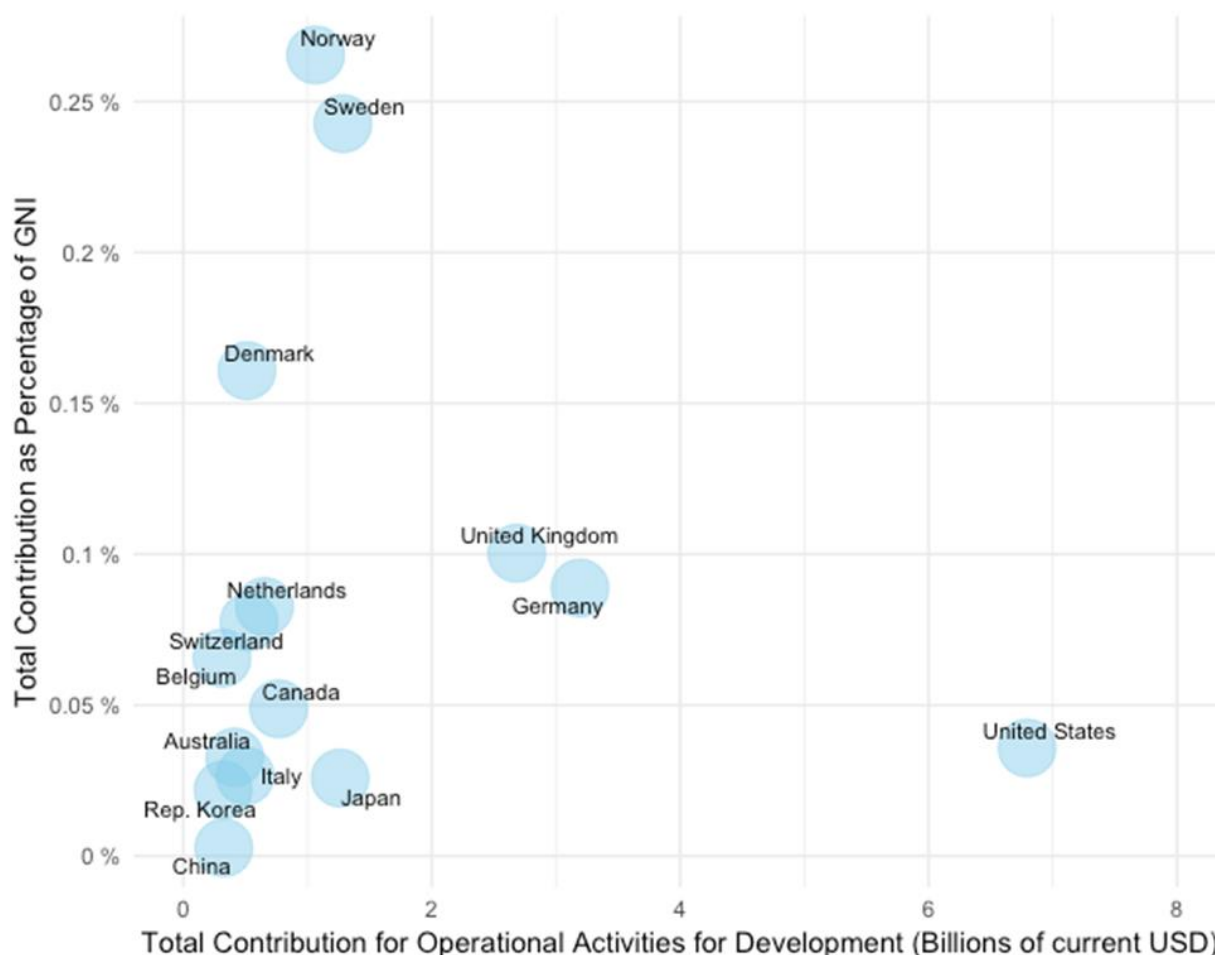
Figure 1.2.1: Main groups of funding sources: 2017



15. The 2016 QCPR urges UNDS entities to explore options to broaden and diversify their donor base. Out of 28 UNDS entities, 23 indicate they report annually to their governing bodies on concrete measures to broaden their donor base. This includes all nine UN funds and programmes and seven out of nine specialized agencies that responded to the survey.
16. Among government contributors to the UNDS, there is heavy reliance on a few countries. In 2017, three donors – USA, UK and Germany – accounted for half of all funding for operational activities for development received from Governments and just seven contributors accounted for over two-thirds of all Government contributions.
17. Similarly, for voluntary core funding to development activities, there is high dependence on a few donors. The top five contributors accounted for 50 per cent of all voluntary core funding from Governments in 2017.
18. Broadening the UNDS donor base is a key objective of the Funding Compact and a commitment made by Member States. They will do so by expanding the contributor base to interagency pooled funds, entity-specific thematic funds and the special purpose trust fund for the RC system. The target is to have 100 Member States contribute to interagency pooled funds, 50 to entity-specific thematic funds and 100 to the RC system budget by 2021 (see framework indicators 60c and 65b). In exchange, UNSDG entities pledge to use better disaggregated statistics in reporting to provide greater visibility on who is providing the funding and how it has become more impactful [see framework indicator 77].

19. Figure 1.2.2 shows the top 15 government contributors and how much their contributions translate as a percentage of their gross national income (GNI). The figure shows that even among the top contributors there are significant differences – not only in the volume of resources they provide but also in the percentage of GNI their funding makes up. There are four countries that contribute at least 0.1 per cent of their GNI to the funding of UN operational activities for development: Norway, Sweden, Denmark and the United Kingdom.

Figure 1.2.2: Top 10 contributors and their funding as a share of GNI: 2017



20. Programme countries contributed \$3.35 billion in total funding to the UNDS in 2017. This includes \$1.8 billion in local resources used to finance programmes in their own countries. Excluding local resources, programme countries contributed \$1.55 billion to UN operational activities for development, which represents a significant 12 per cent increase compared to 2016, although it equals the funding from programme countries received in 2015.

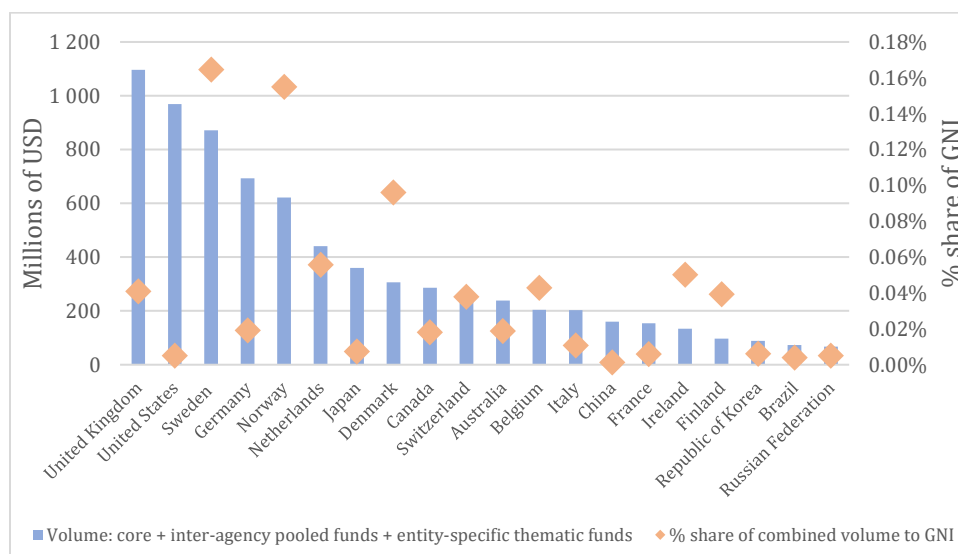
21. Core funding from programme countries totaled \$607 million in 2017, which represented a 23 per cent increase compared to 2016. Excluding local resources, core contributions accounted for 39 per cent of the \$1.55 billion in total contributions from programme countries.

