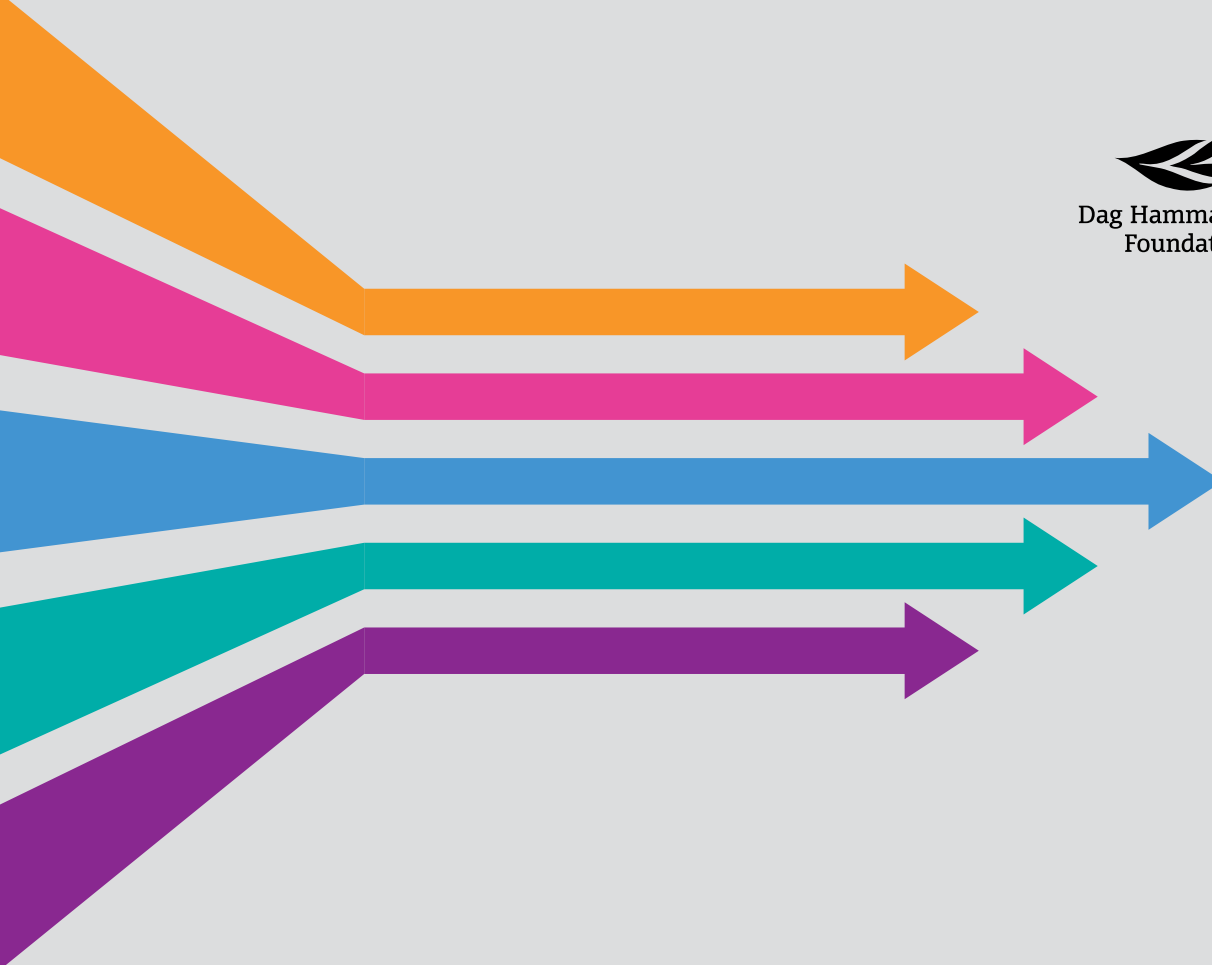




Dag Hammarskjöld  
Foundation



United Nations  
MPTF Office



September 2017

# Financing the UN Development System

## Pathways to Reposition for Agenda 2030

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# Executive summary

When the United Nations' General Assembly (UNGA) adopted the 2030 Agenda for Sustainable Development in 2015, UN member states envisioned, in their words, 'setting out a supremely ambitious and transformational vision'. The ambition and broad scope of Agenda 2030 represents an extraordinary opportunity for the UN development system (UNDS) to re-affirm its role and relevance in a rapidly changing world.

Following its adoption, the UNGA adopted its Quadrennial Comprehensive Policy Review in December 2016, setting out policy guidance on the implementation of different aspects of Agenda 2030 over the next four years. It highlighted how the UNDS function is increasingly dictated by the nature of the funding it receives. Reforming the financing system is thus a vital component of any credible overall reform package. This presents two equally significant but distinct challenges: the need to reform the funding of the UNDS on the one hand and the task of transforming the financing of Agenda 2030 on the other.

Overall a real opportunity has been provided for the Secretary-General to make bold proposals for reform, including relating to a fit for purpose financing system that is aligned to Agenda 2030. Yet, it is far from clear what the appetite is for financing reform and which reforms should be prioritised. What is absolutely clear is that the UN is challenged with a unique opportunity and that a robust and probing debate is needed if it is to emerge with a serious financing reform package. To initiate this debate though, the data and facts around UNDS financing must be well presented and analysed, and bold ideas on repositioning the UNDS must be explored.

## Scope of the report

This third annual report on financing the UNDS presents the major trends, opportunities and challenges around financing the UN. Part One provides a thorough overview of the revenue, income sources and expenditure of the UNDS, which represents the entities of the UN system that undertake development activities. Through Part Two and its 28 concise essays from senior colleagues outside and inside

the UN system, it also charts five possible pathways for the UN's role in financing Agenda 2030. The report seeks to present the current financial state of play and to stimulate fresh thinking around priorities for financing reform.

## Key findings Part One: The funding of the UN development system

### *Revenue*

In 2015, the total revenue for the UN system as a whole was US\$ 48 billion. Of this, US\$ 9 billion was for peacekeeping and close to US\$ 27 billion was for operational activities for development (OAD), with almost US\$ 21 billion going to five entities (UNICEF, UNDP, WHO, WFP and UNHCR). Out of the total US\$ 48 billion more than half was earmarked contributions (53%), meaning the funding was tied to a theme or a country. Assessed contributions, those that can broadly be defined as the price of membership, made up 30%, while core funding—voluntary untied contributions—made up 10% (see Figure 1).

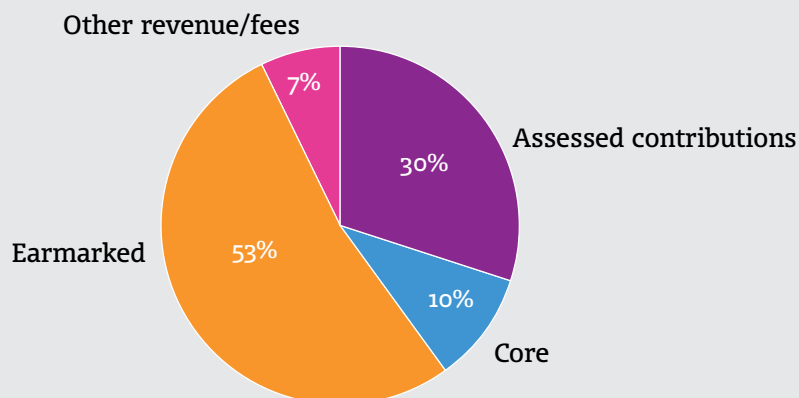
The ratio of core to earmarked funding thus remains very uneven. In addition, assessed and core resources, both non-earmarked funding flows for the work of specific UN organisations, have stagnated in real terms. Meanwhile, an analysis of individual agencies' assessed contributions over the past 40 years points to a correlation between agencies with a high ratio of assessed funding and the specificity of their agencies' responsibilities. Another characteristic of the revenue landscape is that there has been a significant increase in the volume of humanitarian assistance. Analysis of the comparative growth rates of funding for operational activities over the past 15 years, clearly shows the significant rate of growth of humanitarian compared to development funding.

Meanwhile, a look at the funding of the UN system by major functions, based on the definitions of functions used by the UN for its data collection, shows that operational activities for development represent some 60% compared to peacekeeping at 20%, and norms, standards, policy and advocacy at 20% (see Figure 6).



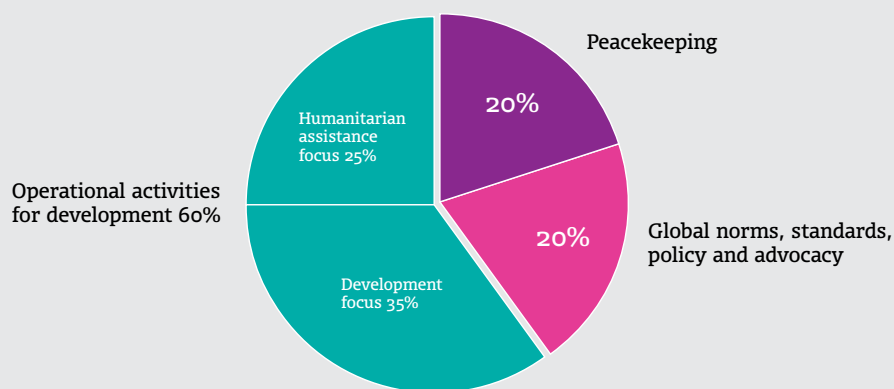


Figure 1: Overview of the total revenue of the UN system by financial instrument in %, 2015



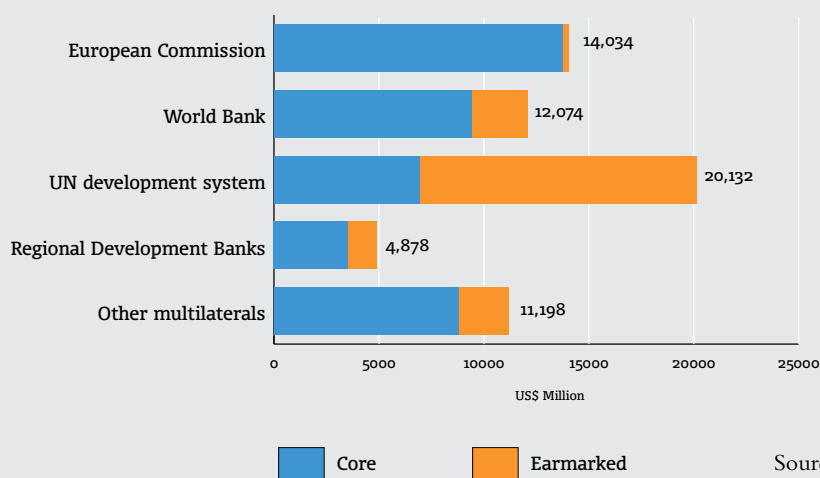
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Figure 6: Funding of the UN system-wide activities, 2015



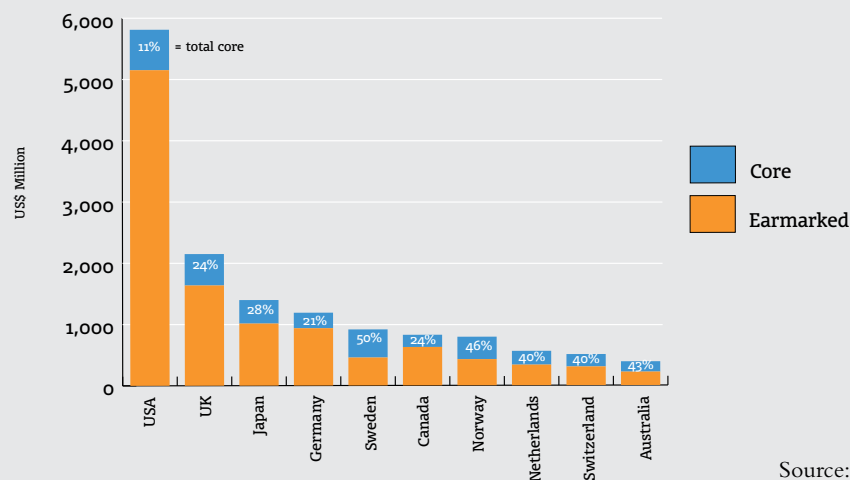
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Figure 8: Channels of total multilateral aid from DAC countries, core and earmarked, 2015



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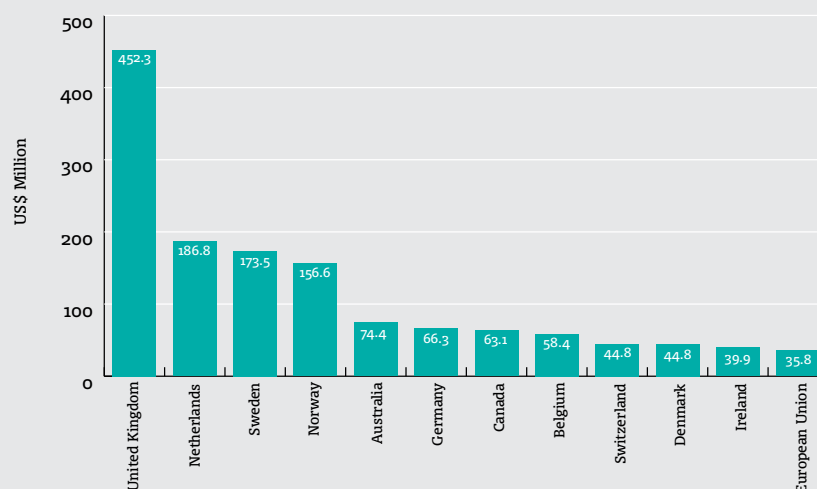
Figure 10: Total core and earmarked contributions of top ten DAC countries to UN operational activities, 2015



Source: see page 30

Figure 18: Deposits to UN inter-agency pooled funds from 12 largest contributors, 2015

Source: see page 36



### Income sources

With regard to income sources, 32% of multilateral aid is channelled through the UNDS. While this represents the largest allocation of any of the major multilateral players, it is also the only one channel in which earmarked contributions far outstrip core/assessed contributions (see Figure 8). The UNDS is unique in its dependence on earmarked funding. The data also highlights the highly-concentrated character of contributions to UN agencies: 47% of contributions to UN operational activities in 2015 came from only three donors (US, UK and Japan), while the top ten donors accounted for 73% of the total contributions. It is also notable that nine of the ten major contributors provide more earmarked than core contributions (see Figure 10).

A small portion of the earmarked funding to the UNDS consists of contributions to UN pooled funds, financing that supports jointly-agreed UN priority programmes. In

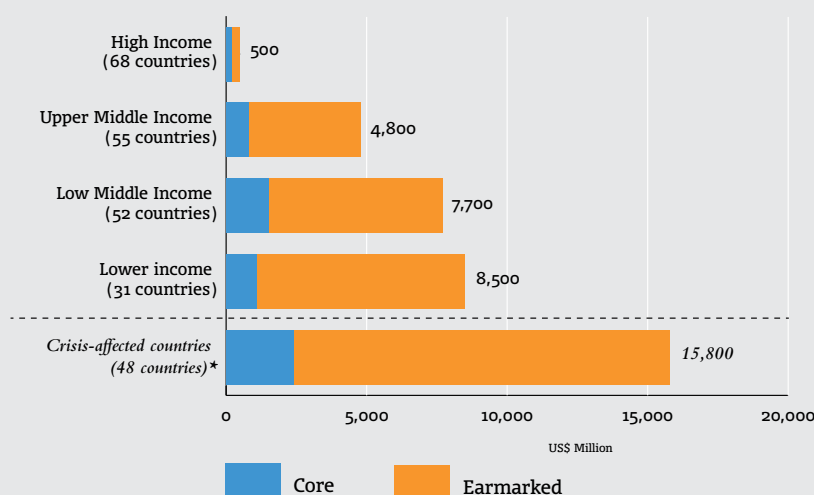
2015 pooled funds accounted for 6% of total contributions to operational activities for development. The top 12 contributors accounted for 92% of the US\$ 1.5 billion total contributions to UN pooled funds of which the largest four donors alone account for 64% (see Figure 18). Pooled fund contributions for humanitarian purposes have been about two thirds of the total deposits in recent years. Pooled funding for transition and crisis-affected situations shows an upward trend, while other development-related interventions received less funding.

The collection of data relating to income from non-state contributors to the UNDS is difficult to assemble across the UN system; however, data has been analysed for five major organisations: UNICEF, UNDP, UNHCR, WFP and WHO. This shows a broad range of experience, with some agencies having great success in attracting non-state income from individual contributions while others rely more on, for example, foundations. In a limited



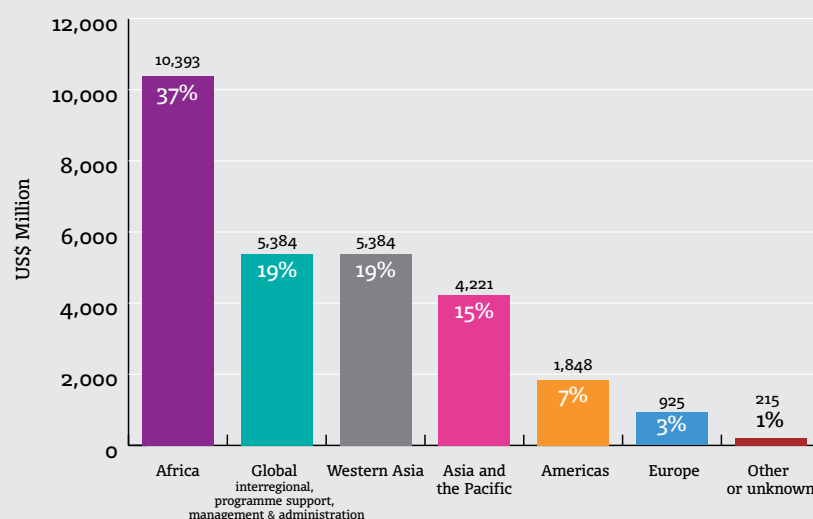
**Figure 21: Expenditure on UN operational activities by income status, 2015**

Source: see page 42



**Figure 22: Expenditure on UN operational activities by region, 2015**

Source: see page 42



number of cases, the volume of non-state income represents a significant amount for the agency concerned. UNICEF is a prime example with close to US\$ 1.5 billion in non-state income, with 79% coming from individual donors.

### Expenditure

With regard to the profile of expenditures, the report reviews expenditure by agency by year, by country income status and by region. Of note is an overview of the OAD expenditures broken down by country income category. This shows that average UN expenses per country are highest for low income countries, and decrease as countries move into low and upper middle income status and on to high income status. However, one element of the expenditure pattern is similar for all countries irrespective of income categories: by far the largest portion of UN expenditures is funding from earmarked resources (see Figure 21). The figure also shows

that expenditures in crisis-affected countries, a group of countries that spans the four income categories, have the highest level of UNDS spending per country, with the expenditures for humanitarian and development related interventions reaching on average US\$ 329 million per country.

An overview of the geographical distribution of the UN's operational spending by region shows that with 37% the Africa region is the largest beneficiary of UN operational activities, followed by the Western Asia region with 19% of total expenses and Asia and Pacific region accounting for 15% of the total (see Figure 22). The Western Asia region continued the trend already noted in last year's report of receiving an increasing portion of the UN's overall operational expenditures. This continued growth is directly related to the number and severity of the crises that have affected this region in recent years.

## Key findings Part Two: Five pathways to financing Agenda 2030

### 1. *Financing of the UNDS*

#### – *status quo, regression or evolution?*

The 2017 Report of the Secretary-General on Funding highlights the need for a broad vision of reform. It argues that Agenda 2030 requires that the UN shift its approach from funding to an integrated financing strategy. To make this shift from traditional funding to a financing approach though, Richard Bailey from the UN Development Operations Coordination Office underscores that new capacities and partnerships will be required. The UN has already begun this journey but better financial literacy and leveraging of partnerships is essential for this far-reaching shift. The Secretary-General's report for its part concludes with a stark warning: 'If the UN development system continues to depend primarily on its ability to combine short-term project-targeted and sector-targeted funding as best it can to support the achievement of the Sustainable Development Goals (SDGs), then its relevance may be at risk.'

The need for such broader reform lies at the heart of the rationale for the publication of these annual reports on the financing of the UNDS. It is important nonetheless to continue to support and track the more incremental approaches to improving the current system. In this regard, WHO is a pioneer with its work on building up a system for integrated budgeting, which is designed to overcome the limitations and constraints associated with earmarked funding. The key question that remains is whether or not focusing on efforts to make non-core more 'core-like' represents a sufficient ambition.

Another dimension to the financing challenge concerns issues around burden sharing. Our contributors from the German Development Institute (DIE) argue that as multilateralism loses ground in the Western political landscape, some emerging donors are becoming more willing to shoulder the burden and more relevant to the UN. However, they note that rising powers still attach more importance to bilateralism rather than multilateralism and seek room to manoeuvre beyond the UN.

