



# FUNDING THE UN: ORDER FROM CHAOS?

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A detailed analysis of Sweden's financing of the UN's funds and programmes finds two dominant characteristics relevant for all donors: distortions due to a rapid increase in non-core funding; and a haphazard and irrational pattern of financing. The report's recommendations include a proposal for an independent commission to rationalize the UN funding structures to make the UN development system (UNDS) fitter for Agenda 2030 purposes.

Assistance channelled through the United Nations should be seen in the context of the broader development landscape, which is undergoing constant change. Thanks in part to the Millennium Development Goals (MDGs), and the additional development focus provided, Official Development Assistance (ODA) has grown in the present century, including through the United Nations. The precise impact of the Sustainable Development Goals (SDGs) is unknown as yet. However, ODA represents less than a tenth of total flows to developing countries; it is dwarfed by remittances and private capital. The UN's contribution within this totality of resource flows is now less than two percent.

The combination of a shrinking role for ODA and of the UNDS's share make it imperative to continue to examine and refine the UN's role, particularly in the light of the 2030 Agenda. The UN's narrowing window of opportunity implies a greater concentration on its normative and standard-setting role and an operational focus on poorer countries, states in crisis, and humanitarian relief. There is currently much introspection about the UN's fitness for purpose, including by Secretary-General António Guterres. The present briefing contributes to that discussion through the lens of the current funding patterns of the UN funds and programmes.<sup>1</sup>

## FUNDING PATTERNS

Total funding to the UN system has become more diverse and reached an all-time high of \$48 billion in 2015—the latest year for which complete data for the entire UNDS were available. Of the \$30 billion of ODA disbursed by the system, about half was allocated to development activities and half to humanitarian relief, with the UN concentrating its funds increasingly on countries in crisis.<sup>2</sup> Traditionally, contributions by member-states to the UN funds and programmes were to support its core activities and were provided either through assessed contributions from the entire UN membership as a treaty obligation, or voluntarily. Core funding supported the information, research, norm-setting, and advocacy functions of the UN. More specifically, core funding has the following advantages:

- supports strategic planning, as well as in research and advocacy for global norms, a UN comparative advantage.<sup>3</sup>
- provides flexibility when needs change or unanticipated slowdowns arise.
- facilitates planning, including avoiding breaks in the pipeline with shovel-ready projects.
- provides leverage, including to attract private sector funding.
- jump-starts activities with seed money.
- reimburses funds advanced for unforeseen purchases.
- reduces transaction costs, including direct (time/energy of limited staff) and indirect (competition, waste, salaries of locals, etc.) costs.
- addresses “silent” or long-running crises without resonance for new appeals.
- subsidizes experiments that have high potential to pay-off but may require efforts spanning several budgetary years.
- be spent for prevention, which everyone (António Guterres included) agrees is the highest priority but is also the hardest to sell and justify.

In addition, core financing for humanitarian purposes has the following advantages:

- fills gaps when appeals fall short but expenditures are necessary.
- improves emergency responses (not necessarily only in disasters), including action at the right time and place to take advantage of auspicious timing or to leverage earmarked funding.
- tides over the period in protracted emergencies before local capacity becomes sufficient to absorb development activities and investment.

In the last quarter-century, core contributions have grown more slowly or stagnated—and fallen in some cases—while non-core contributions have grown rapidly. Between 1999 and 2014, while core funding grew by 20 percent, non-core funding increased by 190 percent. Today, fully 80

percent of the resources are non-core, meaning that some funds and programmes have predominantly become implementers on behalf of other multilateral and bilateral sources, rather than donors in their own right.

Non-core funding can be interpreted in different ways. On the one hand, it has enabled UN funds and programmes to maintain and expand their operations, with more non-core compensating for falling core resources. In particular for humanitarian action, for which the rise has been the fastest and greatest, the UN system has been able to respond more fully than previously—although the gaps between assessed needs and budgetary allocations remain stark.<sup>4</sup>

At the same time, underlying the availability of earmarked funds is the waning confidence in the United Nations to determine its priorities independently, along with the desire by donor countries (and their parliaments and taxpayers) to disburse multilateral aid mainly for purposes prescribed by them, and to keep closer tabs on the effectiveness of individual activities. As a proportion of their ODA, multilateral funding by DAC countries has remained stable at 28 percent since 2007, but the non-core share has increased from 23 percent to 31 percent. Moreover, the proportion of non-core funding in the UN—and especially in its funds and programmes—is greater than in other multilateral institutions, such as the World Bank and regional development banks.