22. Overall, there are solid indications that the contributor base of the UNDS is broadening given the rapid growth in funding from the private sector, NGOs, European Commission and global funds, as well as notable contributions from some programme countries. The progress, however, is slowed due to the lack of any broadening of the base among government contributors, which still makes up most of the funding. The heavy reliance on just a few governments for a large portion of UNDS funding also makes the system quite vulnerable to any policy changes that may occur within these.

3. Quality of funding

23. The Funding Compact highlights three types of funding that UNDS entities need in order to better achieve the specific requirements of their strategic plans and to provide more integrated support to Member States. There is core funding, funding to interagency pooled funds and funding to entity-specific thematic funds. The following chart shows the Member States that contributed the most funding to these three types (combined) in 2017, and presents the volume as a percentage of the country's GNI.

Figure 1.3.1. Top contributors to core budgets, interagency pooled funds and entity-specific thematic funds: 2017



24. The QCPR resolutions reiterate the need to scale up the quality of non-core funding. The Funding Compact targets 10 per cent of non-core resources for development-related activities to inter-agency pooled funds and 6 per cent to entity-specific thematic funds by 2023. As shown in Figure 1.3.2, these shares stood at 5 per cent and 3 per cent, respectively, in 2017 (see framework Indicators 53 and 55). The earmarking of 92 per cent of non-core resources for development activities to a UNDS entities' specific programme or project discourages integrated approaches, and often leads to increased transaction costs and fragmentation of resources.

25. As for funding of humanitarian activities, 10 per cent of voluntary non-core resources were channelled through inter-agency pooled funds in 2017. While they fall outside the scope of the Funding Compact, humanitarian activities are within the scope of the QCPR. UN entities carrying out humanitarian activities have repeatedly underscored the importance of flexible funding, including pooled funding, so that they can appropriately distribute resources across the areas of their strategic plans and humanitarian appeals.

Figure 1.3.2: Types of OAD funding in 2017



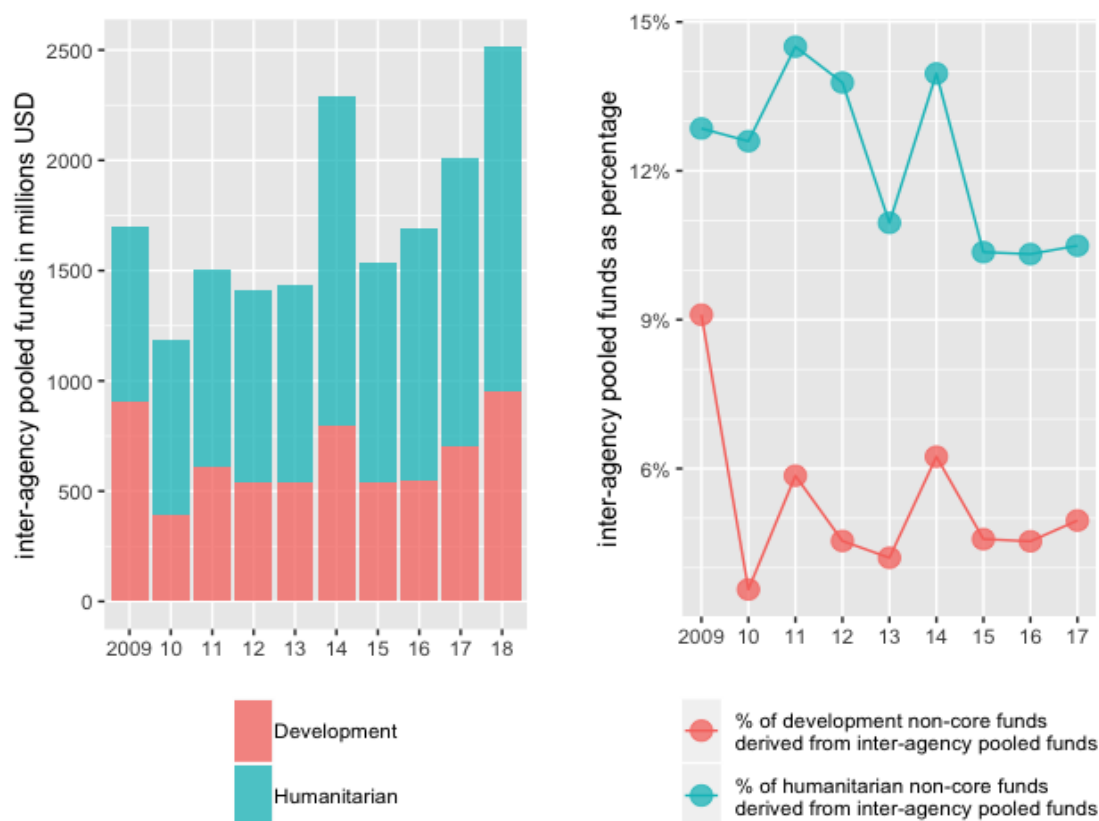
Inter-agency pooled funds

26. An interagency pooled fund is a multi-entity funding mechanism designed to support a clearly defined programmatic scope and its related results. They use co-mingled – not earmarked – contributions held by a UN fund administrator. The UN takes a lead role in making fund allocation decisions and in implementing the fund. These funds are therefore a more flexible form of non-core contributions that enables the UNDS system to use them for jointly agreed UN priority programmes.
27. Interagency pooled funds strengthen coordination, collaboration and coherence of the UNDS. During recent funding dialogues between Member States and the UNDS, participants recognized that the indivisible and interconnected nature of the SDGs has reinforced the need for more flexible, predictable and integrated interagency financing. The discussions led to a commitment to double the share of non-core resources that are channeled through interagency pooled funds.
28. Figure 1.3.3 provides an overview of the trend in contributions made to interagency pooled funds, including a breakdown by theme, both in terms of absolute volume and relative to total non-core contributions. In 2017, 65 per cent of contributions to interagency pooled funds went to funds with a humanitarian focus, with the remainder going to development-related pooled funds (which the figure below disaggregates across transition funds, climate funds and other development funds).
29. The 2018 QCPR report showed there had been no noteworthy growth in funding for interagency pooled funds between 2009 and 2016. However, funding to interagency pooled funds increased notably in both 2017 and 2018.⁵ In 2017, there was a 19 per cent increase in contributions to interagency pooled funds, compared to 2016; in 2018 it is estimated that such contributions increased by another 25 per cent above the volume received in 2017.

⁵ Data for 2018 is preliminary.

30. The past two years were unusual in that funding for development-related pooled funds increased more rapidly than funding for humanitarian interagency pooled funds. In the two-year period, 2016-2018, contributions to interagency development pooled funds increased by 72 per cent.