Not experiencing a loss in confidence is the World Bank's International Development Association (IDA), which witnessed a historic replenishment of US\$ 75 billion in 2016. Our World Bank contributors explain that this will scale up financing for the poorest countries through a variety of financial innovations, such as the new US\$ 2.5 billion Private Sector Window. Indeed, this replenishment is viewed by many as one of the most important developments in the overall development aid architecture in recent years, in particular, its positive impact on relations between the World Bank and the UNDS.

The need for transformational change should be balanced with the need to pursue incremental change. The Overseas Development Institute (ODI) makes the case for continuing to develop less earmarked non-core instruments and for the UN to display its functional relevance by championing global public goods (GPGs). On the other hand, DIE calls for more fundamental change leading to a new contract for UNDS financing. Indeed, the ongoing discussions on the follow up to the QCPR and reform of the UNDS provide a major opportunity for securing political agreement on a new financing deal, which would be grounded in a commitment for a more effective way of financing the UNDS. There will be a wide range of views on how to frame such a contract. The need for a robust debate followed by bold action is urgent.

### 2. *The value of leveraging*

Last year's report touched lightly on the concept of leverage in UNDS financing with a commitment to explore the notion more fully in this year's report, specifically how to most effectively apply the concept to the UN's role in supporting SDG outcomes. Strengthening the leveraging role and impact of the UNDS rests on the question of how UN 'assets' are valued, quantified and positioned in order to leverage greater impact and investment from external public and private sources. The papers in this chapter explore the current state of 'leveraging' from the experience and research of a wide range of partners and contexts in SDG finance.

According to the UN Global Compact, much more work remains in order to fully activate and unlock the massive potential of private finance and investment in the SDGs. Sahba Sobhani of UNDP and Robert de Jongh of Deloitte Consulting agree and maintain the added-value and future potential for business and private sector mobilisation of SDG investment. Meanwhile, Eric Usher and Careen Abb of the United Nations Environment Programme (UNEP) Finance Initiative argue that the UN stands in a position of choice to drive this transformation of public-private interaction, underscoring its important role as a convener.

Homi Kharas from Brookings contends that 'blended finance', a term that broadly refers to the mixing of funds from public and private sources, offers the greatest promise of increasing financing for Agenda 2030 and that Multilateral Development Banks (MDBs) are well suited to play an important role in scaling it up. This perspective of 'promise' in blending is complemented and nuanced by Cordelia Lonsdale and Sarah Dalrymple of Development Initiatives who argue there are both interesting opportunities and significant challenges with blended finance in fragile contexts.



Judith Karl of the UN Capital Development Fund emphasises there is untapped potential for blended finance models to use international public finance, notably ODA, to unlock additional resources and channel them to the families, local governments and small- and medium-sized enterprises that are underserved and where resources are scarcest. Bianca Adam from the World Bank argues that protecting the lives and livelihoods of vulnerable people—as well as national budgets—must include financial protection against the impacts of disasters. Meanwhile, the UN Multi-Partner Trust Fund Office (UN MPTFO) suggests pooled funding instruments can be potential game-changers among UN financial instruments for leveraging broad-based partnership and finance for Agenda 2030.

Emerging from these perspectives is a picture which shows that strengthening the UN's leveraging role and impact will also require more effort on the part of the UN in developing robust system-wide financing data and strategies, employing professional capabilities and developing capacities in finance to partner effectively with a range of financing actors.

A common thread in the papers is also an approach to leveraging that values how UN and public ODA resources can help generate maximum returns, impact and financial flows to development outcomes, not necessarily to the volume of financial flows through or to the UN system. Given that one of the most common traditional measures of performance in the UN is the size and growth in the income level of entities and organisations, the question emerges as to how this radically different perspective on value can be included in reform discussions, and integrated into the way results, impact and effectiveness are measured.

### *3. Financing prevention and sustaining peace*

Without adequate resources and a streamlined approach to financing that more strategically builds on strong partnerships, the renewed UN approach to sustaining peace cannot succeed. The papers in this chapter point the way to an agenda for change in how financing for prevention and sustaining peace could be more effectively pursued. Rachel Scott of the Organisation for Economic Co-operation and Development (OECD) underscores the imperative for donors and policy makers to understand peace as a long-term investment that requires a sustained commitment to financing but with realistic expectations and flexibility to adapt to rapidly evolving contexts.

Existing and new financing streams for sustaining peace need to be more thoroughly explored and tested, with tools and instruments merged as needed, and strengthened through partnerships. Despite the acute shortfall of resources for prevention and peacebuilding, over 15 dif-

ferent central financing instruments currently exist in the UN for this purpose. The UN has a unique role to play in identifying and mobilising alternative resources for efforts to sustain peace. Stephan Massing of the World Bank highlights the complexity of meeting the financing needs in countries facing fragility, conflict and violence and calls for exploring the potential for increased financial resources through new partnerships with private investors.

There is increased opportunity for member states to demonstrate renewed financial commitment to preventing armed conflict and building peace by utilising joint funding mechanisms at country level that ease the burden on local actors and help pool risk and resources. Jordan Ryan from the Carter Center argues that greater efforts are needed to gather and present data that demonstrate the value of preventive action and that can facilitate the UN system to marshal the resources necessary for collective efforts to prevent violent conflict. The Institute for Economics and Peace has been investigating the issue of how to demonstrate the cost effectiveness of peacebuilding and outline a global model for this purpose. It shows that increased funding for peacebuilding would be very beneficial – not only to peacebuilding outcomes but in terms of the potential economic returns to the global economy.

Research and history also demonstrate that a certain level of risk tolerance is necessary to allow for adequate and timely responses to needs in fragile contexts. Although risks can be minimised, Khalid Koser, from the Global Community Engagement and Resilience Fund (GCERF), argues that multi-sectoral global funds, like GCERF, are critical instruments in these contexts as they spread financial risk.

Lastly, two recent Sustaining Peace resolutions call on the Secretary-General to present options for restructuring and increasing UN funding for building and sustaining peace. Heeding this task, the Secretary-General is exploring the creation of a financing platform which could go a long way in facilitating joint analysis, strategic decision-making and coordination, and bring a coherent plan together with the appropriate financial means for implementation.

### *4. Building norms, providing global public goods and the case of migration*

With respect to the future positioning and role of the UNDS, there seems to be a very clear consensus that one of the UN's most vital tasks relates to its normative agenda. In a rapidly changing world, the web of normative frameworks that lies at the foundation of so many of the processes required for an inclusive globalisation needs to be nurtured, perhaps adapted and certainly strengthened.

Reinforcing the UN's normative agenda requires action to be taken with respect to how the UN is organised and how it captures normative work, how it accounts for and measures the normative agenda and how this agenda is financed. DIE argues that a functioning global platform that provides all stakeholders with agreed norms and standards, as well as monitoring tasks is an important step in addressing these concerns. It is also noted that there is a disconnect between the expected central role of the UN's normative function and the way the UN system is organised to deliver on that function, in terms of formulating, advocating and implementing norms.

The concept of global public goods (GPGs) also has a key contribution to make to current debates about the future positioning of the UNDS. One transformational impact of an accelerated globalisation is that there is now a class of development challenges that requires collective action to have any chance of success. It is this characteristic, the need for a collective response, that means GPGs are of increasing importance to the UNDS. The Center for Global Development underlines that MDBs, in particular, have an important role to play in this sphere and calls for a clear reorientation of the World Bank from that of country-level project lender to a leading provider of GPGs. Manfred Konukiewicz of the German Federal Ministry for Economic Cooperation and Development (BMZ) meanwhile maintains that the Green Climate Fund, one of the most important current initiatives relating to GPG provision, is a useful model for how to make resource mobilisation for GPGs more effective.

Both these contributions indicate that the critical importance of GPGs has been widely recognised outside the UN system, but the agenda is having a hard time in UN corridors. An examination of the financial aspects sheds some light on the nature of some of the scepticism around this concept, specifically the choice of financial instrument, the source of finance within governments, and the allocation principle to be used.

Another highly current issue that faces a complex financial picture is migration. A paper by Sarah Rosengaertner highlights the challenge migration represents for the international community today. It encompasses issues that require both a collective response as well as the development of practical normative frameworks. A key observation is the lack of an overall picture of the size and distribution of migration financing. This is further complicated by the fact that migration related financing straddles the worlds of public and private, domestic and external, as well as development, humanitarian and security cooperation. Lack of knowledge and transparency hinders the execution of informed policy.

## **5. Financing transparency and accountability:**

### ***Low hanging fruit?***

Open access to public finance information has profoundly and rapidly transformed governance, accountability and citizen engagement at all levels. Aided by technology, rising education levels and growing youth populations, public officials and finance systems across the world are increasingly providing full and open access to public financial information to its citizens, even in the most remote and local settings.

Two major dimensions of transparency and accountability are explored in relation to financing and the role of the UNDS in Agenda 2030. Illicit financial flows—a critical issue at the heart of transparency and accountability in Agenda 2030 finance—is arguably one of the lowest of the ‘low-hanging fruit’ in SDG financing. Tom Cardamone of Global Financial Integrity highlights that the value of illicit flows to/from developing countries was approximately US\$ 3 trillion in 2014. He argues that to curtail these illicit flows, political will and considerable UN leadership and support will be required, but if prioritised and managed right, the UN system can help unlock the trillions of dollars needed as investment capital for the achievement of the SDGs.

As explained by John Hendra and Claire Schouten, open budgeting and monitoring is critical for the success of the SDGs. They argue for:

- i) open financial books as key to better fiscal performance, lower borrowing costs and lower corruption;
- ii) enhanced citizen participation in budget preparation and monitoring; and
- iii) redoubled attention to strengthening oversight institutions responsible for public finance and budget.

## **Conclusion: Revitalise and reposition**

The UN development system needs to both reposition its role in the global financing landscape and to revitalise its financing mechanisms. The current push on UNDS reform provides a welcomed opportunity for bolder change, and it invites the design of a new approach to financing, which better aligns finance to function and further develops more core-like characteristics in earmarked revenue. Deeper analysis is also needed of the current dominant features of the UNDS funding arrangements. On the one hand they are very stagnant, on the other highly volatile; they are very concentrated and yet well-known for their high level of fragmentation. Generalities will not yield progress. The collection and presentation of data needs to be more geared to providing an empirical base for informed policy making. Too often accounting needs prevail over informing policy making.



Also critical are dynamic partnerships, in particular between the International Finance Institutions and the UN, which has advanced recently. The breakthrough achieved with the approval of IDA 18 at US\$ 75 billion calls for a new generation of partnerships amongst the world's leading development actors, building strategically on respective mandates, strengths and comparative advantages.

With regards to a successful reposition of the UNDS, strengthening the UN's leveraging role and impact is essential. This will require a major UN push to develop robust system-wide financial data and strategies, employing professional capabilities and developing the skills needed to partner effectively with a range of financing actors. Secondly, the UNDS must reinforce the sustaining peace approach and the creation by the Secretary-General of a strategic platform for financing prevention and peacebuilding could go a long way in facilitating its implementation.

The UN should also pursue both stronger normative and global public goods agendas. It must ensure it is effective in facilitating solutions to challenges aggravated by globalisation, those requiring a collective response. Finally, the UNDS must recognise the centrality of transparency and accountability for the effective implementation of Agenda 2030. All of this points to possible new pathways for the UNDS and such imaginative and bold thinking is sorely needed in the current discourse on the future financing of the UN.





# Introduction

When the United Nations' General Assembly adopted the 2030 Agenda for Sustainable Development in 2015, member states envisioned, in their words, 'setting out a supremely ambitious and transformational vision'. The ambition and broad scope of Agenda 2030 represents an extraordinary opportunity for the UN system to reaffirm its role and relevance in a rapidly changing world, while recognising that the UN is one among many actors within the Agenda. The negotiations and follow-up processes have all emphasised the acute need for a new type of financing package: additional resources, new financing instruments, new sources of funding and new types of partnerships. The financing needs for Agenda 2030 as a whole are estimated to be in the order of trillions of dollars annually. To tackle this, Agenda 2030 was linked to the Addis Ababa Action Agenda which was intended to provide a financial footing to the overall vision. However, the Action Agenda has been criticised as insufficient for the task.

The UN development system's (UNDS) role within this enormous financing challenge is important. And in a UNDS context, significant financial reforms are necessary. The UN General Assembly adopted, in December 2016, its Quadrennial Comprehensive Policy Review (QCPR), setting out policy guidance for the UNDS on the implementation of different aspects of Agenda 2030 over the next four years. In particular, the QCPR requested the Secretary-General to make specific proposals in a number of areas.

An important theme in the QCPR was the definition of functions of the UNDS, including the need to align finance to function. The reform of finance was seen as a vital component of any credible overall reform package.

This offers a substantial opportunity to the UN Secretary-General to put forward a vision for a fit-for-purpose financing system, aligned to Agenda 2030. Yet, it is far from clear what the appetite is for financing reform and what reforms should be prioritised. What is absolutely clear is that there is a unique opportunity and that robust debate is part of the pathway to a serious financing reform package. We hope that this report is a contribution to such a debate.

This is the third annual report of Financing the United Nations Development System. There has been a considerable evolution in the coverage and level of ambition for this report. The first report in 2015 was focused on the presentation of basic data, supplemented by the identification of a few emerging issues of increasing significance for the UNDS. The 2016 report continued to provide basic data in the first part of the report but used the second part to seek out a broader range of views on topical issues. These contributions were relatively short and were mostly, though not exclusively, provided by colleagues within the UN system.

This third report maintains the basic structure but with some significant adjustments. Part One of the report continues the practice of providing the basic data. Many of the same tables, updated, are provided to ensure continuity and comparability.

Part One first provides an overview of UNDS resources, analysing the profile of assessed contributions, core and earmarked contributions, as well as non-state sources of income.





Second, it reviews the sources of UNDS income. It provides an overview of the channels of multilateral aid and shows income sources by countries part of the Development Assistance Committee of the OECD (DAC) versus non-DAC countries. It also outlines income in the form of core as opposed to earmarked or pooled funding and in addition takes a look at non-state income. A new table, based on DAC data, shows sources of income within donor government structures in a select number of countries.

Third, we provide an overview of the profile of expenditures. Tables provide information on expenditure by agency by year, by country income status and by region.

Due to the extraordinarily positive response to invitations to external colleagues to contribute, Part Two of the report has been significantly expanded and now constitutes over 28 concise essays on a range of topical issues linked to the reform priorities highlighted in Part One. Some papers relate more directly to what is currently happening in the UN system, while others point to issues and approaches we believe to be highly relevant to a UN undergoing change. While recognising a degree of some unavoidable overlap of the issues covered in the papers, these have been clustered into five subject areas:

1. Financing the UNDS – status quo, regression or evolution?
2. The value of leveraging
3. Financing prevention and sustaining peace
4. Building norms, providing global public goods and meeting the challenge of migration
5. Financial transparency and accountability: Low hanging fruit?

We believe these five clusters encompass a number of the most critical challenges facing the prospects for the successful implementation of Agenda 2030.

The contributions from senior colleagues from outside and inside the UN system are intended to promote and stimulate new thinking rather than stated policy. It is our hope that these papers will gauge the major trends, opportunities and challenges in the UN system, and that they will help inform ongoing and future discussions and debates around financing the UN system. Above all, we hope that this collection of papers will constitute a market place for fresh perspectives and ideas. Imaginative and bold thinking is sorely needed in the current discourse on the future financing of the UN system.

Looking at the papers together, it is interesting to note how often the papers reinforce each other, outlining the same challenges and priorities while coming from a wide range of perspectives. The convergence from the breadth of inputs allows us to distill down to a few common messages, which are summarised at the end of the report.

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

This report is the result of a collaborative partnership between the Dag Hammarskjöld Foundation and the UN Multi-Partner Trust Fund Office (UN MPTFO), designed to present key data, highlight data gaps and to present a broad variety of perspectives.



# Overview of UN resource flows

## Financing instruments

There are primarily six types of financial instruments in the UN system currently in use:

1. Assessed contributions
2. Core contributions
3. Negotiated pledges
4. Earmarked funding
5. Fees
6. Loans

The instruments are defined by the terms of the contributions. Table 1 provides an overview of the six financial

instruments and the spectrum within which these instruments operate. More details and a further breakdown of the UN's financial instruments are provided in Annex 1.

As pictured, 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

**Table 1: The Spectrum of UN financing instruments**

|                                                 | Assessed contributions                                              | Core contributions                                | Negotiated pledges                                                       | Earmarked Funding                                                | Fees                                                                                               | Loans                                                                                    |
|-------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| 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 stemming from charges for services                                               | Payments as obligation that borrowers undertake when taking out a loan                   |
| 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 | Payments of interest and repayment of loan are based on the agreed terms of the contract |
| 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                                                                            | Burden falls on the borrowers                                                            |
| How are resources allocated?                    | Established in budget                                               | Established in budget                             | Established in budget                                                    | Allocated in negotiations between donor, UN entity and recipient | Various                                                                                            | Established in budget                                                                    |
| Who takes allocation decision?                  | UN members                                                          | UN members                                        | Participating UN members                                                 | Specific parties concerned                                       | Various                                                                                            | UN members and UN entity                                                                 |



an agreement which is legally binding for the countries that agree to the particular scale of contributions 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 of its use. Earmarked funding, sometimes called 'non-core resources' or 'extra budgetary 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. Loans are a financial instrument used mainly by the World Bank Group and a limited number of UN organisations, such as the International Fund for Agricultural Development (IFAD) and the United Nations Capital Development Fund (UNCDF). The recipients of the loan incur legal debt, which needs to be repaid to the organisation alongside interest.

## Definitions and data

The launches of last year's report generated extensive discussion around the consistency and implications of definitions used to describe the UN system and its activities. It became evident that there was need for greater discipline and clarity around some basic definitions. In reviewing this issue in preparation for this edition, we came to the conclusion that there is a deeper confusion around definitions that merits attention.

For example, three terms are used in this report: the UN system, the UN development system (UNDS) and UN operational activities for development (OAD).

The UN system encompasses all of the organisations and entities that are recognised as part of the system. The financial data relating to the UN system's income and expenditure are collected and aggregated by the Chief Executive Board (CEB) secretariat.

The UNDS in principle represents those organisations of the UN system that undertake development activities (ie OAD). However, since there is no formal classification of which entities are part of the UNDS, no distinct database for the UNDS exist.

The OAD represents what the UNDS does and is the subject of an annual report produced by the Secretary-General on the funding of OAD. Building on the CEB data set, UNDESA prepares a more detailed set

of data on the funding of OAD, which is also used in producing this annual funding report. More broadly, the concept of OAD is closely tied to the definition of Official Development Assistance (ODA), a term used by the Development Assistance Committee (DAC). The concept of ODA in turn is critical for measuring the commitment of countries to development assistance targets. There is for these reasons a strong pressure to prioritise the measurement of OAD performance.

The consequence of this architecture in the current collection and presentation of data is that there is a glaring gap relating to data on UN development activities that are not operational in nature. The concept of OAD clearly differentiates itself from, for example, normative and standard setting work. This is a paradox in view of the increasing emphasis being given to the importance of the UN's global work in norms and standard setting (see Part Two, Chapter Four).

In addition to this gap, there is also the question of whether ODA more broadly, and OAD, encompass the full range of activities envisioned in Agenda 2030, for example in Goal 16, which, with its premise to promote *peaceful and just societies* targets activities beyond traditional OAD.

In short, the UN cannot credibly promote an agenda for the future which is committed to leaving no one behind and integrating the spheres of security, development, human rights and humanitarian work, while continuing to use databases that measure the UN's work in very different manners. In this regard, it is worth noting that the Organisation of Economic Co-operation and Development-Development Assistance Committee (OECD-DAC) has launched an important initiative to develop a broader framework which will be able to capture more fully the totality of resource flows (Total Official Support for Sustainable Development - TOSSD).