Voluntary, non-core funding predominates today with the four largest funds and programmes—UNICEF, WFP, UNDP, and UNHCR—as well as UNEP, UN Habitat, and UNODC, representing at least 75 percent of their budgets. Only UNCTAD, ITC, and UN Women receive 30 percent or more in core funding from assessed contributions. UN specialized agencies show similar funding trends—with the World Health Organization (WHO) now being both the largest and with the largest percentage of non-core (some 80 percent). The increase in non-core funding for UN funds and programmes has had various policy and operational consequences, which the study—based on interviews as well as desk research—found to be often deleterious.

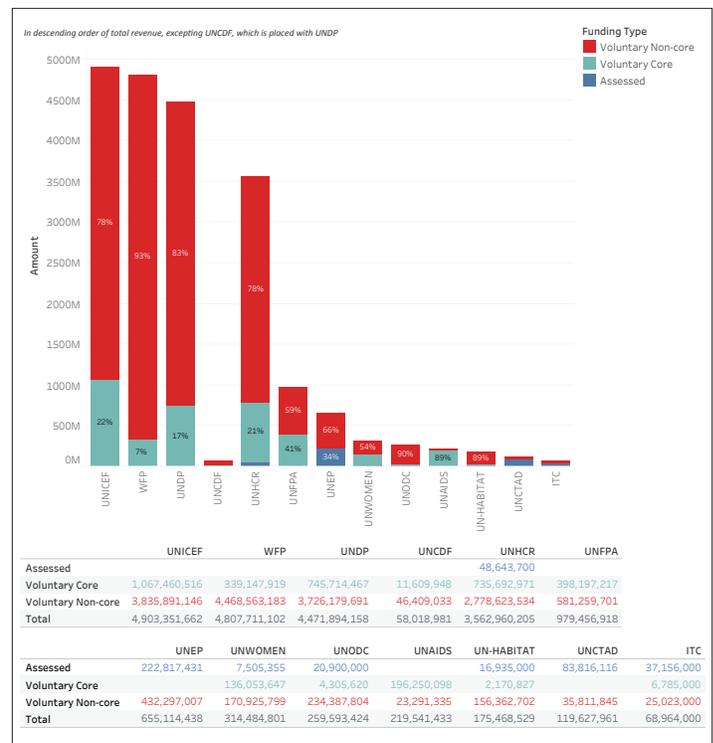
The sources of non-core funding have become more varied, particularly since the turn of the century. Non-state sources have grown. The largest philanthropic development fund, the Bill and Melinda Gates Foundation, contributes earmarked resources to several UN funds and programmes. The UN also taps private and corporate resources, which some members of civil society view as threatening the character of UN activities. Some UN organizations (especially UNICEF, but increasingly UNHCR) have been successful in raising resources from the public. However, the major contributors of non-core funding are the traditional donors from the Organization for Economic Co-operation and Development’s Development Assistance Committee (OECD/DAC), which provide funds directly, as well as via other multilateral organizations that are mostly financed by the same countries. An important example is the European Commission and its institutions, which are substantial contributors to the non-core components of UNDP, UNICEF, WFP, and UNHCR. Other multilateral sources include the Global Environment Facility (GEF), the Green Climate Fund, and the vertical health funds (Global Fund and GAVI Alliance). The contribution of the vertical funds to UNDP is almost equivalent to its (much diminished) core component.

The donor-driven nature of most UN funding leads to a diversion and dilution of the core mandates of funds and programmes, transforming

them into implementers of donor agendas, which may not be aligned to developing-country priorities. The competition for funding, moreover, leads to a further atomization of the UNDS. Organizations follow the money rather than their mandates and encroach on one another’s territory. Non-core funding also places more emphasis on short-term results rather than longer-term changes as part of capacity building; it gives excessive emphasis to technical rather than broader developmental concerns. Non-core funding also pulls resources away from other purposes; some specifically designated UN staff, for instance, spend excessive time in courting donors and in preparing elaborate reports, often for each individual project. There has also been a tendency to reduce overhead charges in response to donor pressure, putting a greater strain on core resources. This race-to-the-bottom competition means that core funds are necessarily diverted to support the management of operations.