Figure 1.3.3: Deposits made to UN interagency pooled funds, by theme: 2009-2018⁶

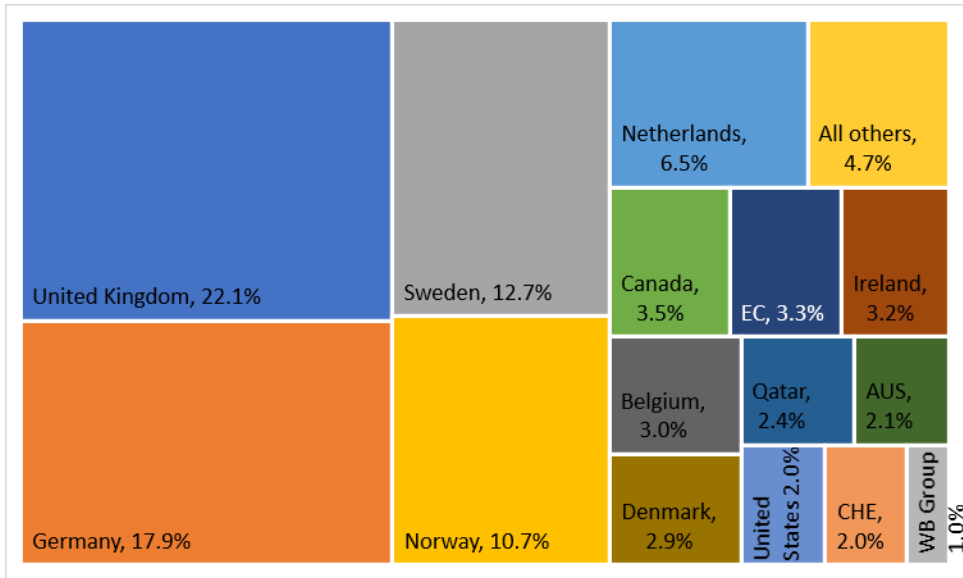


31. The recent trend in funding to interagency pooled funds is on track to reach the Funding Compact target of \$3.4 billion by 2023. In general, non-core contributions are growing at such a pace that when contributions to interagency pooled funds were viewed as a percentage of total non-core flows, there was no significant change in the share of non-core funding channelled through interagency pooled funds between 2016 and 2017. As such, the target in the new Funding Compact to double the share of non-core funding for development activities channelled through interagency pooled funds from 5 to 10 per cent is a more ambitious target than doubling the absolute volume of contributions.

32. Despite growth in funding to UN interagency pooled funds in 2017, these funds in general are still heavily reliant on a small number of donors. The top five donors – Germany, the Netherlands, Norway, Sweden and the UK – accounted for 70 per cent of all contributions to these funds. Figure 1.3.4 below shows all the contributors that accounted for at least 1 per cent of the total amount of funding to interagency pooled funds in 2017.

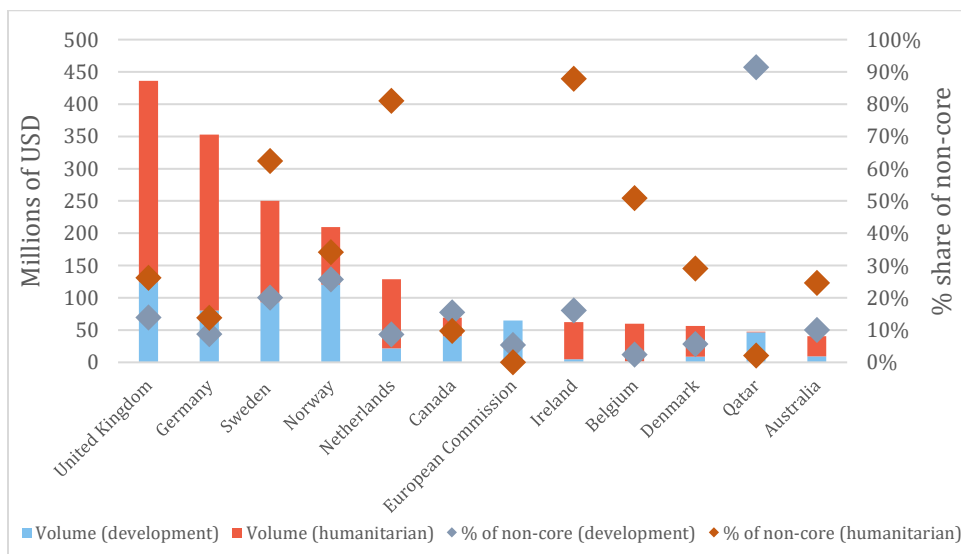
⁶ Source: UN database on inter-agency pooled funds

Figure 1.3.4: Top contributors to inter-agency pooled funds: 2017



33. Figure 1.3.5 shows to the top 12 contributors to interagency pooled funds that together accounted for 90 per cent of all funding to interagency pooled funds in 2017. Of these contributors, seven provided at least 10 per cent of their non-core contributions to development activities to interagency pooled funds and nine surpassed the same threshold with regard to non-core contributions for humanitarian activities. Among all Member States, 13 provided at least 10 per cent of their non-core contributions to development-related activities to interagency pooled funds in 2017.⁷

Figure 1.3.5: Top contributors in volume of funding to interagency pooled funds.



⁷ In addition to the 7 shown in the chart these countries were: Slovakia, Liechtenstein, Israel, Lithuania, Liberia and the Bahamas.

34. Interagency pooled funds can counteract some of the less positive effects of tightly earmarked non-core contributions. It is why they feature prominently in the recently agreed Funding Compact. However, interagency pooled funds need to be funded at scale because they come with a risk of higher transaction costs for UNDS entities, such as set up and coordination costs, compared to core and other forms of non-core resources. We need strong management and design of interagency pooled funds to ensure they attract sufficient resources to reap the benefits of economies of scale. And we must strengthen coordination among the different funds to mitigate risks of duplication. As part of the Funding Compact, UNDS entities have committed (commitment 14) to increasing the efficiency and effectiveness of interagency pooled funds by ensuring there is a common set of management features across all interagency pooled funds (see framework indicator 78).
35. The figure below illustrates how the \$2.01 billion in contributions to interagency pooled funds in 2017 were distributed across 101 different interagency pooled funds. The size of the circles corresponding to the amount of resources each interagency pooled fund attracted in 2017 indicates that funding was highly concentrated in a few large funds. The two largest funds⁸ accounted for 35 per cent of the total volume of flows to interagency pooled funds. On the other end of the scale, the 50 smallest funds, in terms of receiving funds in 2017, accounted for just 5 per cent per cent of total interagency pooled fund contributions, or an average of \$1.9 million each.

Figure 1.3.6: Contributions to inter-agency pooled funds, by theme: 2017⁹



36. The figure above also shows that the funds that attracted large amounts of resources tend to have a humanitarian focus, while most of the smaller funds have a development focus. Of the nine largest, eight are humanitarian funds, which account for 56 per cent of all resources to interagency pooled funds in 2017. In all, 82 of the 101 funds have a development focus, which together attracted \$706 million in resources, or 35 per cent of the total flows to interagency pooled funds. The 19 humanitarian funds accounted for the other 65 per cent of all contributions to interagency pooled funds in 2017.

⁸ CERF and Yemen Humanitarian Fund

⁹ Source: UN database on interagency pooled funds.