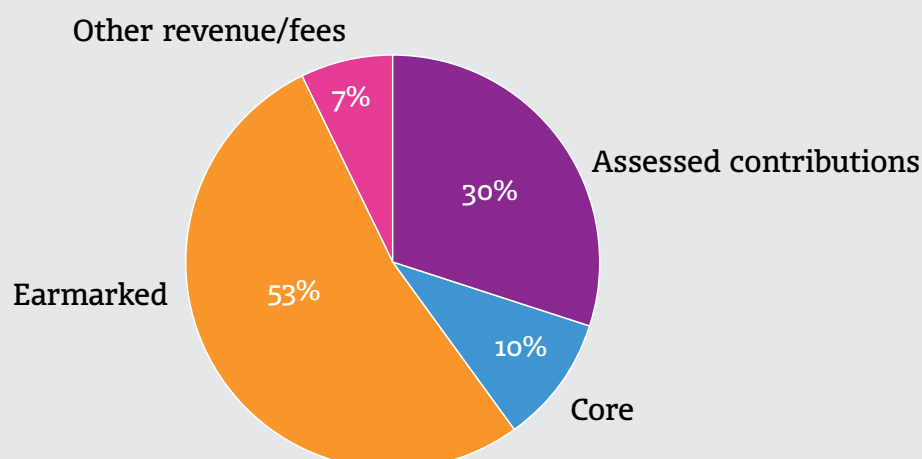
For the purposes of this report, we are using the databases that currently exist. We use the data sets that pertain to the issues at hand, clearly indicating the source. We believe that it is time to review seriously the definitions currently used and to move to a use of terms and data sets that allow us to measure better those outcomes which are considered priorities for the UN system. This will only happen if policy makers recognise and identify this as a priority issue that impacts on policy making.

# Revenue

Figure 1 shows that assessed and core contributions represent 30% and 10% respectively of total United Nations system revenue, and that earmarked contributions amount to 53% and fees and other revenues to 7%. It should be noted that assessed and core resources, both non-earmarked funding flows for the work of specific UN organisations, have stagnated in real terms. It is important to reflect further why these two concepts have had such a hard time keeping pace financially.

Table 2 indicates that total income to the UN system amounts to US\$ 48 billion. Of this, almost US\$ 9 billion is for peacekeeping and close to US\$ 27 billion is for operational activities for development (see Figure 3). Of the US\$ 27 billion, close to US\$ 21 billion goes to five agencies: UN Children's Fund (UNICEF), World Food Programme (WFP), UN Development Programme (UNDP), UN High Commissioner for Refugees (UNHCR) and the World Health Organization (WHO).

Figure 1: Overview of the total revenue of the UN system by financial instrument in %, 2015



Source: Chief Executives Board (CEB) data, 2015, A/71/583<sup>1</sup>



Table 2: Total revenue of the UN system by UN agency and by financing instrument, 2015

| Agency          | Assessed contributions | Core         | Earmarked     | Other revenue/ fees | Total 2015    |
|-----------------|------------------------|--------------|---------------|---------------------|---------------|
| UN Secretariat  | 2,771                  |              | 2,094         | 683                 | 5,548         |
| UN Peacekeeping | 8,504                  |              | 195           | 72                  | 8,771         |
| FAO             | 497                    |              | 744           | 10                  | 1,251         |
| IAEA            | 377                    |              | 236           | 5                   | 618           |
| ICAO            | 67                     |              | 106           | 23                  | 196           |
| IFAD            |                        | 222          | 93            |                     | 315           |
| ILO             | 401                    |              | 225           | 13                  | 639           |
| IMO             | 45                     |              | 8             | 19                  | 72            |
| IOM             | 43                     | 7            | 1,397         | 157                 | 1,603         |
| ITC             | 37                     | 7            | 25            | 2                   | 71            |
| ITU             | 128                    |              | 6             | 43                  | 176           |
| PAHO            | 106                    |              | 651           | 614                 | 1,370         |
| UNAIDS          |                        | 196          | 23            | 6                   | 226           |
| UNDP            |                        | 746          | 3,726         | 348                 | 4,820         |
| UNEP            | 223                    |              | 432           | 1                   | 656           |
| UNESCO          | 341                    |              | 352           | 50                  | 742           |
| UNFPA           |                        | 398          | 581           | 57                  | 1,037         |
| UN-HABITAT      | 17                     | 2            | 156           | 2                   | 177           |
| UNHCR           | 49                     | 736          | 2,779         | 19                  | 3,582         |
| UNICEF          |                        | 1,067        | 3,836         | 106                 | 5,010         |
| UNIDO           | 78                     |              | 250           | 6                   | 334           |
| UNITAR          |                        | 1            | 24            |                     | 25            |
| UNODC           | 29                     | 4            | 234           | 7                   | 275           |
| UNOPS           |                        |              |               | 683                 | 683           |
| UNRWA           |                        | 578          | 611           | 24                  | 1,213         |
| UNU             |                        |              | 61            | 2                   | 63            |
| UN WOMEN        | 8                      | 136          | 171           | 5                   | 319           |
| UNWTO           | 15                     |              | 3             | 6                   | 24            |
| UPU             | 36                     |              | 21            | 13                  | 70            |
| WFP             |                        | 339          | 4,469         | 103                 | 4,911         |
| WHO             | 467                    | 112          | 1,857         | 39                  | 2,475         |
| WIPO            | 18                     |              | 10            | 357                 | 385           |
| WMO             | 66                     | 5            | 5             | 3                   | 80            |
| WTO             | 198                    |              | 21            | 23                  | 242           |
| <b>Total</b>    | <b>14,519</b>          | <b>4,557</b> | <b>25,403</b> | <b>3,500</b>        | <b>47,979</b> |

Source: CEB data, 2015, A/71/583<sup>2</sup>

Note: All figures are in US\$ million, figures have been rounded up. In case of ITU, core funding is US\$ 59,000; in the case of UNOPS, it is US\$ 396,000. Although these data is not visible in the table, it is included in the total.

Table 3 provides an overview over 40 years of assessed contributions. The defining characteristic of the overall financial architecture of the UNDS is the highly disproportionate growth of earmarked compared to non-earmarked resources, both assessed and core. Bearing in mind that the last three decades have seen an acceleration in globalisation leading to increased significance of many of the normative and standard setting activities of UN agencies, this imbalance is reason for concern. It is noteworthy that with respect to the last column, the % of total revenue for each agency accounted for by assessed contributions, the percentage share is highest in those smaller agencies with specific standard setting functions. The International Atomic Energy Agency (IAEA), International Labour Organization (ILO),

International Maritime Organization (IMO), International Trade Centre (ITC), International Telecommunications Union (ITU), UN World Tourism Organization (UNWTO), Universal Postal Union (UPU), World Meteorological Organization (WMO) and World Trade Organization (WTO) all register over 50% of assessed contributions. This shows that where functions are clearly demarcated and the benefits of club membership are immediate, assessed contributions are easier to come by.

Table 4 provides information on the growth of earmarked contributions over the last 10 years. The complete data by agency is only available relating to the last decade.

**Table 3: Assessed contributions to the UN system by UN agency, 1975-2015**

| Organisation   | 1975       | 1980        | 1985        | 1990        | 1995        | 2000        | 2005        | 2010        | 2015         | in % of Total Revenue |
|----------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-----------------------|
| UN Secretariat | 268        | 510         | 618         | 888         | 1,135       | 1,089       | 1,828       | 2,167       | 2,771        | 50                    |
| FAO            | 54         | 139         | 211         | 278         | 311         | 322         | 377         | 507         | 496          | 40                    |
| IAEA           | 32         | 81          | 95          | 155         | 203         | 217         | 278         | 392         | 377          | 61                    |
| ICAO           | 14         | 21          | 31          | 34          | 49          | 49          | 59          | 77          | 67           | 34                    |
| ILO            | 48         | 105         | 127         | 165         | 233         | 234         | 265         | 409         | 400          | 63                    |
| IMO            | 3          | 10          | 12          | 23          | 27          | 30          | 36          | 43          | 44           | 61                    |
| IOM            |            |             |             |             | 29          | 21          | 32          | 38          | 43           | 3                     |
| ITC            |            |             |             |             |             | 17          | 26          | 35          | 37           | 53                    |
| ITU            | 21         | 44          | 53          | 84          | 107         | 84          | 98          | 135         | 127          | 73                    |
| PAHO           |            |             |             |             |             | 85          | 92          | 98          | 105          | 8                     |
| UNEP           |            |             |             |             | 44          | 40          | 62          | 87          | 222          | 34                    |
| UNESCO         | 89         | 152         | 187         | 182         | 224         | 272         | 305         | 377         | 341          | 46                    |
| UN-HABITAT     |            |             |             |             |             | 6           | 9           | 11          | 16           | 9                     |
| UNHCR          | 6          | 13          | 15          | 20          | 25          | 20          | 39          | 39          | 48           | 1                     |
| UNIDO          |            |             | 40          | 90          | 123         | 66          | 91          | 103         | 77           | 23                    |
| UNODC          |            |             |             |             |             | 14          | 21          | 44          | 29           | 11                    |
| UN WOMEN       |            |             |             |             |             |             |             |             | 7            | 2                     |
| UNWTO          |            |             |             |             |             | 7           | 11          | 16          | 14           | 61                    |
| UPU            | 4          | 10          | 11          | 19          | 28          | 21          | 27          | 37          | 35           | 51                    |
| WHO            | 119        | 214         | 260         | 307         | 408         | 421         | 429         | 473         | 467          | 19                    |
| WIPO           | 2          | 10          | 10          | 19          | 19          | 11          | 13          | 18          | 17           | 4                     |
| WMO            | 9          | 17          | 19          | 35          | 41          | 39          | 48          | 66          | 65           | 82                    |
| WTO            |            |             |             |             |             | 72          | 128         | 202         | 198          | 82                    |
| <b>Total</b>   | <b>669</b> | <b>1326</b> | <b>1689</b> | <b>2299</b> | <b>3006</b> | <b>3137</b> | <b>4274</b> | <b>5374</b> | <b>6,016</b> | <b>13</b>             |

Source: CEB data 1975-2015, A/71/583<sup>3</sup>

Global Policy Forum, Klaus Hufner 1971-2011, Assessed contributions to UN specialised agencies 1996-2015.

Note: All figures are in US\$ million.



Table 4: Earmarked funding to the UN system by UN agency, 2005-2015

| Organisation    | 2005          | 2010          | 2013          | 2014          | 2015          |
|-----------------|---------------|---------------|---------------|---------------|---------------|
| UN Secretariat  | 848           | 1,361         | 1,440         | 2,321         | 2,094         |
| UN Peacekeeping | 23            | 33            | 30            | 145           | 195           |
| FAO             | 364           | 891           | 744           | 805           | 744           |
| IAEA            | 124           | 202           | 227           | 205           | 236           |
| IFAD            | 39            | 80            | 97            | 30            | 93            |
| ICAO            | 154           | 129           | 132           | 131           | 106           |
| ILO             | 179           | 248           | 281           | 278           | 225           |
| IMO             | 14            | 11            | 8             | 7             | 8             |
| IOM             | 962           | 1,051         | 1,066         | 1,296         | 1,397         |
| ITC             | 32            | 40            | 26            | 50            | 25            |
| ITU             | 16            | 12            | 19            | 12            | 6             |
| PAHO            | 65            | 741           | 954           | 876           | 651           |
| UN-HABITAT      | 125           | 166           | 173           | 170           | 156           |
| UNAIDS          | 26            | 34            | 46            | 40            | 23            |
| UNDP            | 3,609         | 4,311         | 3,897         | 3,809         | 3,726         |
| UNEP            | 79            | 174           | 440           | 508           | 432           |
| UNESCO          | 349           | 323           | 370           | 365           | 351           |
| UNFPA           | 199           | 357           | 504           | 529           | 581           |
| UNHCR           | 1,089         | 1,521         | 2,389         | 2,445         | 2,779         |
| UNICEF          | 1,921         | 2,718         | 3,588         | 3,843         | 3,836         |
| UNIDO           | 157           | 229           | 157           | 183           | 250           |
| UNITAR          | 16            | 19            | 20            | 19            | 24            |
| UNODC           | 124           | 238           | 282           | 283           | 234           |
| UNOPS           |               |               | 6             | 4             | 0             |
| UNRWA           | 528           | 13            | 548           | 874           | 611           |
| UNU             | 20            | 37            | 46            | 66            | 61            |
| UN WOMEN        |               | -             | 118           | 159           | 171           |
| UNWTO           | 3             | 8             | 3             | 2             | 3             |
| UPU             | 6             | -             | 21            | 14            | 21            |
| WFP             | 2,963         | 3,845         | 4,095         | 4,943         | 4,469         |
| WHO             | 1,117         | 1,442         | 1,929         | 1,970         | 1,857         |
| WIPO            | 5             | 10            | 10            | 9             | 10            |
| WMO             | 19            | 25            | 33            | 11            | 5             |
| WTO             | 21            | 31            | 24            | 21            | 21            |
| <b>Total</b>    | <b>15,196</b> | <b>20,298</b> | <b>23,725</b> | <b>26,423</b> | <b>25,403</b> |

Source: CEB data 2005-2015, A/71/583<sup>4</sup>

Note: All figures are in US\$ million.

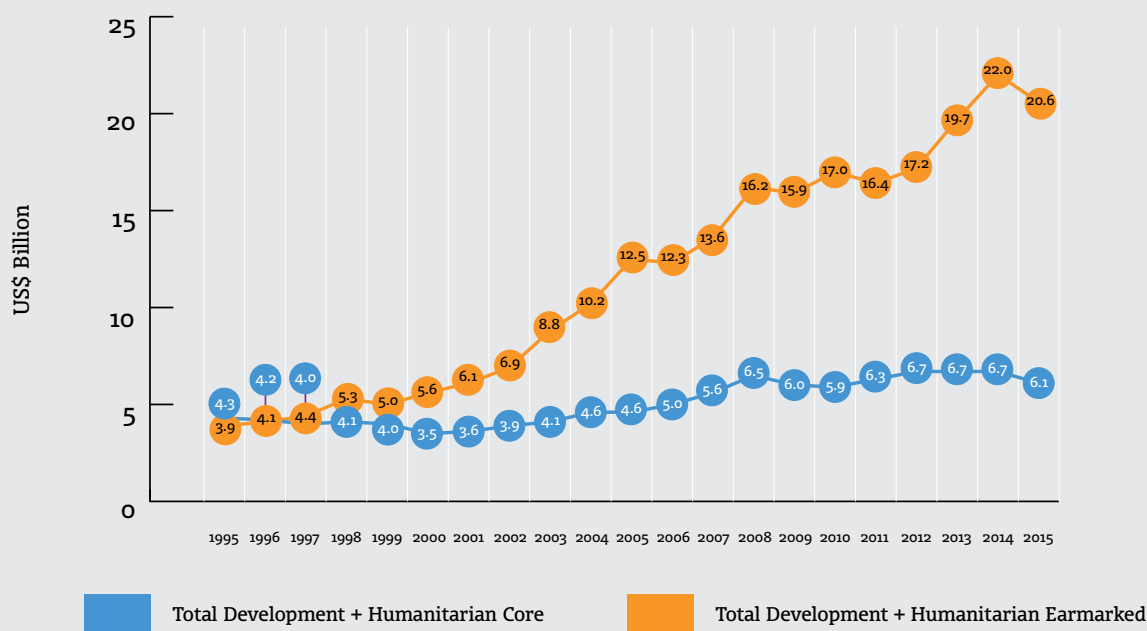
Figure 2, which compares the growth of core to earmarked overall expenditure, provides a 20-year perspective. This reflects very clearly how earmarked contributions take off in the late 90s as donors became increasingly focused on specific development goals. It should come as no surprise that if governments appropriate budgetary resources for specific goals as a way of mobilising broad public support for development cooperation, there comes a day of reckoning when accountability for results within those specific objectives will be needed. It follows that this context gives rise to strong pressure for earmarked funding. Earmarked contributions have grown some six times faster than core contributions in the last 15 years.

While the growth of earmarked funding is evident across virtually the entire UN development system, it is particularly evident in almost all the major operational agencies. As we will see in Part Two, Chapter One, the growing imbalance between core and earmarked has

given rise to considerable efforts to make earmarked more 'core-like' by increasing its flexibility. A practical example is to raise the level of earmarking, such as to goals or outcomes rather than outputs. We discuss a number of the initiatives that are ongoing in this respect in Part Two, Chapter One.

Figure 3 highlights another characteristic of the funding landscape, comparing expenses for development and humanitarian activities. Over the last decade there has been a significant increase in the volume of humanitarian assistance, and also in the percentage of OAD dedicated to humanitarian assistance which grew from 32% to 41%. In 2015, international humanitarian assistance worldwide reached a record high of US\$ 28 billion, with both government and private sources contributing to the rise. Still, the gap between requirements and contributions is growing and far more resources are sorely needed. The 2015 UN coordinated appeal had a shortfall of 44%, the largest to date.

**Figure 2: Trend of total core and earmarked contributions for UN operational activities in nominal terms, 1995-2015**

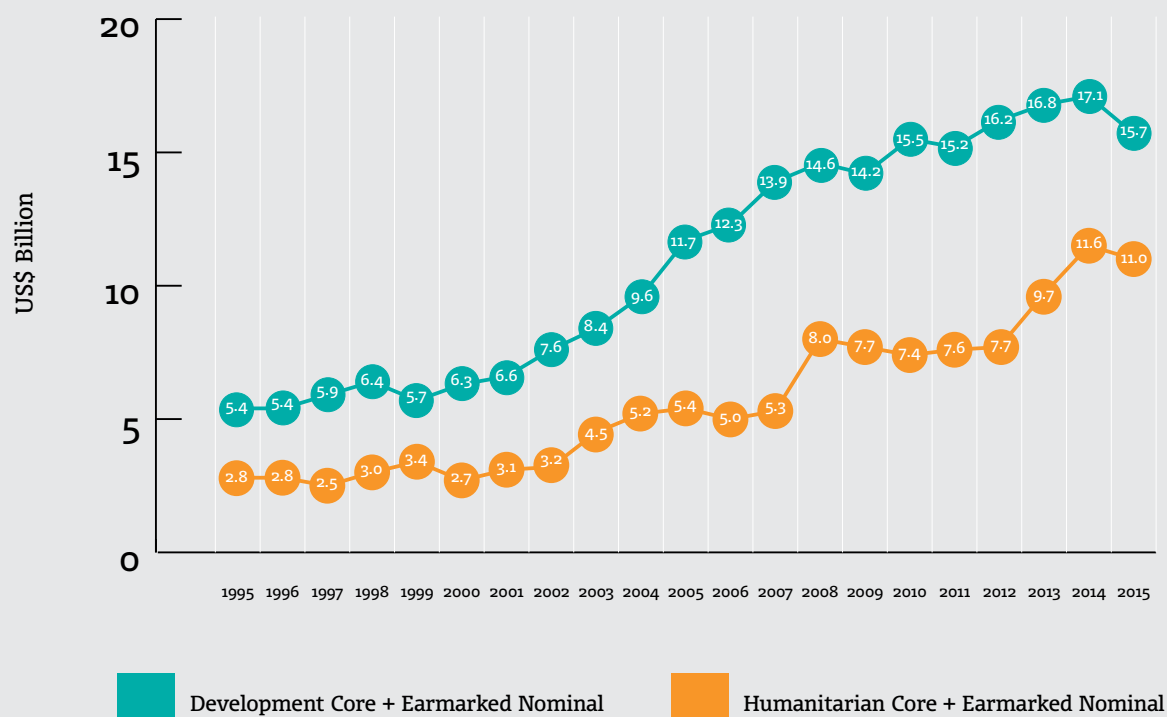


Source: A/72/61 – E/2017/4 Report of the UN Secretary-General on the QCPR: Funding analysis.<sup>5</sup>  
 Note: All figures are in US\$ Billion.





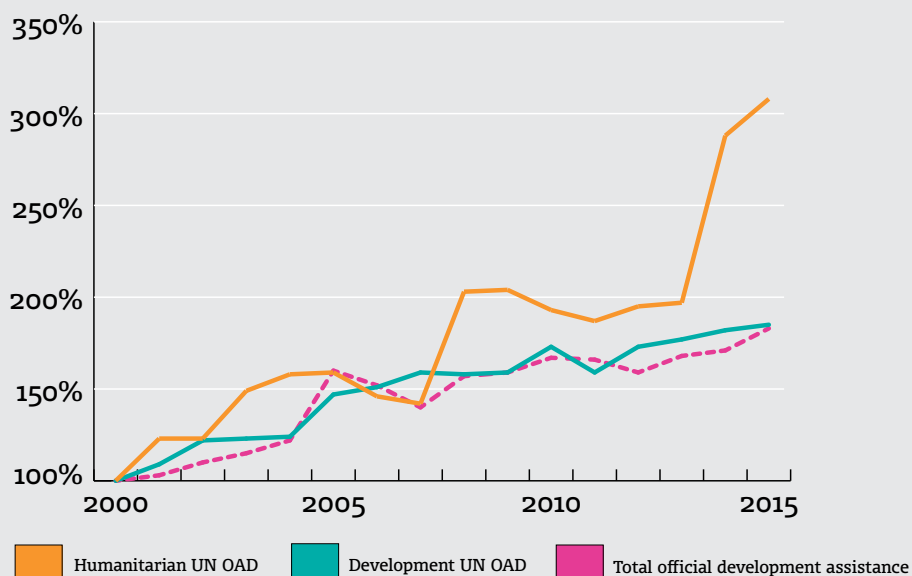
Figure 3: Trend of total contributions for development and humanitarian-related UN operational activities in nominal terms, 1995-2015



Source: A/72/61 – E/2017/4 Report of the UN Secretary-General on the QCPR: Funding analysis.