While non-core funding has permitted an expansion in the scale of the UN’s humanitarian relief work, the call for more resources to address new crises has also grown more than commensurately. Non-core resources lead to imbalances in the allocation of funding: some appeals are oversubscribed, others undersubscribed, according to donor preferences. When new crises break out, organizations have to depend on their core resources to respond initially and to prepare for appeals to raise new funds. With fewer core resources, longer-term crises become harder to support, as donor interest wanes with time. A preponderance of non-core resources also strains the permanent staff and administrative capacities of humanitarian organizations, which are spread thinly over a greater range of responsibilities.

Figure 1: Overview of UN Funds and Programmes by Major Types of Funding, 2015



Source: CEB, with adjustments by the authors.

The report examined a range of different types of non-core or earmarked funding, for which it used its own nomenclature: core funding (assessed or voluntary); and earmarked funding, including softly earmarked, pooled

funding, and hard and restricted non-core funding (see Table 1). While core funding comes without conditions, non-core funding is liable to entail certain constraints, depending on how “hard” or “soft” the earmarking. Hard earmarking reflects donor preferences in terms of destination and theme, while softly earmarked funds may support thematic areas defined by a UN organization or be part of pooled funding. In general, the harder the earmarking, the more constraints are imposed on the recipient organization; and vice versa. However, the correlation is not straightforward. Some hard funds may be specifically intended for a core activity for which the organization has insufficient core funding. One example is the support by Sweden for the preparation of the annual report of the UNODC; another is non-core funding intended for a specific humanitarian appeal. On the other hand, soft non-core funds also may carry restrictions; they may support a key priority area of an organization but attach specific conditions to their use.

Table 1: Sources and Uses of UN Funding

Type of funding	Sources	Development support	Humanitarian support
Core (assessed and voluntary)	Treaty-based and voluntary contributions; all member states	Management of operational projects; leveraging of additional non-core resources; reporting and research; pilot projects; gap filling; normative work	Management of operational projects; reporting; pre-financing of emergency responses; leveraging of additional resources; gap filling
Soft non-core	Major bilateral donors	Thematic trust funds; contributions with broad geographic specifications	N.A.
Pooled funds	Bilateral donors through the MPTFO	One Funds for selected countries; joint programmes	Humanitarian operations in major crisis countries
Hard non-core	Bilateral and multilateral donors; vertical funds; philanthropic foundations	The majority of UN operational activities worldwide targeted by geography and theme	Specifically targeted humanitarian needs
Restricted non-core	Local resources or government cost-sharing	Within recipient country only, according to their choice	N.A.

In addition, the way that an individual organization views any one piece of the funding puzzle is shaped by how that piece fits into its overall funding landscape and the opportunity costs presented. For example, the largest funds and programmes may deem a particular funding option or donor preference to be too demanding and distracting; but this judgment is in the context of the large number of other projects that they administer, and for which they have control over implementation. For such organizations—with the exception of UNDP, which has the most amorphous strategy and continues to expand its programming reach—cooperation and compromise may be painful and not worth the effort that would be required to attract the new money. The smallest UN funds and programmes, however, are in no position to refuse earmarked

contributions of almost any sort, which means losing control, if not their souls. Interviews suggest the extent to which various types of funding influence managers in meeting corporate goals and responding to development needs. Short-term compromises can, in fact, become a long-term channeling and constitute a strategy.

## FUNDING CHAOS

Another key finding of the study, already familiar to insiders but rarely raised as a concern, is the haphazard and irrational pattern of funding within the UN system. The problem begins with the failure of the UNDS to agree to a standard nomenclature for the various sources of funding. “Core” funding is also known as “regular” (UNICEF), “unearmarked” (UNHCR), and “window 1” (ITC). Non-core funding also has a range of appellations. These different titles, moreover, are not synonyms because of the different ways in which individual UN funds and programmes present their accounts. Thus, the absence of a standard nomenclature even within this inner circle of the UN is a source of ambiguity and non-comparability.