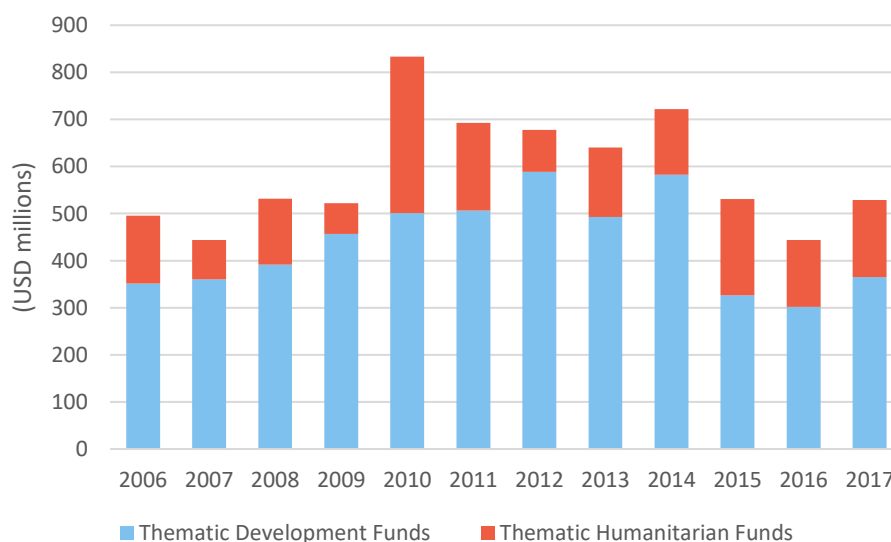
New interagency pooled funds

37. At the global level, the Joint Fund for the 2030 Agenda was developed to catalyse the financing required for the 2030 Agenda. It is based on lessons learnt from other interagency pooled funds, especially the Delivering Results Together Fund. The Joint Fund encourages new approaches to national policy formulation, implementation and sustainability to attract SDG financing. It provides UN expertise to remedy national SDG policy inconsistencies and builds national readiness to support scalable SDG investment, modelling, and national initiatives that support SDG investments.
38. The Joint Fund is an integral part of proposals for the future of the UNDS and all Member States are called on to capitalize the Joint Fund to the value of \$290 million annually. At the end of 2018, the fund had received contributions totaling over \$46.1 million since its launching in June 2017.
39. Another new pooled funding mechanism is the Spotlight initiative, launched by the UN and the European Union on 20 September 2017 to address violence against women and girls. By early 2019, the European Union had contributed \$146.6 million and Albania another \$5,000, with allocations going to nine UNDS entities to carry out activities.

Entity-specific thematic funds

40. Entity-specific thematic funds are single-entity funding mechanisms designed to support high-level outcomes within a UNDS entity's strategic plan. The respective UNDS entity acts as fund administrator, decides on fund allocations and is the only fund implementer for all contributions received in the thematic fund. These funds offer more flexibility and help UNDS entities fill gaps in underfunded areas of their strategic plan, since the resources are earmarked to broad thematic windows instead of strictly earmarked at the project level.
41. Contributions to entity-specific thematic funds totaled \$557 million in 2017, an increase of 25 per cent compared to 2016. However, this is still below the amounts contributed to entity-specific thematic funds each year between 2010 and 2014 (see figure 1.3.7). The Funding Compact set a target of 6 per cent of all non-core contributions to development activities to go to entity-specific thematic funds. The 2017 baseline stands at 2.8 per cent.

Figure 1.3.7: Volume of funding to entity-specific thematic funds, 2006 to 2017



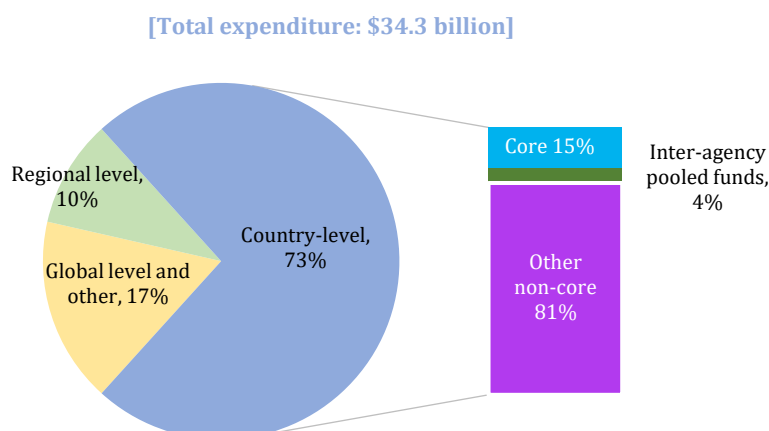
42. Of the \$557 million contributed to entity-specific thematic funds in 2017, 70 per cent were to funds with a development focus and the other 30 per cent to funds with a humanitarian focus. The private sector was the largest source of these contributions, accounting nearly one third of the total contributions system-wide in 2017. The three largest government contributors to entity-specific thematic funds were Denmark, Norway and the United Kingdom.
43. In summary, there has been notable growth in funding to inter-agency pooled funds and entity-specific thematic funds in the past couple of years. The prominence that these types of funds received during the ECOSOC dialogue on the longer-term positioning of the UNDS, the QCPR and, most recently, my repositioning report in 2017 have had a positive impact on the policy environment surrounding these funds. The Funding Compact now becomes an essential means to carry this momentum forward.

II. Allocation of Resources

1. Overview of Expenditures

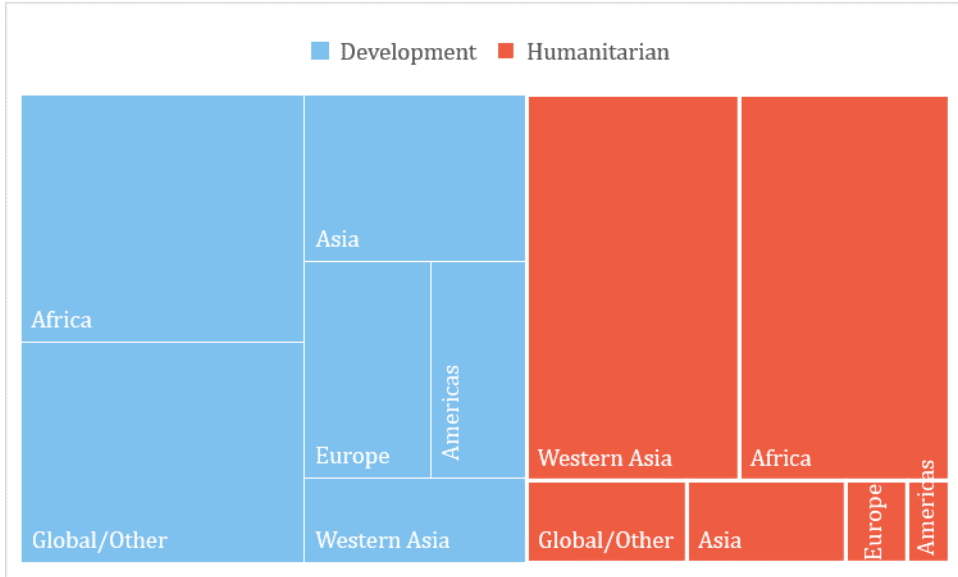
44. Total expenditures on operational activities for development totaled \$34.3 billion in 2017. Some \$25.2 billion, or 73 per cent of this total, was spent at country level and another \$3.3 billion, or 10 per cent of the total, at the regional level. Accordingly, 17 per cent of total expenditures concerned activities either at the global level or on programme support and management – as well as activities that could not be attributed to any of the above categories (see figure 2.1.1). Just over half, or 54 per cent, of expenditures were on development-related activities, while the other 46 per cent were spent on humanitarian activities.

Figure 2.1.1. Broad distribution of operational activities for development expenditures, 2017



45. Of the over \$34 billion in expenditures in 2017, 21 per cent of resources were non-earmarked or core in nature. A higher proportion of resources used on global and regional expenditures came from core, so that only 15 per cent of the \$25 billion spent at country level came from core resources and the other 85 per cent came from earmarked/non-core resources.
46. In terms of the regional distribution of country-level expenditures in 2017, \$11.9 billion, or 42 per cent of the total, was spent in Africa. The largest change in terms of regional allocation of expenditures in recent years is found in the Western Asia region. In 2011, this region accounted for only 6 per cent of country-level operational activities for development expenditures. By 2017, this share had increased to 28 per cent, most of which is spent on humanitarian activities. In terms of development-related activities, Africa remains the region with the greatest expenditure by far (see figure 2.1.2).