Note: All figures are in US\$ Billion.

**Figure 4: Growth of official development assistance and funding for UN operational activities, 2000-2015**



Source: A/72/61 – E/2017/4 Report of the UN Secretary-General on the QCPR: Funding analysis.  
 Note: All figures are % Growth.

Figure 4 provides a 15-year perspective on the comparative growth rates of funding for operational activities, broken out between development and humanitarian activities, relative to overall ODA. The figure clearly shows the very significant rate of growth of OAD funding for humanitarian—compared to development-related activities.

Despite the substantial increases in humanitarian funding to the UN and more broadly for humanitarian appeals overall, Figure 5 shows that the volume is lagging behind, with un-met UN humanitarian requirements growing to 44% of the total in 2015. This in turn has given rise to a major discussion around the financing of the Sustaining Peace and Prevention agendas. We look at this discussion in more detail in Part Two, Chapter Three.

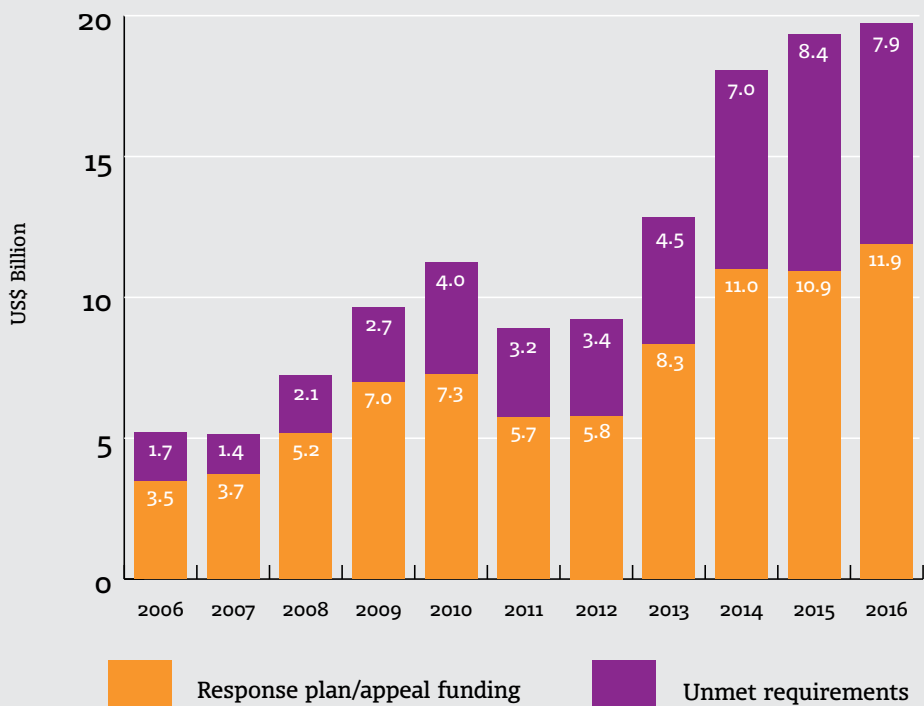
Figure 6 provides a breakdown of the percentage shares taken up by major functions, based on the definitions of

functions used by the CEB in the data collection exercise. Operational activities represent some 60% compared to peacekeeping at 20%. Norms, standards, policy and advocacy are also at 20%.

In our 2016 report, we indicated a major caveat with this last category (norms, standard, policy and advocacy) because of the wide range of activities being ascribed to this category. We noted that at a time when the importance of the UN’s normative and standard setting activities is being emphasised, it is critically important to also accurately account for these activities. This issue is flagged in the introduction and we return to it in Part Two, Chapter Four. We are pleased to note that over the past two years the CEB has made progress in refining the definition of normative activities used for the annual data collection exercise.



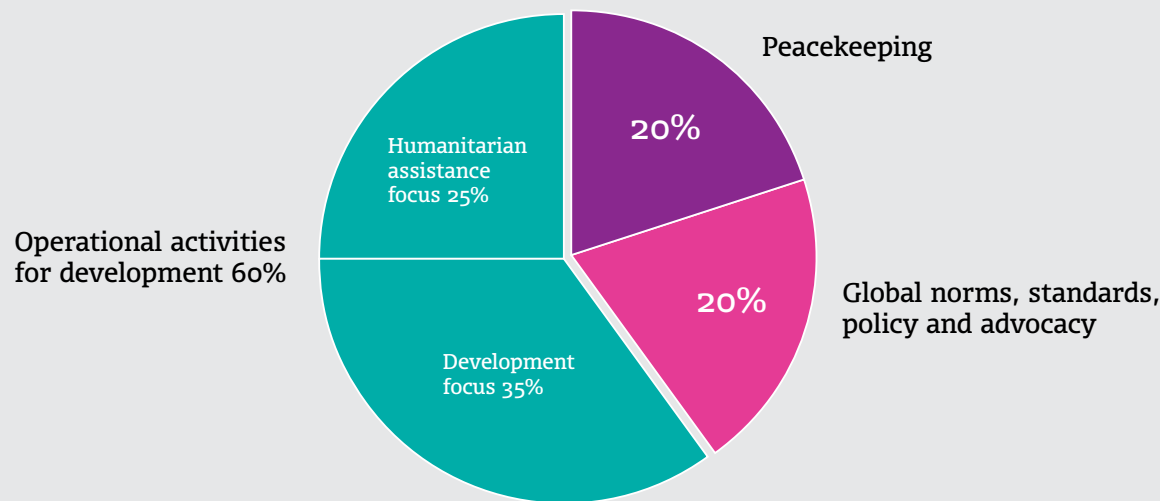
Figure 5: Global UN humanitarian aid flows, 2006-2016



Source: <https://fts.unocha.org/appeals/overview/2016>

Note: Numbers are in Billion US\$.

Figure 6: Funding of the UN system-wide activities, 2015



Source: A/72/61 – E/2017/4 Report of the UN Secretary-General on the QCPR: Funding analysis.

Note: This Figure represents only US\$ 44.6 Billion as it does not include IOM (US\$ 1.6 billion) since in 2015 it was still not part of the UN development system. For similar reasons, WTO was also excluded. For further reference, please refer to the SG report mentioned above.

# Income sources

The UNDS receives its funding from a number of sources: direct government contributions to individual UN organisations and to UN pooled funds, non-state contributions and contributions channelled through intermediary organisations, such as vertical funds (eg the Global Fund), as well as the European Commission (EC).

Direct government contributions come from central ministries or sectorial ministries. Non-state contributions emanate from a myriad of sources: corporations, civil society, individuals, foundations, universities, regional and local authorities among others. These contributions can be either voluntary core contributions to the overall budget of the entity or earmarked funding. Another source of revenue 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. The World Intellectual Property Organisation (WIPO) is an excellent example of an entity using this model.

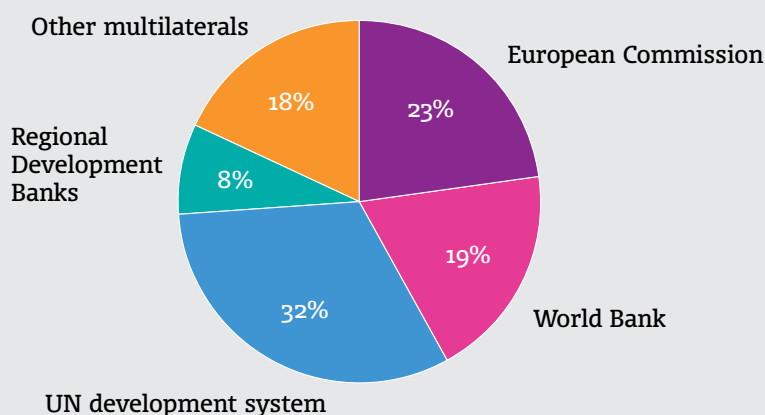
Figures 7 and 8 provide information on the main channels of multilateral assistance based on the Organisation

for Economic Co-operation and Development (OECD) database and definitions<sup>6</sup>. Aid flows channelled from Development Assistance Committee (DAC) countries through the multilateral system have risen from 36% in 2007 to around 45% in 2014.<sup>7</sup> The funding for the UNDS accounted for some 32% of multilateral aid in 2015. This made the UN the largest single channel of multilateral assistance.

Figure 8 shows the balance between core and earmarked funding within some of the major multilateral organisations. This figure is striking in pointing to the fact that the UNDS is unique in its dependence on earmarked funding. Why is this? Confidence? Function? Political resonance? The source of funding? This surely requires more serious analysis, which goes beyond the ambition of this report.

Figure 9 indicates the source of funding for operational activities. It is worth noting that about 80% of total funding for UN OAD comes from governments, channelled either directly to UN organisations or through UN inter-agency pooled funds.

**Figure 7: Channels of total multilateral aid from DAC countries in %, 2015**

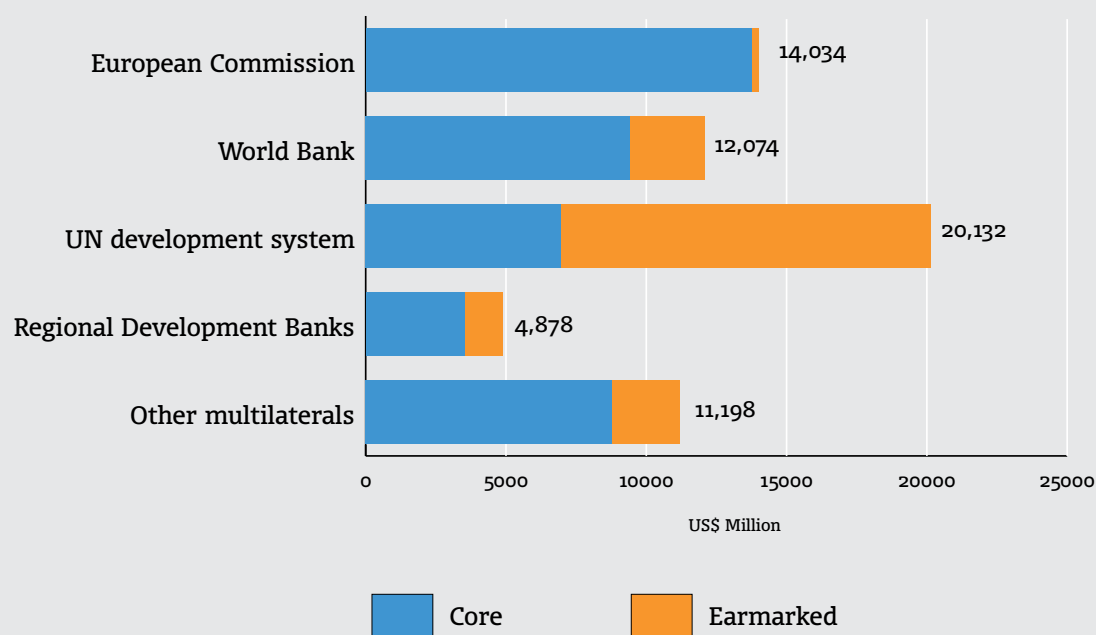


Source: OECD database, Use of the multilateral aid system 2010–2015<sup>8</sup>

Note: All figures are in %.



Figure 8: Channels of total multilateral aid from DAC countries, core and earmarked, 2015

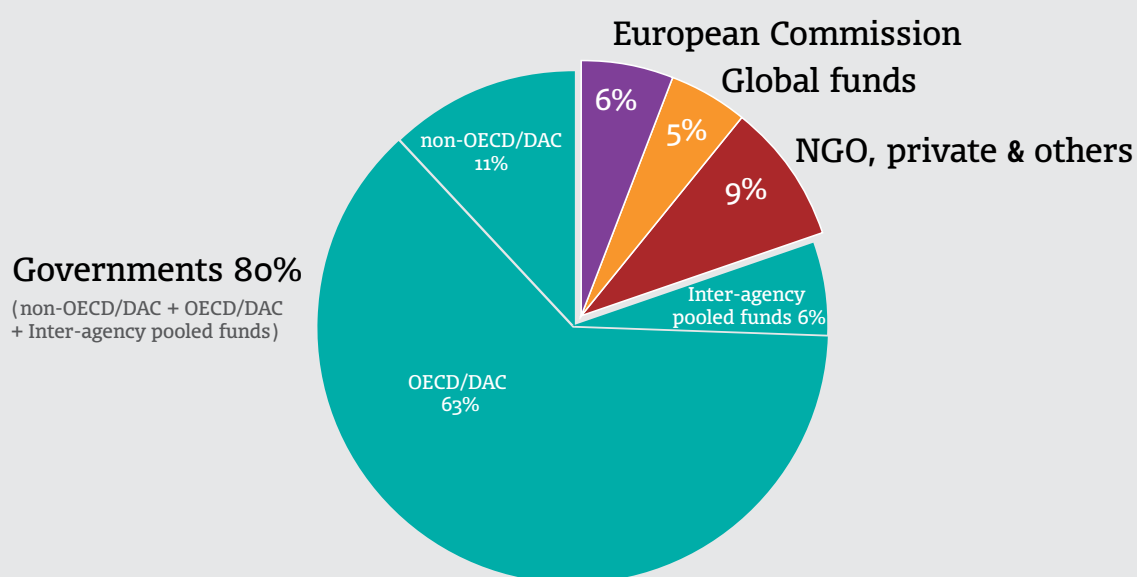


Source: OECD data base, Use of the multilateral aid system 2010–2015<sup>9</sup>

Note: All figures are in US\$ million.

Figure 9: Funding sources for UN operational activities, 2015

Total contributions in 2015, US\$ 26.7 billion



Source: A/72/61 – E/2017/4 Report of the UN Secretary-General on the QCPR: Funding analysis.

Table 5 provides data on the source of income within a number of DAC donors. This data is surprisingly difficult to compile and remains work in progress. Tracing the evolution of a variety of funding sources within governments for development cooperation will be important to future analysis (for further discussion see Part Two, Chapter Four). Some interesting components can already be identified. The role of banks in Germany and the role of the health department in the US are both examples of significant development funding coming from funding sources beyond Foreign Affairs and Development ministries/entities. It is also noticeable that countries with major bilateral programmes have a tendency to channel significant funding through their own development arms (eg US, UK, Japan and Germany).

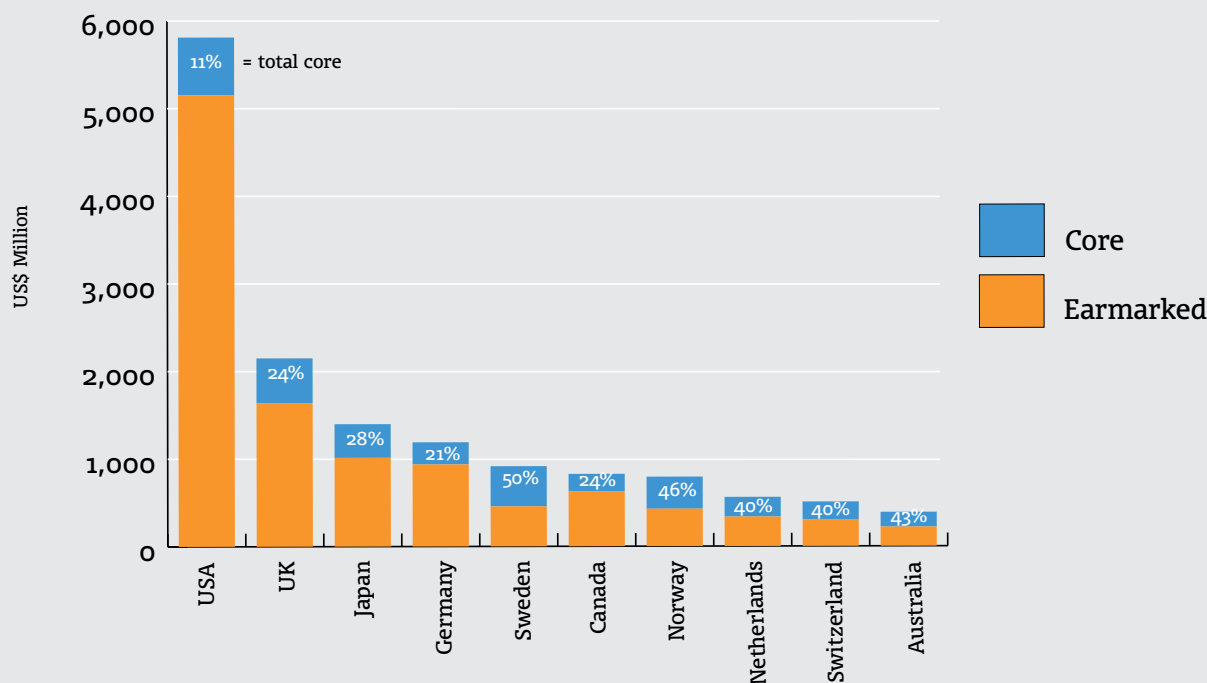
### DAC and non-DAC Governments

Figure 10 covers the total contributions of the top ten DAC donors to UN operational activities in 2015 with a further breakdown between core and earmarked funding. Several elements are worth highlighting, equitable burden sharing remains a challenge. The top ten donors accounted for 73% of the total contributions<sup>10</sup> while the top three donors accounted for 47%. It is also quite striking that five of the top six donors have core ratios

that lie between 11% and 28% of the total. For the other four donors in the top ten, their core contributions were between 40% and 46 % of the total.

Figures 11 and 12 provide information on the major DAC and non-DAC donors with respect to core contributions to the five largest UN agencies, funds and programmes, as well as the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which is an interesting case to look closer at. With regard to the DAC donors, there are significant differences between the allocations made with core resources and those displayed in Figure 16 with earmarked resources. Of the ten largest core DAC donors, only two (Sweden and Denmark) contribute core resources for the six UN agencies that exceed the contributed earmarked resources. With regard to non-DAC contributors (Figure 11), the data is heavily influenced by contributions to UNRWA made by three regional players – Saudi Arabia, Kuwait and United Arab Emirates. China and India are the only other donors that contribute more than US\$ 5 million in core resources. The great bulk of non-DAC contributions are earmarked (Figure 13). Only one of the eight non-DAC donors, UAE, contributes a level of core resources that exceeds earmarked resources.

**Figure 10: Total core and earmarked contributions of top ten DAC countries to UN operational activities, 2015**



Source: A/72/61 – E/2017/4 Report of the UN Secretary-General on the QCPR: Funding analysis.

Note: All figures are in US\$ million.



Table 5: Sources of official development assistance within DAC donor governments

|         | Foreign Affairs | Development | Finance | Education | Agriculture | Defence | Interior | Environment/<br>Energy | Health | Banks | Local Governments | Miscellaneous <sup>1</sup> | Gross ODA <sup>2</sup> | Gross ODA <sup>3</sup> including<br>Multilateral ODA<br>(core) contributions |
|---------|-----------------|-------------|---------|-----------|-------------|---------|----------|------------------------|--------|-------|-------------------|----------------------------|------------------------|------------------------------------------------------------------------------|
| France  | 730             | 3,852       | 504     | 1,112     | 10          | 33      | 384      | -                      | -      | -     | -                 | 174                        | 6,799                  | 10,680                                                                       |
| Germany | 1,256           | 4,906       | 4       | 166       | 24          | 7       | -        | 245                    | 10     | 4,513 | 938               | 3,855                      | 15,924                 | 19,752                                                                       |
| Japan   | 2,917           | 8,600       | -       | -         | 22          | -       | -        | -                      | -      | -     | -                 | 434                        | 11,973                 | 15,029                                                                       |
| Norway  | 2,640           | 573         | -       | -         | -           | -       | -        | 86                     | -      | -     | -                 | 35                         | 3,334                  | 4,304                                                                        |
| Sweden  | 2,511           | 2,264       | -       | -         | -           | -       | -        | 6                      | -      | -     | -                 | 127                        | 4,908                  | 7,170                                                                        |
| UK      | 562             | 9,662       | -       | -         | 76          | 14      | 338      | 150                    | 31     | -     | 17                | 991                        | 11,841                 | 18,676                                                                       |
| US      | 4,873           | 17,829      | 30      | -         | 350         | 498     | -        | 33                     | 3,066  | -     | -                 | 723                        | 27,402                 | 31,734                                                                       |
| Total   | 15,489          | 47,686      | 538     | 1,278     | 482         | 552     | 722      | 520                    | 3,107  | 4,513 | 955               | 6,339                      | 82,181                 | 107,345                                                                      |

Source: Data was downloaded from QWIZD OECD database, March 2017.  
Data is from the year 2015; not all ministries have been reflected in the table.