Worse is the absence of any developmental logic in the allocation of the core funds that fall under the authority of the UN General Assembly and are managed by the UN secretary-general—in other words the distribution of core funding out of the biennial assessed contributions paid by all member-states. Organizations originally called “voluntary” receive almost no funds from the assessed budget—three of the four largest (UNICEF, UNDP, and WFP) receive none while UNHCR a modest 1-2 percent. The big four’s core funds are thus raised almost exclusive through voluntary contributions. Of the other funds and programmes, UNEP, UNCTAD and ITC receive quite generous amounts of core funding from the assessed budget (30 percent or more). Meanwhile, UNODC is an organization with a huge normative mandate covering drug control, international crime, trafficking, and corruption but receives less than 10 percent. The five UN regional commissions, whose activities overlap with those of the funds and programmes, receive a generous \$400 million per year from the assessed budget.<sup>5</sup>

The reasons for these irrational imbalances are partly due to history and expediency. However, throughout the UN’s existence, there has been neither the means nor the inclination to redress such imbalances. There is no effective overseer of the UNDS in a position to reallocate funding on the basis of country needs. Consequently, the respective budgets are customarily rolled over every two years, with little or no reference to an organization’s performance or relevance.

## RECOMMENDATIONS

The report concludes with several recommendations, starting with the creation of a new Independent International Commission on UN Funding. It would include the establishment of rational criteria to apportion the UN assessed biennial budget for UN funds and programmes (as well as the five regional commissions) according to minimum core needs based on costs, performances, and especially normative mandates. Each UN fund and programme should establish thresholds for core resources as a target for donors (as several have already done) and the justifications for core support. The commission should identify and catalogue the non-core operational overlaps among funds and programmes. It should draw up guidelines, based on organizational performance, to encourage donors to allocate non-core resources to the most effective organizations and examine the funding implications of closing or merging funds and

programmes for which there is clear evidence of duplication. The commission should develop clear definitions of different types and sources of funding and propose a more reliable way of recording them. The report also calls for donors to contribute more to pooled UN funds, provide more predictable funding for UN normative activities, and give more generous percentages on non-core funds to cover overheads.

The report proposes a controversial back-to-the-future recommendation that UNDP concentrate on its original 1966 mandate, giving more emphasis to its role in mobilizing funds on behalf of the UN development system, rather than for itself, and concentrating on the desperately-needed

functions of field coordination for which there is no alternative. Commensurately, its non-core operational activities should be phased out where they overlap with those of other more specialized UN organizations.

This recommendation in tandem with the autonomous commission—outside of the UN secretariat’s control—would be building blocks for the “Funding Compact” that Secretary-General António Guterres proposed to ECOSOC in July to make the system more capable of supporting the 2030 Agenda.

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This briefing is based on the authors’ *Sweden’s Financing of UN Funds and Programmes: Analyzing the Past, Looking to the Future* (Stockholm: Expertgruppen för bistandsanalys (EBA), November 2017), Report 2017:11. Available at <http://eba.se/wp-content/uploads/2017/11/Funding-UN-report-FINAL-Webb-version.pdf>

## NOTES

1. The UN funds and programmes analyzed here are: UN Children’s Fund (UNICEF); the Office of the UN High Commissioner for Refugees (UNHCR); the UN Development Programme (UNDP), including its Capital Development Fund (UNCDF); UN Population Fund (UNFPA); UN Conference on Trade and Development (UNCTAD); UN Office on Drugs and Crime (UNODC); the Joint UN Programme on HIV/AIDS (UNAIDS); the International Trade Centre (ITC); and UN Women. The UN Relief and Works Agency (UNRWA) was not included because its narrower regional mandate makes it difficult to compare.
2. *Budgetary and Financial Situation of the Organizations of the United Nations System*, UN document A/71/583, October 2016, available at: <http://www.unsceb.org/CEBPublicFiles/GA%20Report%20A%2071%20583.pdf>.
3. See Richard Jolly, Louis Emmerij, and Thomas G. Weiss, *UN Ideas That Changed the World* (Bloomington: Indiana University Press, 2009).
4. Humanitarian Policy Group, Tufts Feinstein International Center, and King’s College London, *Planning from the Future: Is the Humanitarian System Fit for Purpose?* November 2016, 22-24, available at: <http://www.planningfromthefuture.org>.
5. Stephen Browne and Thomas G. Weiss, “How Relevant Are the UN Regional Commissions?” *FUNDS Briefing no. 1*, February 2013, available at: [https://www.futureun.org/media/archive1/briefings/FUNDS\\_Brief1.pdf](https://www.futureun.org/media/archive1/briefings/FUNDS_Brief1.pdf).

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