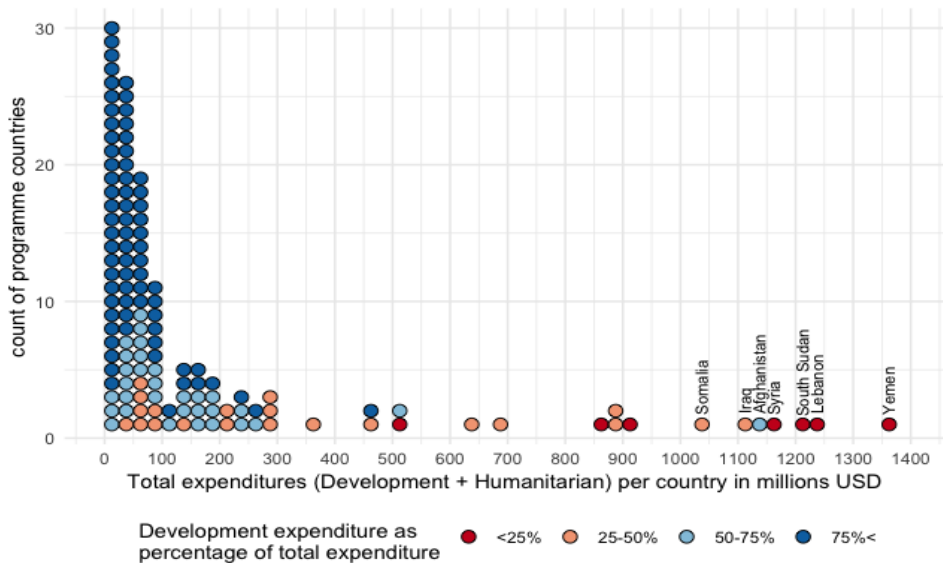
Figure 2.1.2: Allocation of development and humanitarian expenditures by region, 2017



2. Resource allocation across programme countries

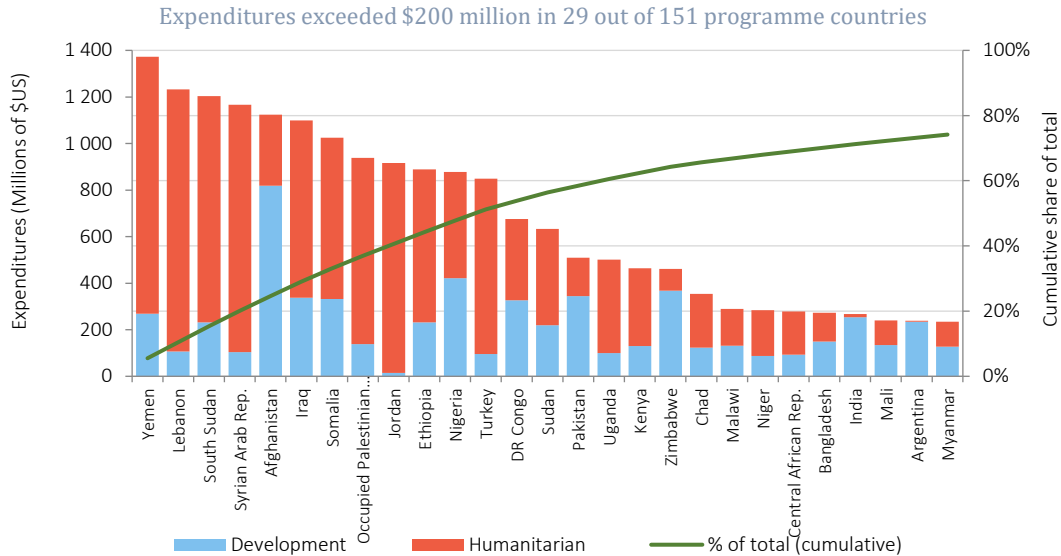
47. The 2018 QCPR report illustrated how UNDS expenditures were highly concentrated in a relatively few number of programme countries. Figure YY shows the volume and degree of concentration of 2017 country-level expenditures across the 151 UNDS programme countries (with each circle representing one programme country). The figure shows that, in the clear majority of programme countries, expenditures were below \$100 million and, in these countries, the resources were spent primarily on development-related activities. At the opposite end of the chart, there are 11 programme countries where expenditure was over \$800 million. The figure also shows that humanitarian assistance dominated the activities in most of the large programme countries (Afghanistan, the fifth-largest, being a notable exception).

Figure 2.2.1. Volume of expenditures in all programme countries, 2017



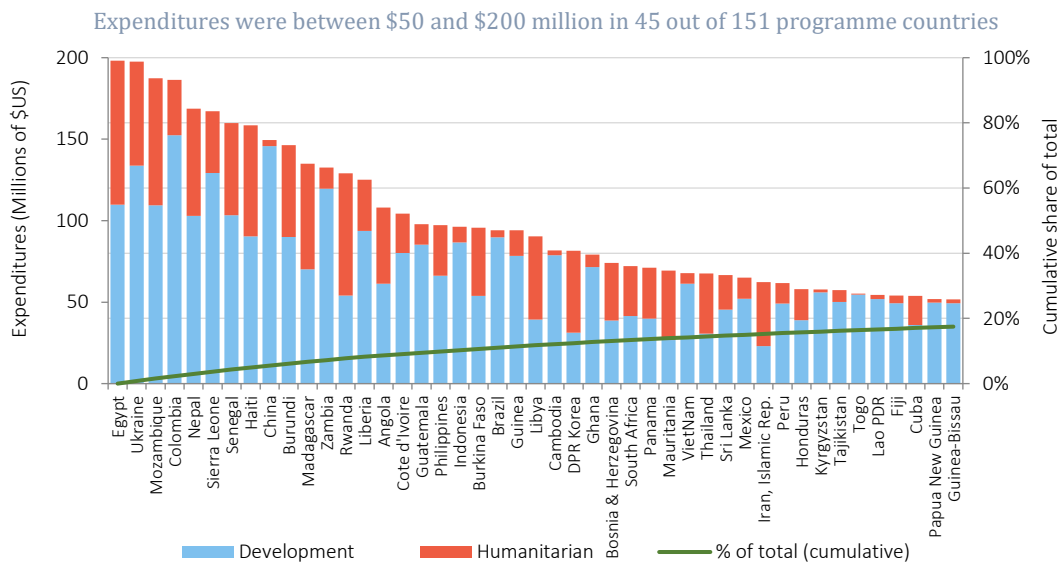
48. The next three figures display the expenditures for both development and humanitarian activities in 2017 for each of the 151 programme countries. The first figure shows the 29 large programme countries where expenditures were over \$200 million. Together, these countries account for 77 per cent of all country-level expenditures, including 89 per cent of all resources spent on humanitarian activities at the country level.