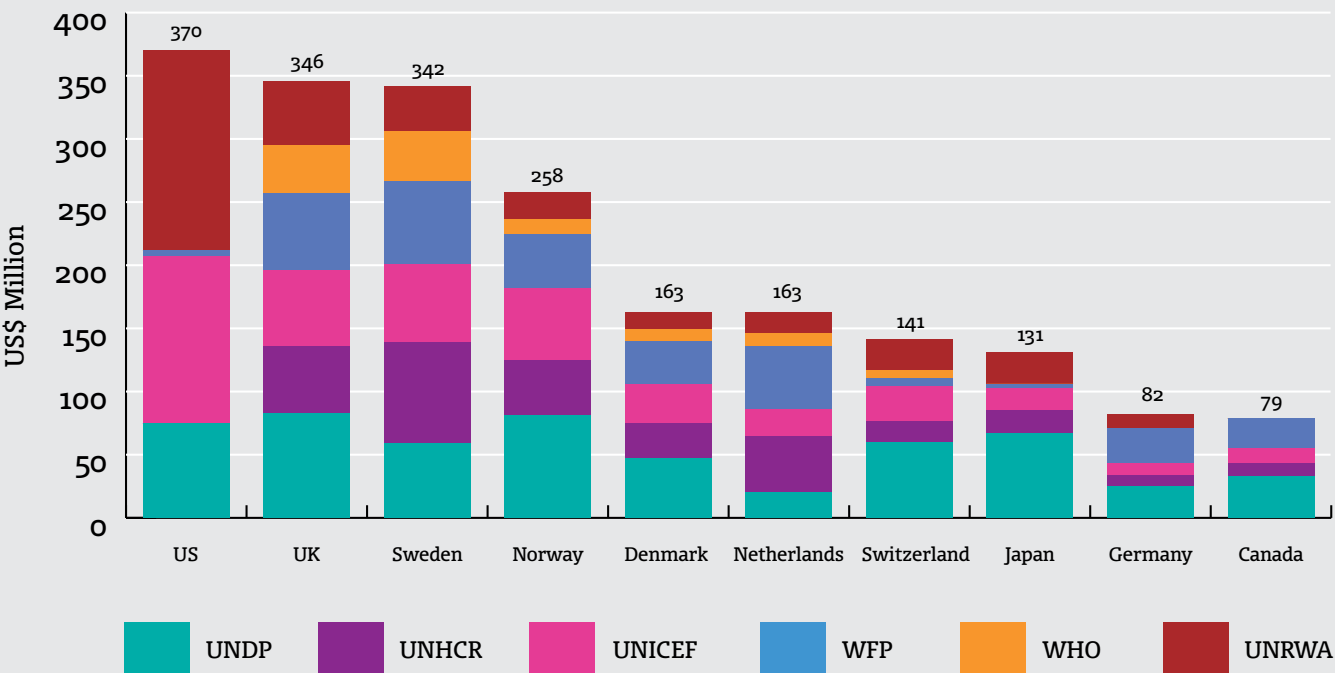
Note:

<sup>1</sup>Mix of in-donor refugee costs, and other ODA expenditure of ministries and agencies not part of the table

<sup>2</sup>Gross ODA 2015 (including bilateral grants/gross bilateral loans (incl. equity investments)), but without multilateral ODA (core contributions)

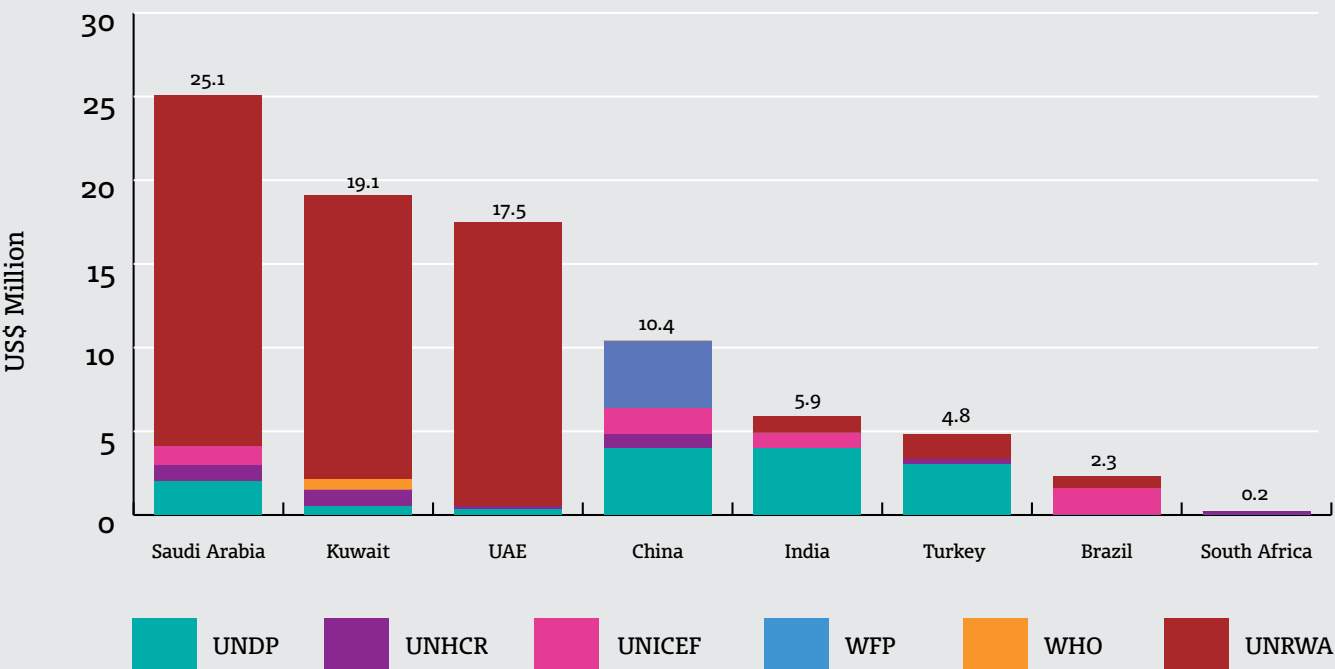
<sup>3</sup>Gross ODA including Multilateral ODA (core contributions)

Figure 11: Total core income from top ten DAC countries to six selected UN agencies, 2015



Source: Annual and Financial Reports or General Donor Contribution reports of Agencies.<sup>11</sup> See endnotes for details.  
 Note: All figures are in US\$ million. Italy is number 13 (US\$ 29 million) and therefore is not included in the figure.

Figure 12: Total core income from eight non-DAC countries to six selected UN agencies, 2015

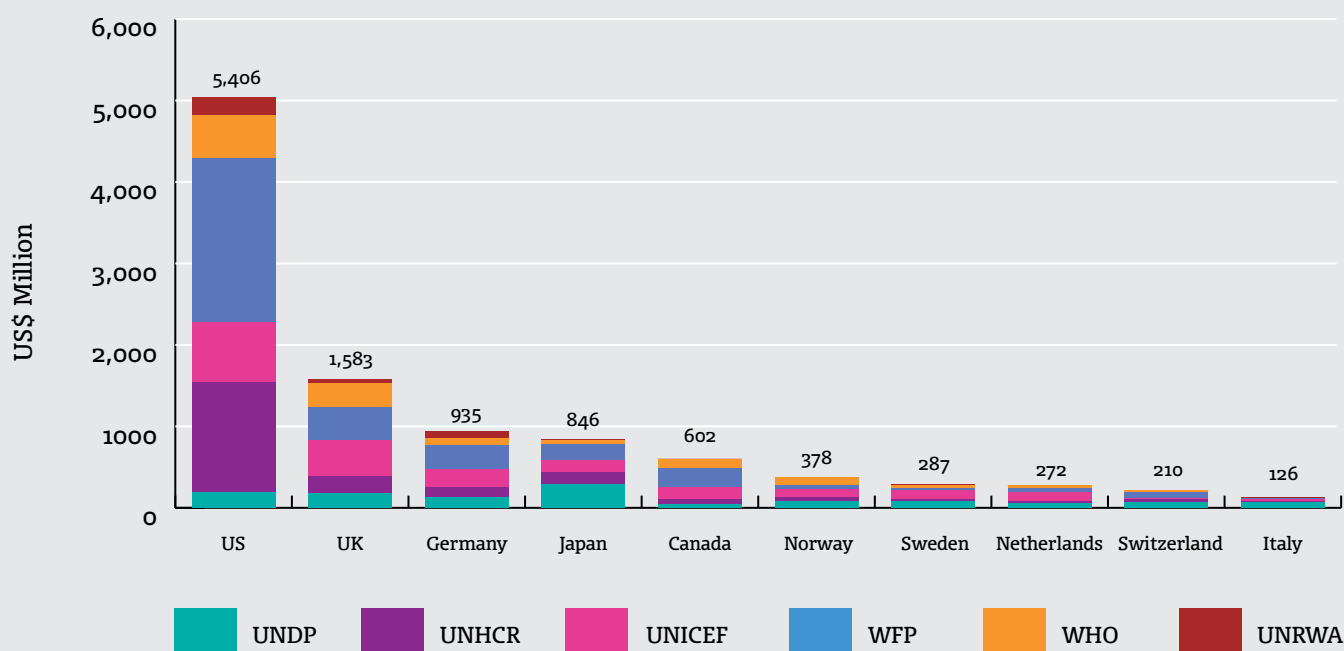


Source: Annual and Financial Reports or General Donor Contributions reports of Agencies. See endnotes for report.<sup>12</sup>  
 Note: All figures are in US\$ million.





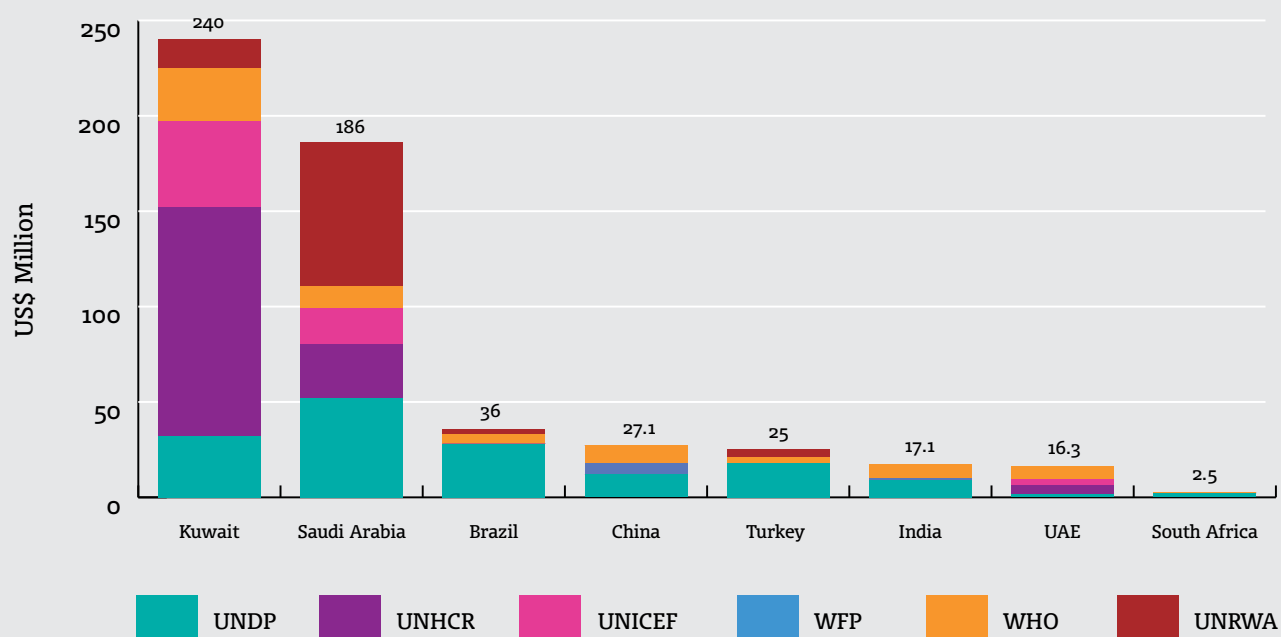
Figure 13: Total earmarked income from the top ten DAC donors to six selected UN agencies, 2015



Source: Annual and Financial Reports or General Donor Contributions reports of Agencies. See endnotes for report.<sup>13</sup>

Note: All figures are in US\$ million. In case of earmarked funding, Denmark is number 11 (US\$ 110 million) and therefore is not included in the figure.

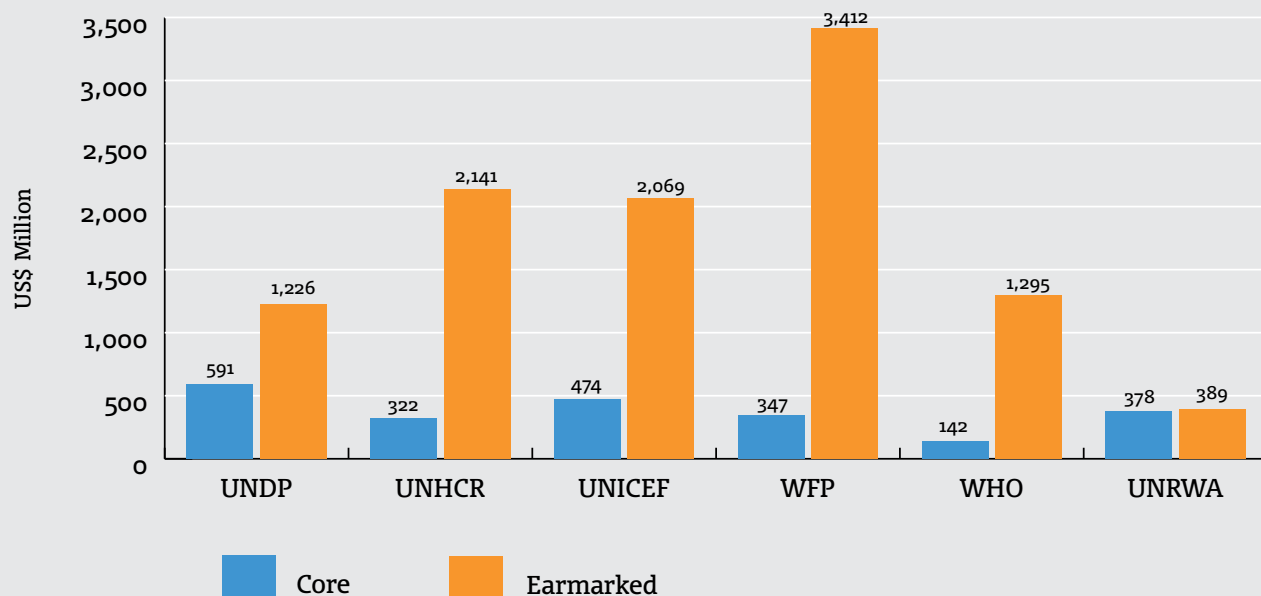
Figure 14:  
Total earmarked income from eight non-DAC countries to six selected UN agencies, 2015



Source: Annual and Financial Reports or General Donor Contributions reports of Agencies. See endnotes for report.<sup>14</sup>

Note: All figures are in US\$ million

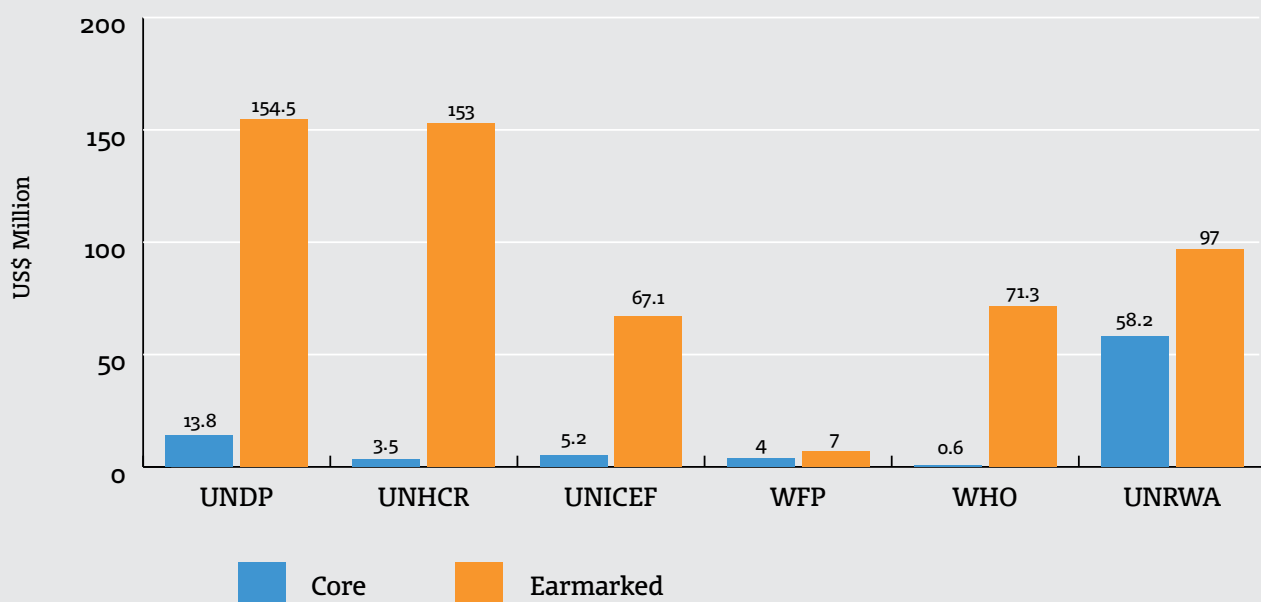
Figure 15: Total core versus earmarked income from top ten DAC donors to six selected UN agencies, 2015



Source: Annual Financial Reports or General Donor Contributions reports of Agencies. See endnotes for report.<sup>15</sup>

Note: All figures are in US\$ million. Countries include: US, UK, Sweden, Norway, Denmark, Netherlands, Switzerland, Japan, Germany and Canada for Total Core and US, UK, Sweden, Norway, Italy, Netherlands, Switzerland, Japan, Germany and Canada for Total Earmarked.

Figure 16: Total core versus earmarked income from eight non-DAC donors to six selected UN agencies, 2015



Source: Annual Financial Reports or General Donor Contributions reports of Agencies. See endnotes for report.<sup>16</sup>

Note: All figures are in US\$ million, Countries taken in account for Total Core and Earmarked: Kuwait, Saudi Arabia, Brazil, China, Turkey, India, UEA, South Africa.



Figure 15 highlights again the dominance of earmarking in the ten top donors' contributions. Indeed, only UNDP and UNICEF receive close to US\$ 500 million or more in core contributions. In the case of UNDP, core contributions are still less than 50% of earmarking from this group of countries. In the case of UNICEF, core is around 23%. Only UNRWA has a level of core and earmarked contributions that is roughly equally balanced.

In the case of non-DAC top donors, Figure 16 shows that earmarked contributions dominate the total contributions. The only exception is the core contributions to UNRWA which represent a significant percentage of the total.

These figures do not capture the significant increases of a number of non-DAC countries to the assessed regular budget and peacekeeping budgets of the UN. A complete picture of overall financing flows needs to be borne in mind to gain an accurate picture of current funding trends. This is reviewed further in Part Two in the paper produced by the German Development Institute (DIE) (Part Two, Chapter One).

### UN inter-agency pooled funds

Figures 17 to 19 look at the contributions that come into the UN through UN inter-agency pooled funds. UN pooled funds are a special type of UN financing instrument that in 2015 accounted for 6% of total contributions to OAD. Pooled funds support jointly-agreed UN priority programmes in areas such as humanitarian interventions, transition/peacebuilding, development and climate change. Contributions received are co-mingled (hence the term 'pooled funds'), not allocated to a specific UN agency and held in trust by a UN fund administrator. Only once a fund allocation decision is made, is the money passed-through to the UN entity responsible for implementing a specific programme.

Figure 17 provides an overview of the trend in total contributions to UN pooled funds, as well as the

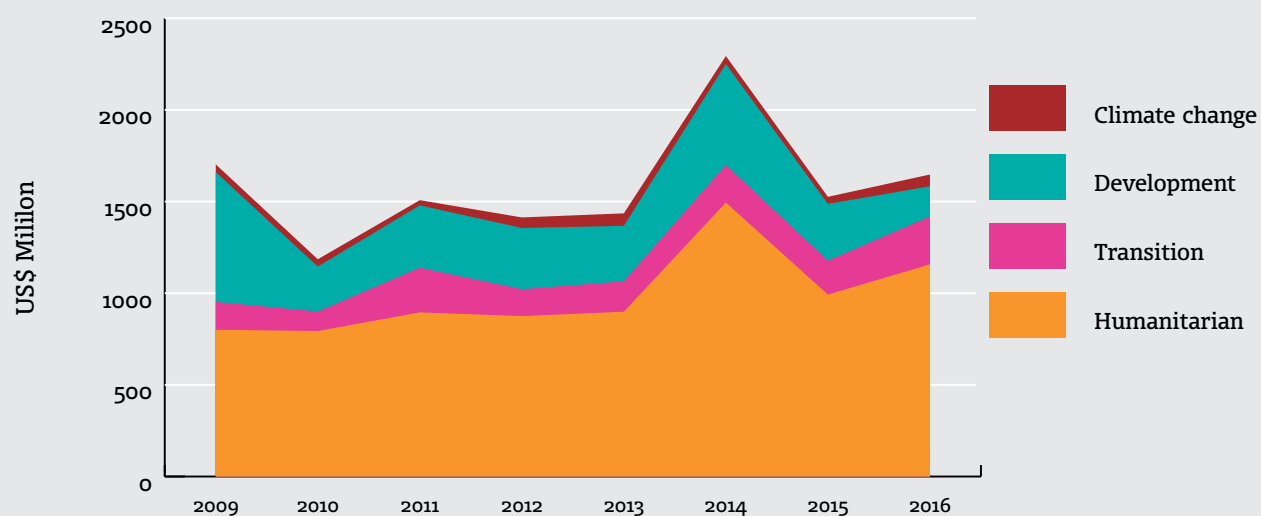
breakdown by theme. Pooled fund contributions for humanitarian purposes have been about two thirds of the total deposits in recent years. Pooled funding for transition and crisis-affected situations shows an upward trend, while other development-related interventions receive less funding.

Figure 18 provides an overview of the earmarked funding from the top 12 contributors to UN inter-agency pooled funds. In 2015, the top 12 contributors accounted for 92% of the total contributions to UN pooled funds, with the largest four donors alone accounting for 64%. Non-DAC donors contribute to pooled funds as well, with seven out of the eight non-DAC donors mentioned in Figure 14 making total pooled fund deposits of US\$ 14.3 million in 2015.

Pooled funds feature very differently in the financing mix used by different donors. For some donors, their contributions to pooled funds were larger than core funding to the six selected UN agencies, shown in figures 11 and 12; this was notably the case for Sweden, Denmark and UAE. For some other contributors the pooled fund contributions were less than 5% of their core contributions.

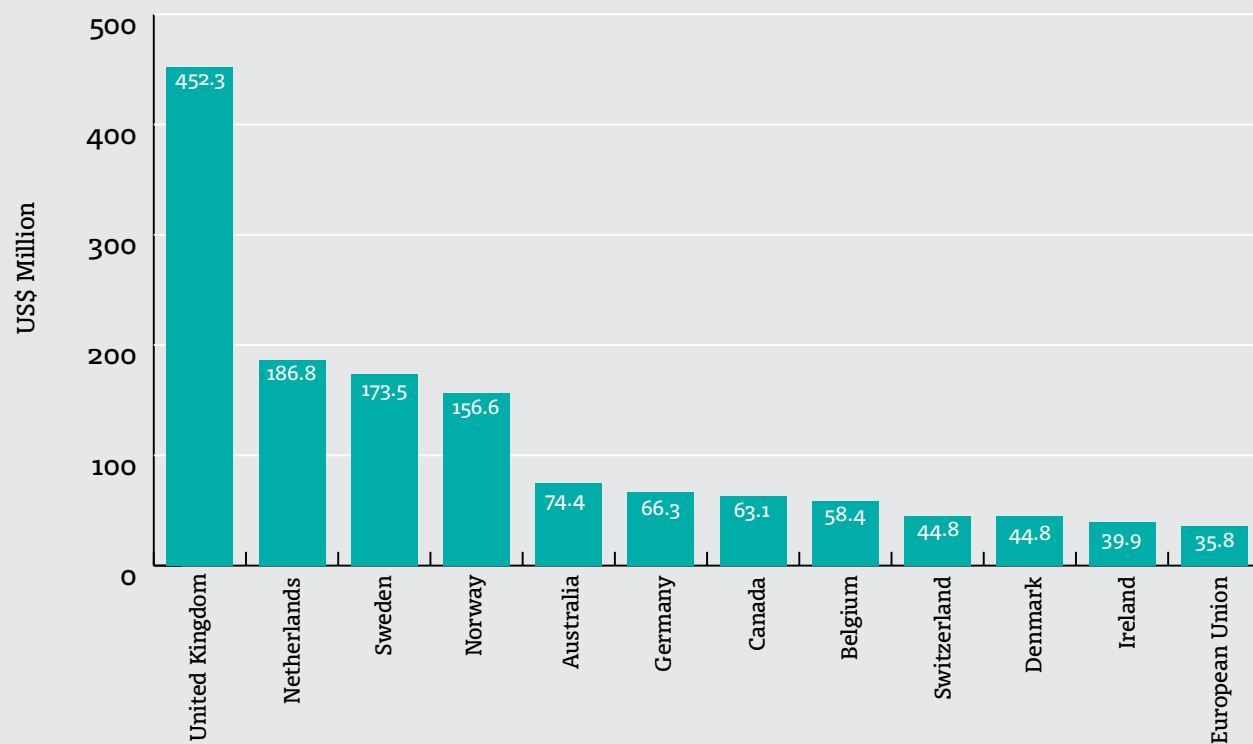
UN organisations also show large differences in the way that UN pooled funds feature in their financing mix. In 2015, 12 UN entities received more than 5% of their earmarked income from pooled funds, with five of them having a percentage over 10% (Figure 19). The United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) reflects a special case in that its implementing role in UN humanitarian funds is almost exclusively limited to channelling resources to local and international non-governmental organisations (NGOs) that are allocated funding in country-based pooled funds. In absolute figures, UNICEF and UNDP were the largest recipients of pooled funding resources overall, followed by WFP and UNOCHA.

Figure 17: Deposits to UN inter-agency pooled funds, 2009-2016



Source: UN pooled fund data base.  
Note: All figures are in US\$ million.

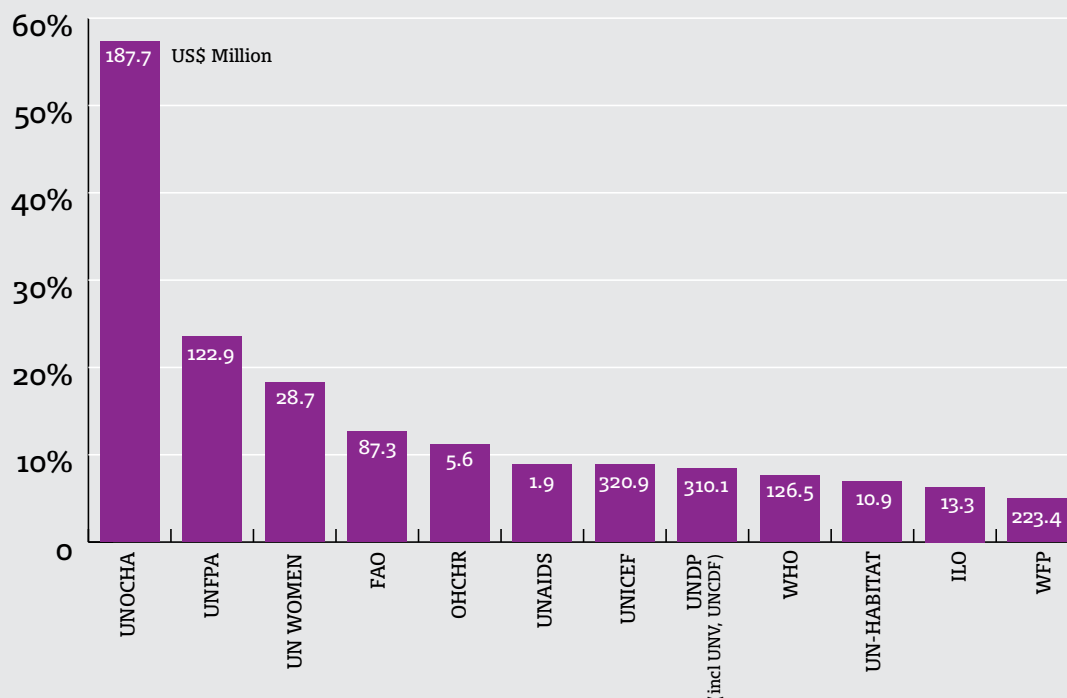
Figure 18: Deposits to UN inter-agency pooled funds from 12 largest contributors, 2015



Source: UN pooled fund database.  
Note: All figures are in US\$ million



**Figure 19: UN entities that receive more than 5% of their earmarked income from UN inter-agency pooled funds, 2015**



Source: UN pooled fund database and A/72/61 – E/2017/4 Report of the UN Secretary-General on the QCPR: Funding analysis.

Note: All figures are in US\$ million

## Non-state contributions

The data relating to non-state contributions to the UNDS is very difficult to assemble across the UN system as different ways are used to categorise different non-state actors. While therefore very challenging to aggregate, it is possible, on an entity basis, to provide pictures of the different types of non-state actors providing contributions to different UN entities. For the purposes of this report we have analysed the data of five different major organisations: UNICEF, UNDP, UNHCR, WFP and WHO.

A number of observations can be made:

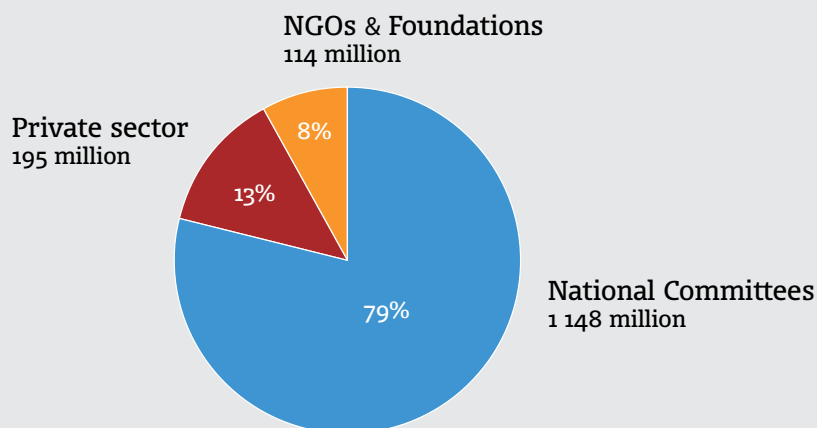
There is a very broad range of experience, with some agencies having great success in attracting non-state income from individual contributions while others rely more on, for example, foundations.

In a limited number of cases, the volume of non-state income represents a significant amount for the agency concerned. UNICEF is a prime example with close to US\$ 1.5 billion, 29 % of total revenue, in non-state income, with the vast majority coming from individual donors, contributing through National Committees. Another case, less well known and discussed in prior reports, is the World Intellectual Property Organization's (WIPO) reliance on income generated from patent fees, which represents over 90% of its resources.

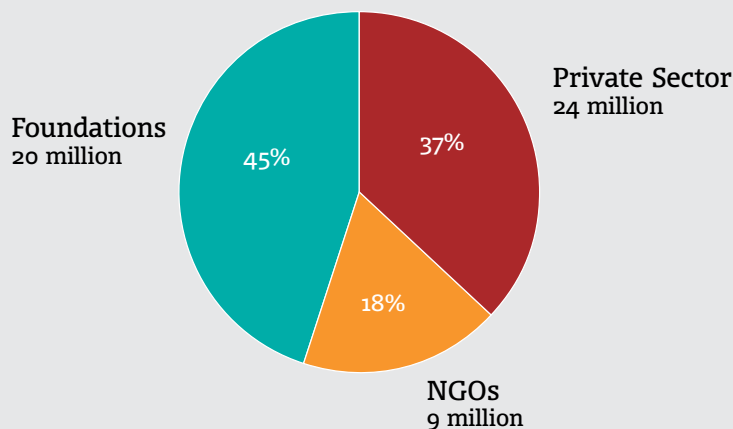
What are the lessons to be learnt? Are the differences to be explained by historical circumstances, the nature of the constituencies engaged, organisational policy, organisational culture – or a combination of the above?

Figure 20: Non-state income of five selected UN agencies, 2015

### UNICEF non-state income, 2015 US\$ 1.48 Billion (29% of total revenue)



### UNDP non-state income, 2015 US\$ 53 Million (1% of total revenue)



Source UNICEF: Compendium of Resource Partner Contributions, 2015<sup>17</sup>

Source UNDP: Status of regular resources funding commitments to the United Nations Development Programme and its associated funds and programmes for 2016 and onwards.<sup>18</sup>

Source UNHCR: Funding UNHCR's Programmes, UNHCR Global Report, 2015

Source WFP: WFP Private Sector Division.

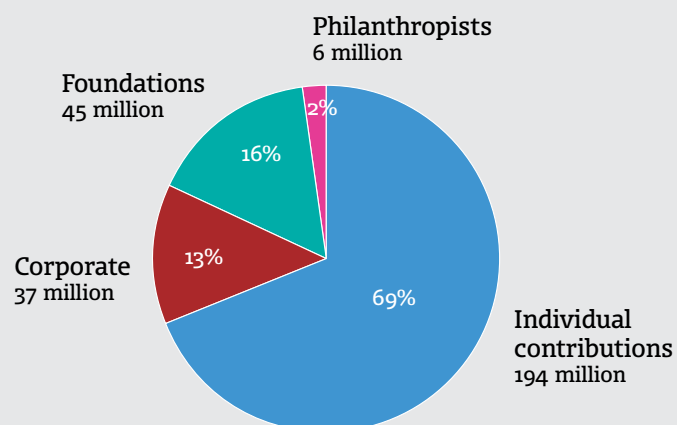
Source WHO: WHO funding portal, 2014–2015

*Note: All numbers are in US\$ million and %.*



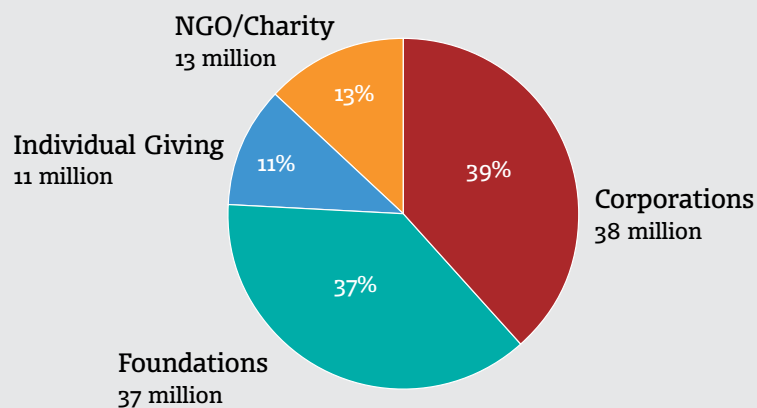
## UNHCR non-state income, 2015

US\$ 284 Million (8% of total revenue)



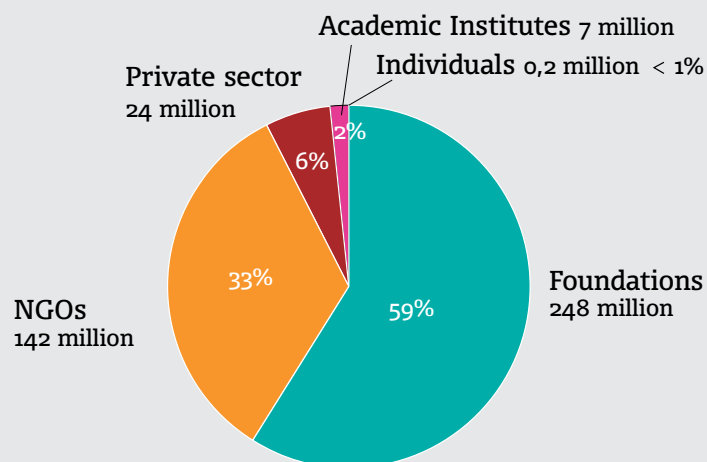
## WFP non-state income, 2015

US\$ 99 Million (2% of total revenue)



## WHO non-state income, 2015

US\$ 421 Million (17% of total revenue)



# Expenditure

Table 6 provides a detailed overview of UN system expenditure by agency in the last decade.

Figure 21 provides an overview of the OAD expenditures broken down by country income category. Average UN expenditure per country is highest for low income countries, and decreases as countries move into low and upper middle income status and on to high income status. However, one element of the expenditure pattern is similar for all countries irrespective of income categories: by far the largest portion of UN expenditures is funded from earmarked resources. The bottom bar of the figure shows the expenditures in crisis-affected countries, a group of countries that spans the four income categories. This category of countries has the highest level of UNDS spending per country, with the expenditures for humanitarian and development related interventions reaching on average US\$ 329 million per country.

Figure 22 provides an overview of the geographical distribution of the UN's operational spending by region. With 37%, the African region is the largest beneficiary of UN operational activities, followed by the Western Asia region with 19% of total expenses and Asia and Pacific region accounting for 15% of the total. The Western Asia region continued the trend already noted in last year's report of receiving an increasing portion of the UN's overall operational expenditures. This contin-

ued growth is directly related to the number and severity of the crises that have affected this region in recent years.

Figure 23 provides the country-level UN expenditures on operational activities of a group of 48 countries that (a) received expenditures financed through dedicated UN peace-related financing instruments (namely Department for Peacekeeping Operations (DPKO) and Department of Political Affairs (DPA) assessed contributions or the Peacebuilding Fund); and/or (b) had humanitarian appeals in both 2014 and 2015. The expenditures have been broken down in humanitarian, development and peace-related (defined as DPKO and DPA) financing streams.

Looking more closely at the twenty crisis-affected countries with the highest level of total country level expenditure included in Figure 23, 41% goes to peace-related interventions, 37% to humanitarian and only 21% to development. The figure underscores the high cost of conflicts and the need for more attention to prevention of conflicts, building resilience and supporting recovery needs. This topic is elaborated on in the third chapter of Part Two on financing prevention and sustaining peace. Box 1 provides a concrete example of mapping the humanitarian, development and peace financing flows behind regional drivers of fragility, in this case the Horn of Africa.