Figure 2.2.2: Expenditures in large programme countries (over \$200 million), 2017



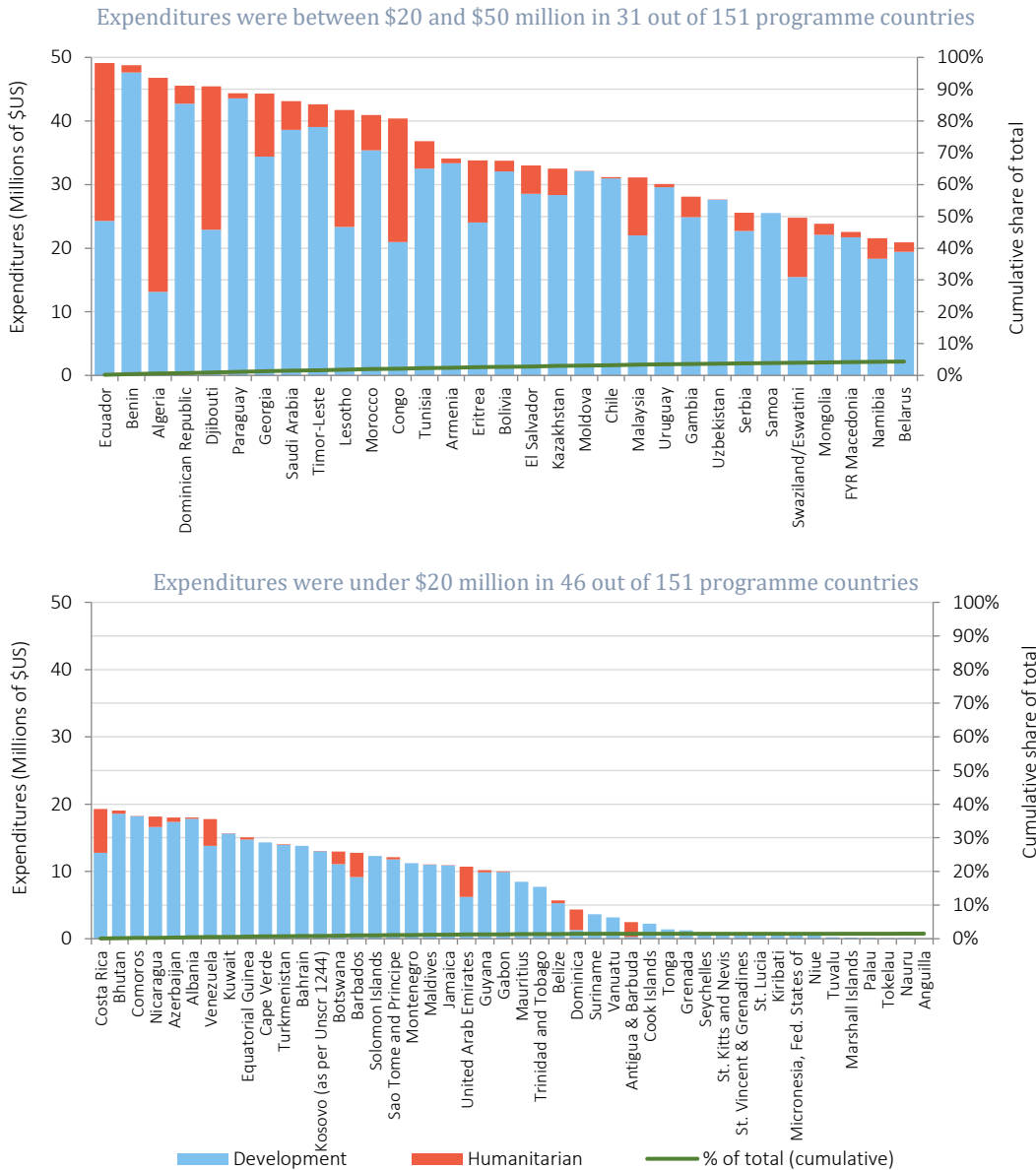
49. There were 45 medium-sized programme countries where expenditures in 2017 were between \$50 and \$200 million. In contrast to the group of large programme countries, in all except six medium-sized programme countries, expenditures on development activities exceeded expenditures on humanitarian activities.

Figure 2.2.3: Expenditures in medium programme countries (between \$50 and \$200 million), 2017



50. Finally, in 77 programme countries, expenditures were under \$50 million in 2017. While more than half of all programme countries are included in this group, together they account for just 6 per cent of total country-level expenditures. Within this group, there are 46 programme countries with under \$20 million in expenditures, which together account for 1.5 per cent of total operational activities for development expenditures and 3 per cent of total country-level expenditures for development-related activities.

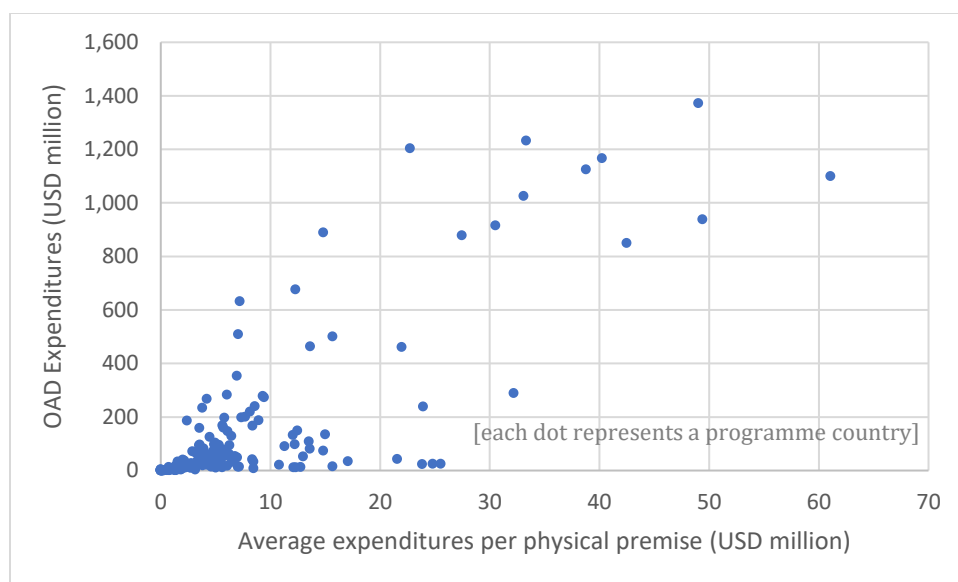
Figure 2.2.4: Expenditures in small programme countries (under \$50 million), 2017



51. QCPR resolution 71/243 notes that non-core resources have the potential to increase fragmentation and create increased transaction costs. The figures above highlight how the issue of fragmentation is heightened – because not only are the 85 per cent of resources spent at the country-level earmarked for specific purposes on average, but in most programme countries there is also a limited quantity of resources available.

52. The large variance in the size of UN programme countries underscores the need to consider differentiated approaches to country configuration. In certain country contexts, common premises can help achieve efficiency gains and generate greater economies of scale by reducing the number of costly physical assets on the ground. The smaller
53. programme countries where expenditures were below \$50 million in 2017 have on average five to six UN offices physically located in each country. There would seem to be more opportunities to consolidate multiple UNDS entities into a common premise in small programme countries. However, only 20 per cent of premises in these countries constitute a common premise, containing two or more entities. On the other hand, the common premises that exist in small programme countries tend to have more resident UNDS entities sharing the premises. On average, there are 4.0 UNDS entities co-located in the common premises in small programme countries compared to an average of 3.3 co-located UNDS entities in large programme countries.