Table 6: Total expenditure by UN agency, 2005-2015

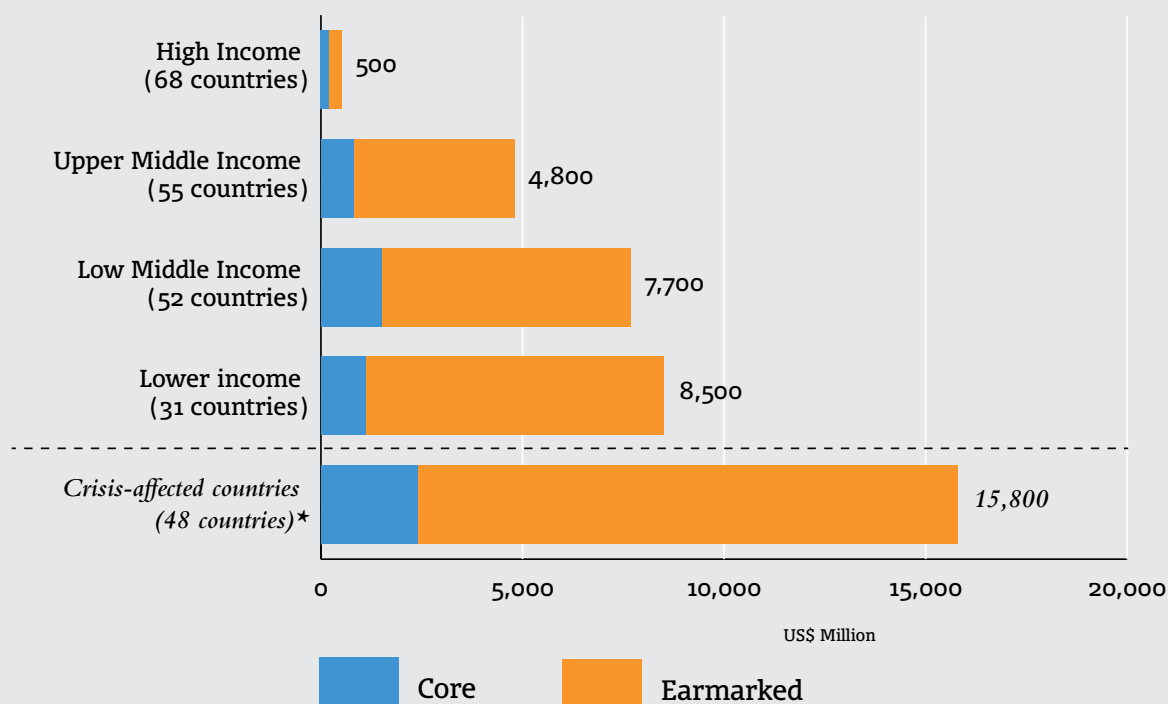
| Organisation             | 2005          | 2010          | 2013          | 2014          | 2015          |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| UN Secretariat           | 2,659         | 3,953         | 4,310         | 5,145         | 5,613         |
| UN Peacekeeping          | *             | 7,616         | 7,273         | 7,863         | 8,759         |
| FAO                      | 771           | 1,415         | 1,380         | 1,246         | 1,219         |
| IAEA                     | 433           | 585           | 606           | 581           | 570           |
| ICAO                     | 185           | 235           | 249           | 222           | 194           |
| IFAD                     | 115           | 784           | 187           | 183           | 168           |
| ILO                      | 454           | 587           | 724           | 611           | 659           |
| IMO                      | 55            | 68            | 77            | 70            | 68            |
| IOM                      | 952           | 1,359         | 1,233         | 1,465         | 1,594         |
| ITC                      | 56            | 71            | 79            | 88            | 102           |
| ITU                      | 140           | 193           | 213           | 188           | 191           |
| PAHO                     | 165           | 927           | 1,070         | 1,646         | 1,379         |
| UN-HABITAT               | *             | 201           | 168           | 196           | 167           |
| UNAIDS                   | 157           | 284           | 295           | 296           | 293           |
| UNDP                     | 4,573         | 5,750         | 5,244         | 5,314         | 5,057         |
| UNEP                     | *             | 449           | 602           | 563           | 559           |
| UNESCO                   | 687           | 797           | 814           | 802           | 762           |
| UNFPA                    | 523           | 824           | 913           | 1,002         | 977           |
| UNHCR                    | 1,141         | 1,878         | 2,704         | 3,361         | 3,278         |
| UNICEF                   | 2,191         | 3,631         | 4,082         | 4,540         | 5,077         |
| UNIDO                    | 209           | 225           | 318           | 233           | 244           |
| UNITAR                   | 12            | 20            | 21            | 24            | 23            |
| UNODC                    | 94            | 211           | 258           | 325           | 278           |
| UNOPS                    | *             | 654           | 704           | 667           | 671           |
| UNRWA                    | 470           | 555           | 711           | 1,298         | 1,333         |
| UNU                      | *             | 60            | 67            | 76            | 74            |
| UN WOMEN                 | *             | *             | 264           | 271           | 314           |
| UNWTO                    | 15            | 22            | 24            | 25            | 27            |
| UPU                      | 26            | 50            | 76            | 63            | 79            |
| WFP                      | 3,104         | 4,315         | 4,768         | 4,997         | 4,893         |
| WHO                      | 1,541         | 2,078         | 2,261         | 2,317         | 2,738         |
| WIPO                     | 198           | 324           | 369           | 337           | 351           |
| WMO                      | 73            | 88            | 84            | 98            | 102           |
| WTO                      | *             | 226           | 297           | 255           | 247           |
| <b>Total Expenditure</b> | <b>20,999</b> | <b>40,436</b> | <b>42,446</b> | <b>46,368</b> | <b>48,076</b> |

Source: CEB data 2006-2015, A/71/583<sup>19</sup>, and A/61/203

Note: All figures are in US\$ million. \* numbers not available



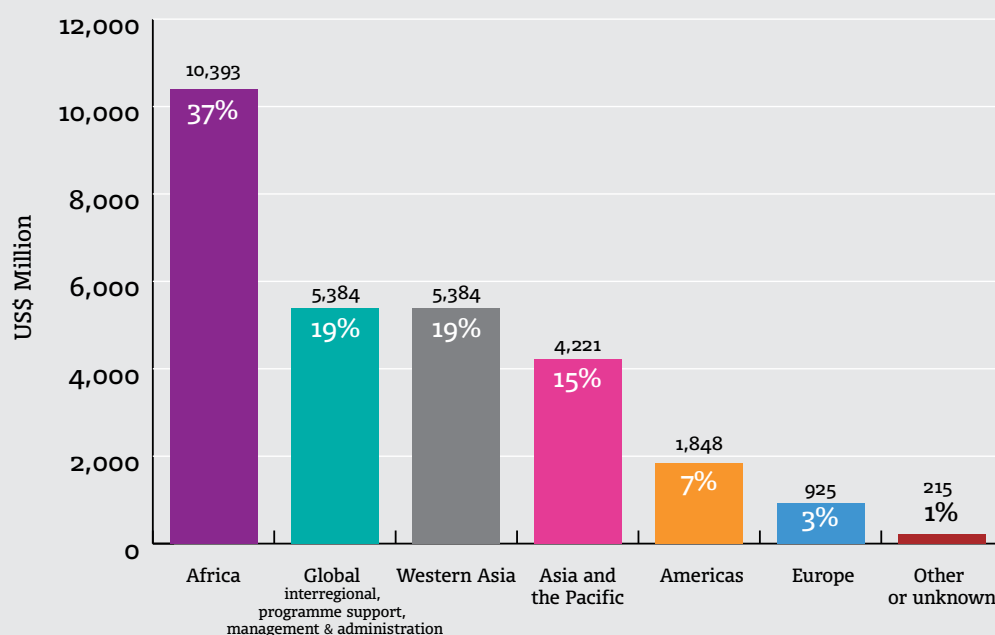
Figure 21: Expenditure on UN operational activities by income status, 2015



Source: A/72/61 – E/2017/4 Report of the UN Secretary-General on the QCPR: Funding analysis.

Note: In US\$ million, \* these 48 countries are drawn from the above country categories

Figure 22: Expenditure on UN operational activities by region, 2015

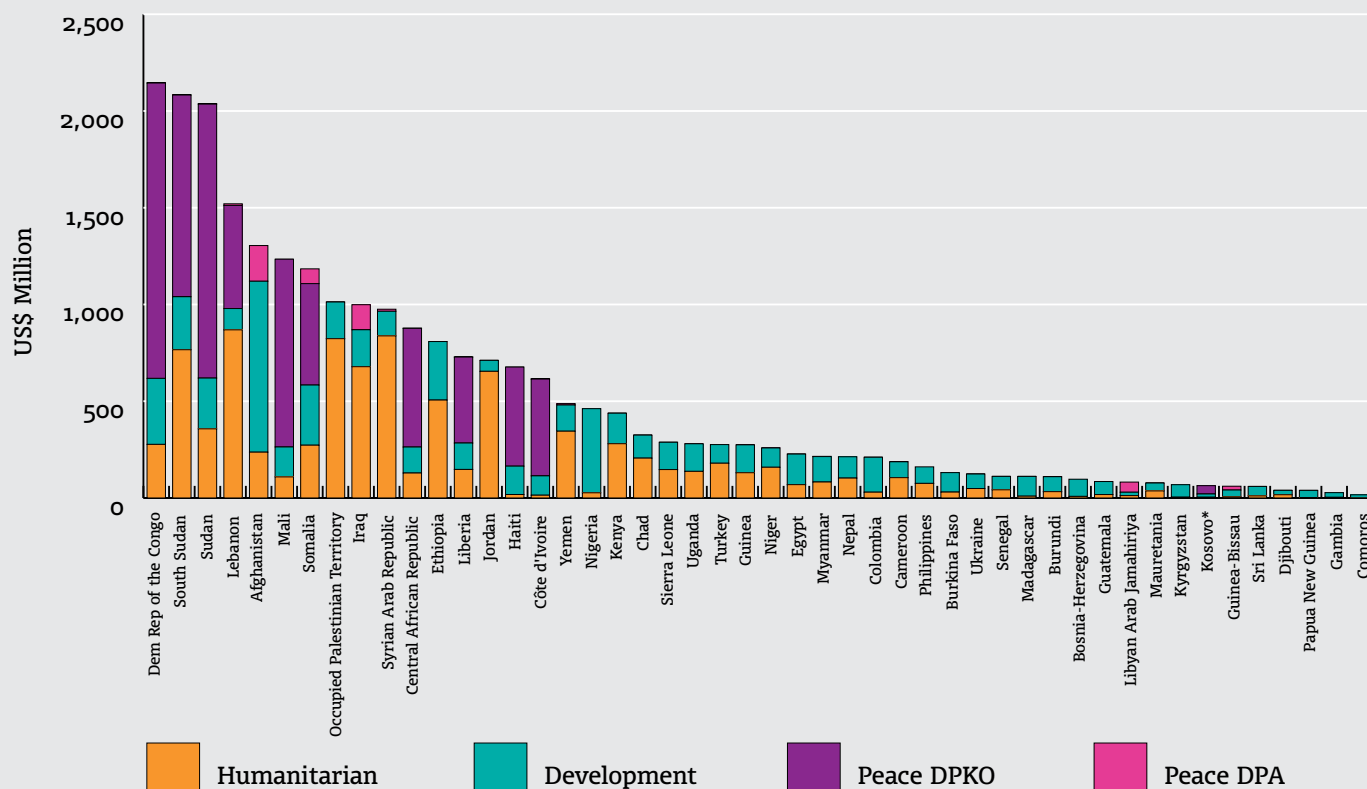


Source: A/72/61 – E/2017/4 Report of the UN Secretary-General on the QCPR: Funding analysis.

Note: Western Asia includes: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Mauritania, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates and Yemen.



Figure 23: Expenditure by country on UN operational and peace-related activities, 2015



Sources:

- SG's Report on the Implementation on the QCPR- statistical annexes:  
[https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/qcpr/statistical\\_annex\\_tables\\_on\\_funding\\_flows\\_2015.xlsx](https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/qcpr/statistical_annex_tables_on_funding_flows_2015.xlsx)
- Financial report and audited financial statements for the 12 - month period from 1 July 2014 to 30 June 2015 and Report of the Board of Auditors Volume II United Nations peacekeeping operations  
[http://www.un.org/en/ga/search/view\\_doc.asp?symbol=A/70/5\(VOL.II\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=A/70/5(VOL.II))
- Report of the Secretary General A/70/348 [http://www.un.org/ga/search/view\\_doc.asp?symbol=A/70/348](http://www.un.org/ga/search/view_doc.asp?symbol=A/70/348)
- UN pooled funds database

Notes: Data does not include country level expenditures from UNDESA, IFAD, IMO, ITC, UNCTAD, UNEP, UNESCO, UNWTO, WIPO, WMO, ECA, ECE, ECLAC, ESCAO, ESCWA

Data for Special Political Missions and special envoys based on estimated expenditure for the biennium 2014-2015

Data on UN Peacekeeping missions' expenditures are from July 2014 to June 2015

Transfers to NGOs through UNOCHA as a Managing Agent under UN pooled funds has been added to the humanitarian expenditure

\*SC resolution 1244

## THE HORN OF AFRICA INITIATIVE – MAPPING THE FINANCING FOR REGIONAL DRIVERS OF FRAGILITY

The Horn of Africa Regional Initiative was launched in October 2014 by the former UN Secretary-General, the World Bank Group President and senior representatives of the African Union, European Union, African Development Bank and Islamic Development Bank. It represents a unique commitment of the six multilateral partners to work together to help the Horn of Africa countries address the drivers of fragility. In early 2017 and with support of the UN MPTFO, the initiative carried out a mapping of the financing flows behind the regional drivers of fragility to see how the partners in the initiative could further improve their joint efforts.

### *Importance of good quality financial data to inform joint efforts*

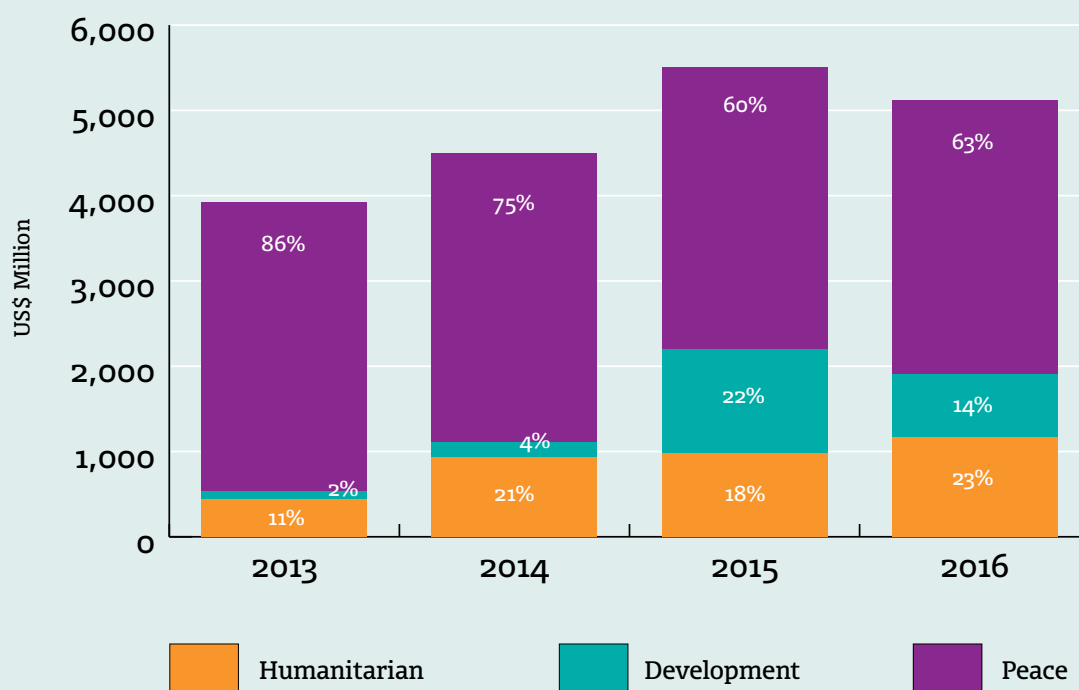
It quickly became clear that a consistent financial overview could not easily be obtained due to differences in data quality and methods for recording

financial flows, and limited data availability on actual disbursements as compared to financial commitments. The mapping thus exemplified the importance of better and more harmonised financial data, both across the UN system and with other multilateral partners, to underpin strategic partnerships and inform decisions on a coordinated set of complementary interventions.

### *Few regional resources allocated for development*

The mapping showed that, of the approximately US\$ 20 billion committed in the 2013–2016 period to regional drivers of fragility, significantly more money was spent on managing and responding to conflicts than on prevention efforts. On average, 12% of the overall regional financial flows captured was for development-related cooperation (excluding country-specific interventions) while the majority was allocated to peace and security, and humanitarian efforts.

**Figure 24: Multilateral regional financial flows for humanitarian, development and peace-related activities in the Horn of Africa, 2013–2016**  
(Annual financial commitments, US\$ million)



Source: Mapping the Financing for Regional Drivers of Fragility in the Horn of Africa, June 2017.

Note: only 8 % of the USD 2.1 billion in commitments to development-related regional interventions was disbursed according to the data submitted by Horn of Africa partners in early 2017.



# PART TWO:

## Pathways to reposition for Agenda 2030

### Chapter One:

Financing the UN development system – status quo, regression or evolution?

### Chapter Two:

The value of leveraging

### Chapter Three:

Financing prevention and sustaining peace

### Chapter Four:

Building norms, providing global public goods and meeting the challenge of migration

### Chapter Five:

Financial transparency and accountability: Low hanging fruit?



## PART TWO

### Chapter One

# Financing the UN development system –status quo, regression or evolution?

## Introduction

In the discussions that took place in the United Nations Economic and Social Council (ECOSOC) dialogues on the reform of the United Nations Development System (UNDS) over the last two years, finance was identified as one of the key dimensions of the system that required serious reform. In the informality of the corridors it was frequently heard that reform of the financing system is a prerequisite for the achievement of broader reform. A core concept in this critique was that funding had to be better aligned with purpose and that in this sense finance follows function.

This analysis found its way into paragraph 20 of the Quadrennial Comprehensive Policy Review (QCPR) resolution of 2016 which requested the heads of UNDS entities, under the leadership of the Secretary-General, develop a system-wide strategic document which would include options for aligning funding modalities with the functions of the UNDS. This is the only reference in the QCPR to the broader challenge of aligning finance with a transformational vision of the UNDS that impacts on its positioning in the development co-operation architecture. The QCPR contains some 18 paragraphs dedicated to the funding of operational activities, but they focus on how to tinker with the system to make it more efficient rather than how to transform it.

The Report of the Secretary-General on Funding (E/2017/4) from this year brings back to the fore front the need for a broader vision of reform. It argues (para 10) that Agenda 2030 requires the UN to shift its approach from funding to an integrated financing strategy.

As argued recently, this requires a strengthened capacity to speak the language of finance, predictable funding of normative mandates, flexible and integrated funding at country level and a range of strategic financing capacities<sup>1</sup>. The overall concept is elaborated in this chapter in a paper from Richard Bailey entitled 'From Funding to Financing'. The Secretary-General's report for its part concludes with a stark warning: 'If the United Nations Development System continues to depend primarily on its ability to combine short-term project-targeted and sector-targeted funding as best it can to support the achievement of the Sustainable Development Goals, then its relevance may be at risk.' (para 96)

The need for a broader reform vision lies at the heart of the rationale for the publication of these annual reports on the financing of the UNDS. We explore different aspects of innovative financing in Chapter Two on leveraging. It is important however to continue to track the more incremental approaches to improving the system as it is currently. In this regard, we have included an update from the World Health Organization (WHO) on their pioneering work on building up a system for integrated budgeting which is designed to overcome the limitations and constraints associated with earmarked funding. The core question that needs to be addressed is whether or not focusing on efforts to make non-core more core like represents a sufficient ambition.

Another dimension to the financing challenge are issues around burden sharing. As the tables included in Part One, Chapter Two demonstrate, burden sharing remains highly concentrated, with three countries representing some 47% of contributions to UN operational activities. To explore further the issue, specifically of emerging



donors, we have included a paper prepared by Sven Grimm and Zhang Chun from the German Development Institute (DIE) entitled 'Rising powers in UN development funding'. To date, the pattern of burden sharing remains generally speaking quite stagnant.

One of the most important developments in recent years impacting on the overall development cooperation architecture is International Development Association (IDA) 18. It will have an important and positive impact on the overall aid architecture and on relations between the World Bank and UNDS in particular. A paper on this by Lisa Finneran from the World Bank highlights the importance of this issue. In workshops held in preparation for this report, IDA 18 is seen by many as a potential game changer for the current development aid architecture.

To conclude this opening chapter of Part Two, papers examine the balance between the need for transformational change with the need to continue pursuing incremental change. The paper produced by Romilly Greenhill and Nilima Gulrajani of the Overseas Development Institute (ODI) makes the case for continuing to develop less earmarked non-core instruments. On the other hand, the second DIE paper by Max-Otto Baumann and Pratyush Sharma calls for more fundamental change and a new contract for financing the UNDS.

The ongoing discussions relating to the follow-up to the QCPR and reform of the UNDS provide a major opportunity for securing political agreement on a new financing deal, but there will be a wide range of views on how to frame such a contract. The need to move beyond the current stale debates and to align financ-

ing much closer to emerging functions is recognised by many. Most important right now is to have a robust informed debate.

#### Footnote

<sup>1</sup>Source: A/72/61 – E/2017/4 Report of the UN Secretary-General on the QCPR: Funding analysis.



# From Funding to Financing – beginning the journey

By Richard Bailey

For decades the United Nations Development System (UNDS) has existed and even thrived by mobilising and spending grant resources through projects. This is the traditional ‘funding’ approach and it has served the UNDS well; however, there are two significant shifts that suggest the UNDS needs to go beyond this funding model to a financing approach.

## Why the need to change?

Firstly, the ambition of Agenda 2030 demands significantly increased resources. The United Nations Conference on Trade and Development (UNCTAD) estimates an additional US\$ 2.5 trillion will be required on an annual basis. Official Development Assistance (ODA), which is currently around US\$ 132 billion per year does not get close to meeting this need, and will not, even if all contributing countries reached their 0.7% target. Hence the World Bank and the International Finance Institutions’ (IFI) narrative of ‘moving from billions to trillions’.

Secondly, in terms of financing flows to developing countries, ODA is, except for a small subset of countries, becoming less significant, at least in volume terms. As illustrated in Figure 25<sup>1</sup>, in the 1970s, in terms of financial flows into developing countries, there was ODA and not much else. This has significantly changed with equity flows, foreign direct investment and remittances being much larger. The UNDS needs to adjust to this new reality in order to remain relevant to the member states it serves.