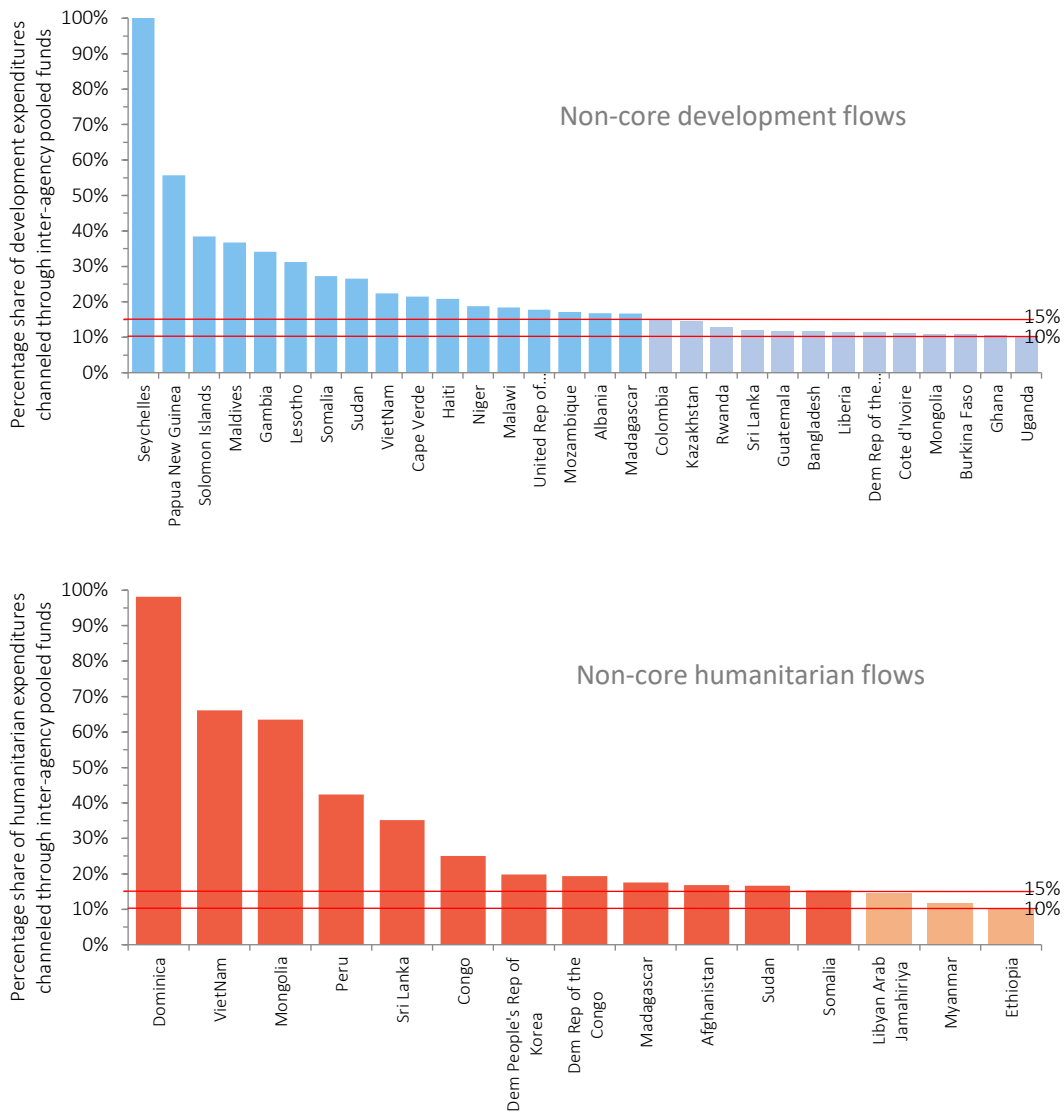
Figure 2.2.5: Average operational activities for development expenditure per UN office, 2017



54. The Secretary-General's 2017 report on repositioning¹⁰ highlights that fragmentation and volatility are the norm and that an effective repositioning of the development system will depend, to a significant extent, on changes to current funding practices, and how interagency pooled funds can help to alleviate fragmentation through collective action. But these funds need to be funded at scale to reap the benefits of economies of scale. The UNSDG has estimated that at least 15 per cent of non-core expenditures should be channeled through interagency pooled funds in a country in order for the funds to act as gravity centres for coherence. Figure xx shows the programme countries where the largest share of total expenditures were channeled through interagency pooled funds in 2017. The two figures below show that in 17 countries at least 15 per cent of non-core development flows were channeled through interagency pooled funds. With regard to humanitarian flows, this threshold was reached in 12 programme countries. In 101 programme countries, less than 5 per cent of overall development and humanitarian non-core flows were channeled through interagency pooled funds.

¹⁰ A/72/124 OP112

Figure 2.2.6: Programme countries where highest proportion of non-core expenditures for development and humanitarian activities are channeled through inter-agency pooled funds, 2017



III. Transparency of Financial Flows

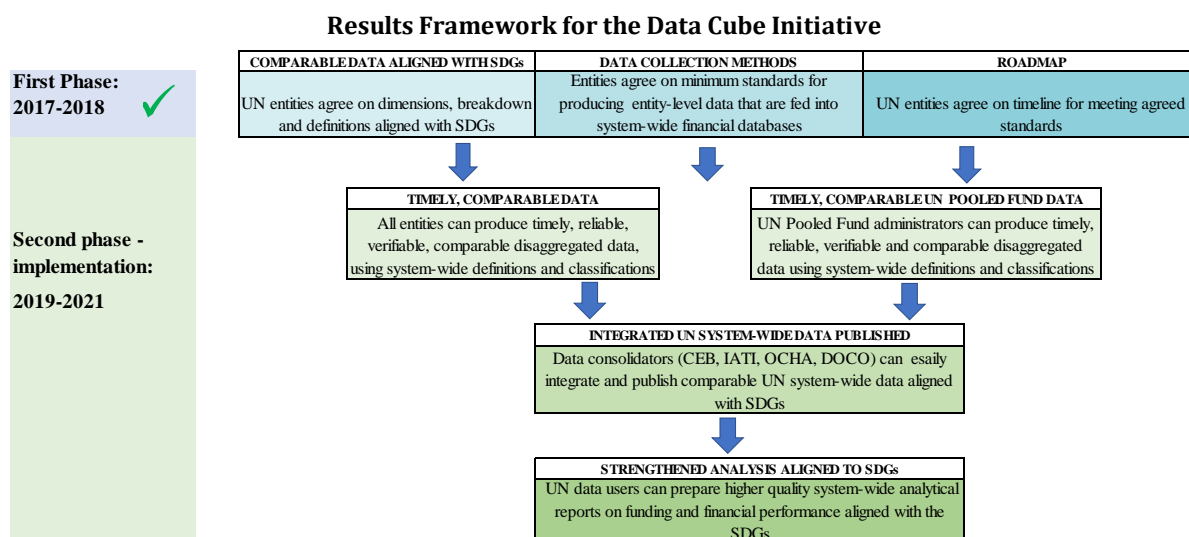
1. Update on transparency measures

55. Our collective aim is to effectively support the 2030 Agenda through the whole-of-system approach mandated in the QCPR and to uphold its multilateral nature. For us to achieve this, the UNDS system requires a better balance between core and non-core resources – and more non-core funding that is less earmarked. In 2017, less than one quarter of all voluntary contributions to the UNDS was either non-earmarked or contributed to interagency pooled funds or broadly earmarked entity-specific thematic funds. To incentivize more flexible and predictable funding, QCPR resolution 71/243 urges the UNDS entities to be more transparent and accountable on its use of resources. This is also the driving argument that underpins the Funding Compact.

System-wide transparency

56. Most of the funding analysis in this chapter is based on information contained in the UN system-wide financial database managed by HLCM/CEB. In response to the QCPR mandate to improve the comparability of system-wide data, definitions and classifications, HLCM and UNSDG are engaged in a joint effort to move away from the data structure developed in the pre-SDG era and replace it with a roadmap for a more encompassing, disaggregated system-wide ‘data cube’ that is more compatible with the 2030 Agenda.
57. The first phase of this initiative has generated a new set of six data standards,¹¹ with system-wide definitions and classifications that all UNDS entities can use in their reporting to the CEB. Over time, UNDS entity submissions of disaggregated funding data will be more reliable, verifiable, comparable and sufficiently granular to better meet the asks of Member States and other stakeholders. The data standards were approved by the HLCM and the UNSDG in autumn 2018. In 2019, UNSDG entities will report on their funding flows using the set of new data standards, promising better, more comparable information in the 2020 QCPR report.
58. In addition, the new SDG data standard has introduced a common UN methodology and format for linking UN activities to the 2030 Agenda by defining the way funding information will be reported against the 17 SDGs and 169 associated targets. This standard will require a transitional period for full implementation of reporting against SDGs and targets that extends to 31 December 2021.
59. Some of the work of the ad-hoc Data Cube Team was completed early enough so that UNDS entities were able to integrate improvements in funding data that form the basis of analysis in the present report. For instance, in 2018, 42 out of 43 UNDS entities submitted their funding data to the CEB, compared to two thirds in 2017; and 70 per cent of all UNDS entities reported expenditures disaggregated by country, compared to 46 per cent in 2017.
60. The second phase of this initiative will focus on implementing the agreed standards. This will include two training workshops in 2019 for UN staff involved in annual reporting of financial data.

Figure 3.1.1: Results Framework for the Data Cube Initiative



61. While not inter-governmentally recognized, the IATI reporting standard is shown to improve the transparency of development and humanitarian resources by allowing anyone to see clearly what is being funded where, by whom, and by how much. In my 2017 report on UNDS repositioning, I called for system-wide enrolment in IATI. Enrolment is also part of commitments in the new Funding Compact to strengthen entity and system-wide transparency and reporting. As of early 2019, 19 UNDS entities are publishing in the IATI standard, which is an increase of five entities from the end of 2017. These 19 entities account for 92 per cent of all

¹¹ <https://undg.org/document/data-standards-for-united-nations-system-wide-reporting-of-financial-data/>

expenditures on operational activities for development. Several large contributors to the UNDS have been vocal about the importance of reporting against IATI standards, highlighting that compliance is a factor in funding decisions. IATI helps to ensure comparability of data across UNDS entities, which is useful for system-wide transparency initiatives such as UNInfo. The information that UNDS entities report through IATI is also presented in real-time through an online transparency portal¹².

Country-level transparency

62. Common budgetary frameworks (CBFs) are designed to strengthen the quality of system-wide resource planning and mobilization and enhance transparency at country level. A medium-term CBF in every programme country should be viewed as a minimum requirement, given that eight years have passed since the then UNDG introduced this tool as part of its overall UNDAF guidance. An annualized version of the CBF provides a more realistic assessment and projection of financial resources. It is therefore a more useful management tool for the RC and country team, and could help to address the issue of competition over resources highlighted by governments and other partners.¹³
63. As of 2018, 66 per cent of UNCTs have a medium-term CBF and 46 per cent have an annualized CBF. Together, the UNCTs with an annual CBF accounted for 41 per cent of country-level development-related expenditure in 2017.
64. As part of efforts to improve coherence, transparency and accountability, UN-INFO is expected to show clearly how resources are being used. As of March 2019, UN-INFO was up and running for 32 UNCTs; the Funding Compact has set a target of 100 countries by 2021.

2. Cost Recovery

65. Since 2004, successive QCPR resolutions¹⁴ have reiterated the importance for UNDS entities to achieve full cost recovery in order to avoid subsidizing non-core funded projects through core resources. The need to achieve full cost recovery was reflected in my 2017 UNDS repositioning report and in General Assembly resolution 72/279. In response, within the Funding Compact, the UNDS commits to improve the comparability of cost classifications and definitions across UNDS entities to enhance transparency towards better information on the true cost of UN programmes.
66. The 2018 HQ survey revealed that all except two UN entities¹⁵ have adopted a cost recovery framework to recollect the costs of non-core projects financed by core resources. Regarding the two exceptions, IFAD indicated it had just submitted a policy for consideration and ILO is exploring options in this regard.
67. At the latest meeting of the Finance and Budget Network (FBN) in June 2018, it was recognized that although UNDS entities may agree on the principals of cost recovery approaches, there are difficulties harmonizing due to entities' different funding structures. One important variable relates to economies of scale. For programmes that are relatively small, a standard percentage-based recovery system is unlikely to compensate all the administrative, support and other non-programme costs.
68. FAO began implementing a new cost recovery policy in 2018. The policy incorporates support costs for services needed to deliver specific project inputs, such as recruitment of personnel, organization and delivery of technical assistance, and procurement of equipment and supplies as and when they occur. At the FBN meeting, UNDS entities welcomed FAO's new approach to build support costs into project budgets at the unit price level. This could help to recover costs, especially for small projects, as compared to having a standard percentage for recovering non-programme costs.

¹² <http://www.open.undg.org>.

¹³ Feedback obtained through the 2017 survey of programme country Governments.

¹⁴ Until 2012, it was called the TCPR or Triennial Comprehensive Policy Review.

¹⁵ Though not exempt from the cost recovery mandate, this survey question excludes Secretariat departments, since their cost recovery policies are defined centrally and approved by the GA for the entire Secretariat.

69. The QCPR 2016 requests that all non-programme costs of UNDS entities be based on full cost recovery, proportionally, from core and non-core sources. There continues to be a significant difference in the distribution of non-programme costs between core and non-core funding sources (see table 3.2.1). Consequently, the remaining shares available for programme activities differ greatly. As shown, in 2017, 61 per cent of core resources were available for programme activities, compared to 93 per cent of non-core resources. Overall, 86 per cent of resources are spent on programme activities.¹⁶

Table 3.2.1: High-level breakdown of programme and non-programme expenditures, 2017

<i>Type of Expenditure</i>	<i>Core resources</i>		<i>Non-core resources</i>		<i>Total</i>	
	<i>\$ million</i>	<i>per cent share</i>	<i>\$ million</i>	<i>per cent share</i>	<i>\$ million</i>	<i>per cent share</i>
Programme activities	3,231	60.9 per cent	18,968	92.6 per cent	22,199	86.0 per cent
Non-programme activities (e.g. programme support, management, development effectiveness, etc.)	2,077	39.1 per cent	1,523	7.4 per cent	3,599	14.0 per cent

UNDP, UNICEF, UNFPA, UN-Women

70. In 2013, the Executive Boards of UNDP, UNICEF, UNFPA and UN-Women – four organizations that together accounted for about 40 per cent of total OAD funding – endorsed “a general, harmonized cost-recovery rate of 8 per cent for non-core contributions”, to be implemented beginning in 2014. The Boards reviewed this rate in 2016 and decided to maintain it.

71. In 2018, the four entities submitted a joint paper to their Boards with proposal to move instead to a new modular approach that is more explicit about reserving a fixed amount of core resources to fund certain activities deemed essential. The proposal is akin to a building block or modular “LEGO” methodology, with a detailed breakdown of functions in which the most essential activities of the entity would be prioritized according to the guidance, preference or decision of the Executive Board. Activities given highest priority would be funded through core resources, while activities given a lower priority would be funded through revenue generated from charging the cost recovery rate to programmes/projects. This helps to ensure that the funding of the most essential activities would remain stable even if overall core funding fluctuates. The Boards welcomed the joint proposal paper and called for a final comprehensive proposal to be submitted for decision by the Boards in 2020.

72. The joint proposal acknowledges that the four entities have still not achieved full cost recovery using the current methodology. This is partly due to some donors not willing to pay standard cost recovery rates. The 2018 HQ survey revealed that most UNDS entities issue grant support fee waivers on some of their agreements. System-wide, agreements tied to such waivers totaled over \$1.2 billion in 2017. The Funding Compact includes a commitment by Member States to comply with cost recovery rates as approved by governing bodies (commitment 7) and for UNDS entities to fully implement and report on the approved cost recovery policies and rates (commitment 12).

[END]

¹⁶ Based on data collected through the 2018 HQ survey supplemented by online financial statements.