## What is ‘funding to financing’ (F2F)

Funding, our old model, was based on transferring resources from a financial contributor to a recipient. Financing is about bringing together different financial flows to achieve a common result. The shift from F2F entails a major change in focus for the UN from primarily mobilising grant resources for delivering UN projects, to catalysing, leveraging, blending and structuring different sources of domestic and international, public and private financing to achieve collective, transformative and sustainable development results.

Richard Bailey is a Policy Specialist at the UN Development Operations Coordination Office (UN DOCO). UN DOCO is the secretariat of the UN Development Group, providing technical and advisory support to its members. It brings together the UN development system to promote change and innovation to deliver together on sustainable development.

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

## How is the UNDS trying to make this shift?

In the vast majority of countries, where the UN development system operates, it does so under the United Nations Development Assistance Framework (UNDAF). The UNDAF is an agreement signed between the UN and the host government and articulates the UN’s intended contribution to development, aligned to the national planning cycle and usually over a 5 year period. Building on the opportunity created by the landmark 2015 agreements, the Sendai Framework for Disaster Risk Reduction, the Addis Ababa Action Agenda, the Sustainable Development Goals (SDGs) and the Paris Agreement on Climate Change, the UNDAF Guidelines have been updated. Part of this update includes incorporating the F2F approach. This approach has a number of new areas for the UNDS, which when combined will make a significant change as to how UN Country Teams (UNCTs) operate.

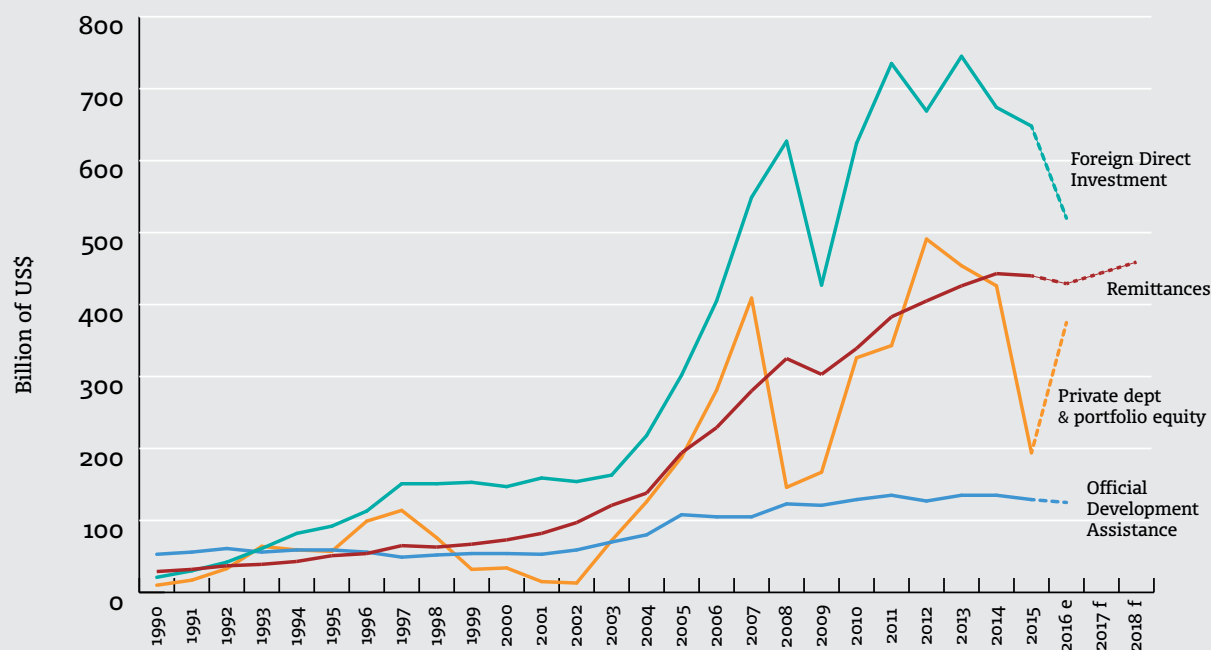
## Financial Literacy, understanding the full financing landscape

The first step is for UNCTs to gain a better understanding of the full financing flows in a country. Previously, when planning on UNDAF the UNCT would tend to look at which donors are present in a country (and potentially foundations and the private sector) and their programmatic priorities, as a way to develop a joint resource mobilisation strategy. The F2F approach is more innovative and requests that all UNCTs analyse and understand all domestic, international, public and private resource flows. The UNDAF should thus be developed with the knowledge of where the UNCT fits and can contribute, within the overall financing landscape.





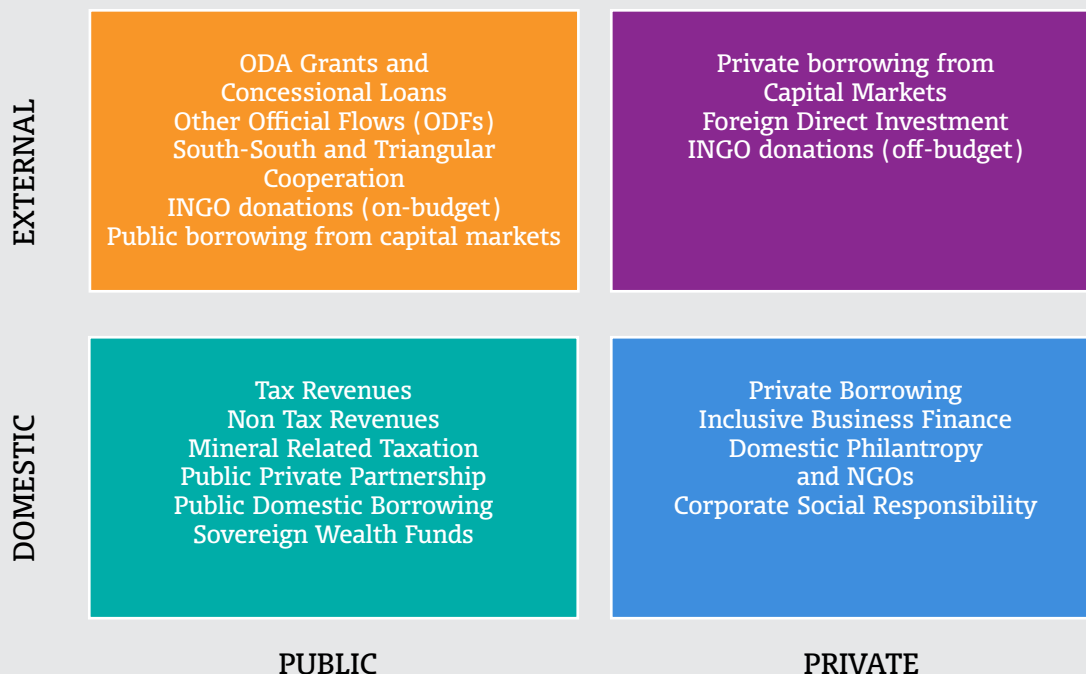
Figure 25: Remittances and other resource flows to developing countries, 1990-2018\*  
 \*2016 estimate, 2017 and 2018 forecast



Source: Ratha et al.\* (2017). Migration and Development Brief 27, KNOMAD/World Bank

\* Dilip Ratha, Supriyo De, Eung Ju Kim, Sonia Plaza, Kirsten Schuettler, Ganesh Seshan, Hanspeter Wyss, and Nadege Desiree Yameogo. (2017). Migration and Development Brief 27, April 2017, KNOMAD/World Bank, Washington, DC.

Figure 26: Types of financing flows the UNCT will analyse as a preparation for the UNDAF



The UN, through a UNDP tool called the Development Finance Assessment (DFA), has already built expertise in this area. The DFA was originally developed in the Asia/Pacific region, and has been conducted, or is underway in 12 countries: Papua New Guinea, Vietnam, Philippines, Lao PDR, Bangladesh, Myanmar, Fiji, Cambodia, Nepal, Mongolia, Mozambique, and the Gambia. It was designed in response to the call to establish Integrated National Financing Frameworks (INFFs) at the 3rd International Conference on Financing for Development in Addis Ababa in July 2015 and is now being used to help the UN to better position its programming in the Agenda 2030 context.

Early results from DFA implementation include the Philippines, where the DFA informed the country's long-term vision, in Bangladesh, where the DFA is being used to develop a financing strategy for the government's 7th Five Year Plan and in Mozambique, where the DFA is being used to strengthen government coordination.

Once financing flows have been well assessed, the challenge for the UN is to effectively and intelligently operate in this new space. It becomes clear that implementing successful but scattered projects will not be enough to achieve the transformative change called for in Agenda 2030. In order to remain relevant the UN needs to effectively allocate limited resources and partners for leverage.

## Allocating Resources

In terms of resource allocation, the challenge for the UNDS is to be highly catalytic with limited resources. If the UN is entrusted with US\$ 48 billion per year (of which the portion for Operational Activities is around US\$ 26 billion), but the need for the SDGs is US\$ 2.5 trillion<sup>2</sup>, then, with its approximately 2% of the resource envelope, the UN must invest carefully where it can have significant leverage. For the UN, often the most significant leverage can be through positively influencing

the policy environment. By supporting governments to create the right incentives, significantly greater resources can flow to SDG priority areas.

## Partnering for leverage

In addition to using its leverage to get incentives right, the UN can use its resources to change the risk/ reward equation for potential investors and therefore facilitate investment in hard-to-reach areas. There are several ways in which the UN is already doing this, for example, as a connector to broker partnerships, as a policy advisor to the government on the role of social impact investment and making the regulatory environment conducive, and as a quality assurer to investors, bringing tools and knowledge on social and environment safeguards and local context. The UN can support the development of pipeline initiatives that offer environmental and social benefits in poor regions to become investment ready, and it can ensure quality design of entrepreneurial initiatives through introduction of innovations and scaling strategies. It can also use limited grant funds as a seed investment that encourages the private sector to invest in a bigger scale.

One example of where the UN has successfully leveraged additional resources for development is the Malawi Challenge Fund (MICF). This Fund is a provider of 'Risk' capital in the form of a 'Performance Grant' and an anchor for debt finance and private equity. So far the MICF has mobilised private sector contributions totalling US\$ 10.1 million (US\$ 3.7 million for agriculture projects and US\$ 6.4 million for manufacturing projects) against an investment of the MICF amounting to US\$ 5.7 million. In addition, 50% of companies leveraged new external finance in the form of debt finance, private equity and vendor financing. The MICF aims to deliver large social impact and help Malawi to diversify from its narrow band of exports through matching grants for innovative business projects to help absorb some of the commercial risks in triggering

## Ocean Financing

Ocean Financing is an example of successful leverage through altering the policy framework. The UN has advanced ocean governance reform at local, provincial, national, regional and/or global scales in areas that include the Danube River; the Yellow Sea; the Rio de la Plata/Maritime Front and West/Central Pacific Fisheries. Evaluations of these projects found that the recommended planning instruments leveraged the Global Environment Facility (GEF) public grant finance several hundred-fold. In specific cases, these initiatives catalysed sufficient financial flows to

restore large marine ecosystems severely degraded by pollution, move some of the world's largest fisheries towards sustainability and reduce global risks from the transfer of invasive aquatic species. The ratios of catalysed finance to initial GEF grant support in these interventions ranged from 57 to 1 to 2,500 to 1, averaging 458 to 1. The UN needs to do more of this catalytic work. It also needs to get better at systematically measuring leverage and sharing both success and failure.



innovation, speeding up implementation of new business models and/or technologies that have high social impacts. The Fund also serves the purpose of triggering behavioural change amongst private sector operators by de-risking transactions at the bottom of the pyramid. The MICF is already estimated to have created 1,190 new jobs and increased the incomes of 334,000 households.

The UN is also pioneering innovations in spending. An example of this is the Social Impact Bond on Youth Unemployment in Serbia. Currently 43.2% of Serbians between the age of 15–30 are unemployed. Having 4 out of 10 young people neither in employment, education nor training (NEET youth) is estimated to cost the government over EUR 1.6 billion a year. To tackle the challenges and negative impacts of long-term youth unemployment and change the way governments pay for services, the UN, the Finnish Innovation Fund SITRA and the Government of Serbia are designing a Youth Employment Bond.

In a Social Impact Bond the government contracts a private sector firm (or NGO) for its services, who then attract money from private investors to cover the related

costs. The government only pays and rewards the private investors if agreed-upon outcomes are achieved. Thus taxpayer's monies will therefore only be invested if the programmes have measurable impacts that create savings and/or improve social welfare. The UN and SITRA are currently preparing the financial and legal framework for the Youth Employment Bond in Serbia. Implementation is expected to start by the end of the calendar year.

## Conclusion and Recommendations

In summary, it is an exciting time for the UN. However, in order to deliver on Agenda 2030 the UN will need to implement the proposed Funding to Financing shift. To make this happen two key things will be necessary:

1. Strong support to UNCTs making the funding to financing shift, followed by a thorough assessment of what works and what could be taken to scale.
2. Establishing sufficient centralised capacity to scale success. New capacities and partnerships will be required to make the Funding to Financing shift and this capacity cannot be multiplied 32 times across each different United Nations Development Group (UNDG) entity.

## Footnotes

<sup>1</sup>World Bank and Organisation for Economic Co-operation and Development (OECD) estimates.

<sup>2</sup>UNCTAD World Development Report, 2014.



# Reforming the World Health Organization's financing model

By Dr Gaudenz Silberschmidt  
and Dr Guitelle Baghdadi-Sabeti

The former Secretary-General of the United Nations, Ban Ki-Moon, referred to the World Health Organization's (WHO) financing reform as a model for other agencies<sup>1</sup>. What are the key features of this model compared to other United Nations (UN) agencies that makes it a good example to follow? What have been the key achievements? What are its limitations or challenges, and what can we learn from it? While the reform process initiated in 2011, following the financial crisis, continues to be implemented some of these questions can be addressed and help promote a culture of learning and ensure lasting change for the organisation.

*'WHO began an extensive reform with the aim to improve the alignment, flexibility, predictability and transparency of its financing. An important part of this reform was a financing dialogue... The WHO structured dialogue process is one that other United Nations entities could adopt, that is, by adjusting their current practices in order to improve the level and predictability of core funding. Learning from the structured dialogues of WHO, for the 2014-2016 period, the Executive Boards of UNDP, UNICEF and UN-Women adopted decisions to hold annual structured funding dialogues. Such dialogues could also provide an opportunity to make a stronger case for funding for those areas of work that are essential to the mandates of the entities but for which adequate levels of funding are difficult to achieve.'*

- Ban Ki-Moon, UN Secretary-General (2007-2016)

## WHO's financing model

While the organisation-wide reform WHO embarked on in 2011 encompassed programmatic, governance and management components, the reform was triggered by the 2008 financial crisis and exchange rate losses. The organisation's financial situation was hampering its ability to deliver the expected outputs and to respond

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Guitelle Baghdadi-Sabeti is Technical Officer at the World Health Organization.

WHO's primary role is to direct international health within the United Nations' system and to lead partners in global health responses.

*The authors are staff members of the World Health Organization. The authors alone are responsible for the views expressed in this article and they do not necessarily represent the decisions, policy or views of the World Health Organization.*

rapidly to emerging health issues. It eventually led to the loss of 1,000 positions. Even though the reform has been comprehensive, the financial reform and the development of a new financing model have been at the centre of the process.

The features of WHO's new financing model have already been described in the two previous reports on Financing the UN development system, but there are three essential features that garner further attention. First, WHO is currently one of the few UN organisations approving the entirety of its Programme Budget, integrating the Assessed Contributions (AC) as well as the Voluntary Contributions (VC) into one single budget. Since the Programme Budget 2014 – 2015 was approved in May 2013, there is no distinction between core and non-core, nor appropriation of the AC. There are no longer any projects financed and implemented outside of the approved programme budget. Thus, any activity needs to fall within the approved programme budget, with the exception of outbreak and crisis responses which cannot be planned in advance as they are event driven.

A second important new measure is the strategic use of pooled flexible resources, comprising AC, flexible voluntary contributions and Programme Support Cost (PSC). In line with the reforms endorsed by Member States and starting with the Programme Budget 2014 – 2015, the



Director-General adopted a strategic approach to the allocation of flexible resources in several tranches during the biennium, based on systematic analyses of financing shortfalls, which ensured that all programmes were financed to sustain operations.

Lastly, the World Health Assembly (WHA) launched the Financing Dialogue process in 2013 aimed at ensuring a fully funded programme budget. The Financing Dialogue not only focuses on the volume of the funding, but also on its quality by promoting a set of principles. These principles include (i) increasing the predictability of the funding at the start of each biennium; (ii) improving the alignment of contributions to the programme budget; (iii) increasing the flexibility of financial resources to fill the funding gaps faced by some programme areas; (iv) improving the transparency of financial revenues and flows; and (v) broadening the base of its contributors in order to reduce its vulnerability by being reliant on a limited number of contributors for the large proportion of its resources. The promotion of these principles has had significant impact on the funding of the programme budget, leading also to improved planning and implementation. Progress on each of the financing dialogue principles is detailed below.

### What has been achieved?

With the introduction of the financial reform and a realistic level of budgeting, the overall income trends are now proportional to the budget levels. More specifically, the main results of the financial reform include an increased level of financial predictability at the start of the biennium, an overall solid level of funding across the organisation and an improved transparency on funding and results.

The level of predictability in the financing of the programme budget in advance of implementation has improved since the introduction of the financing reform. At the start of the biennium 2012–2013, 62% of the financing of the budget segment for base programmes was assured. This figure increased to 77% for the biennium 2014–2015 and 83% for the biennium 2016–2017 putting WHO on a stronger financial footing over the years. Nevertheless predictability in the current biennium remains insufficient.

WHO's programme budget web portal launched in 2013 provides easy access to financial data, as well as access to key strategic documents and accountability information. It has been regularly upgraded based on users' feedback and some of the new features include access to a programme budget performance assessment by programme area, and information on funds available and expenditure. It also provides detailed costed operational plans for the 30 programme areas and over 80 outputs, for Headquarters, the 6 regional offices and the 150 country offices,

with a staff/activity split including details on the types of activities. Moreover, the web portal has been enhanced to ensure that WHO is in compliance with the International Aid Transparency Initiative standard.

### Remaining challenges and the way forward in addressing them

While significant progress has been achieved with income doubling from 2000 to 2015, numerous challenges still need to be addressed. For instance, WHO still relies heavily on voluntary contributions compared to assessed contributions (AC). Since 2010, only about 20% of the programme budget is funded by AC, compared to close to 50% in 1990. Moreover, the level of fully flexible voluntary contributions has been declining significantly since 2012 – 2013. In 2016, the total flexible voluntary contributions received amounted to US\$ 81 million which represents close to a 40% reduction to the contribution levels in 2012 to 2014.

This is an important concern as the total level of flexible funds (AC, flexible voluntary contributions and PSC) have not kept pace with the increase in voluntary earmarked contributions. This has caused an over-reliance on voluntary earmarked contributions which has skewed the financing compared to the prioritisation of the programme budget. This trend is continuing into 2016–2017 and the balance between the two is predicted to be the same as 2014–2015 (see figure below). To address this worrying trend WHO is working on several fronts including a 3% AC increase request which was approved by the 2017 WHA as well as exploring the introduction of various levels of flexible funding aligned with our results structure (eg by category or programme area). While these efforts will not be sufficient to solve the issue of reduced flexible funds, reversing these trends will be important for securing the future of the organisation.

Since the introduction of the reform, alignment of funding has slightly improved mainly due to the strategic use of pooled flexible resources described above. Unfortunately, this has not been sufficient to fill all funding gaps and some priority areas such as noncommunicable diseases and the health emergencies programme face significant funding shortfalls. Mid-way through the current 2016 – 2017 biennium, the noncommunicable disease category is 64% funded, and the health emergencies programme 60%, which puts the organisation in a difficult position to fulfil its commitments in the programme budget. The lack of coherence within member states also contributes to some priority areas remaining underfunded. Indeed, the Ministries of Health are usually the agencies deciding on the health programmatic areas and setting WHO's agenda of work in the governing body meetings, while other ministries, typically foreign affairs or development, make the Official Development Assis-



tance (ODA) funding decisions. The latter are not always in line with the former, leading to significant disparities. A deeper dialogue with donors on their priorities and needs, as well as bringing the various players within one member state around the table brings light on these issues and helps rationalise the decisions.

The broadening of the contributors' base has been slow and WHO continues to rely heavily on a limited number of contributors for the majority of its funding. In the last bienniums, only five contributors provided almost half of the total VC and a total of 20 contributors account for close to 80% of the total VC. It is hoped that the new Framework of Engagement with non-State Actors, adopted in May 2016, will help attract new contributors, as it provides clarity on a set of policies and operational procedures on engagement with non-governmental organisations, private sector entities, philanthropic foundations and academic institutions.

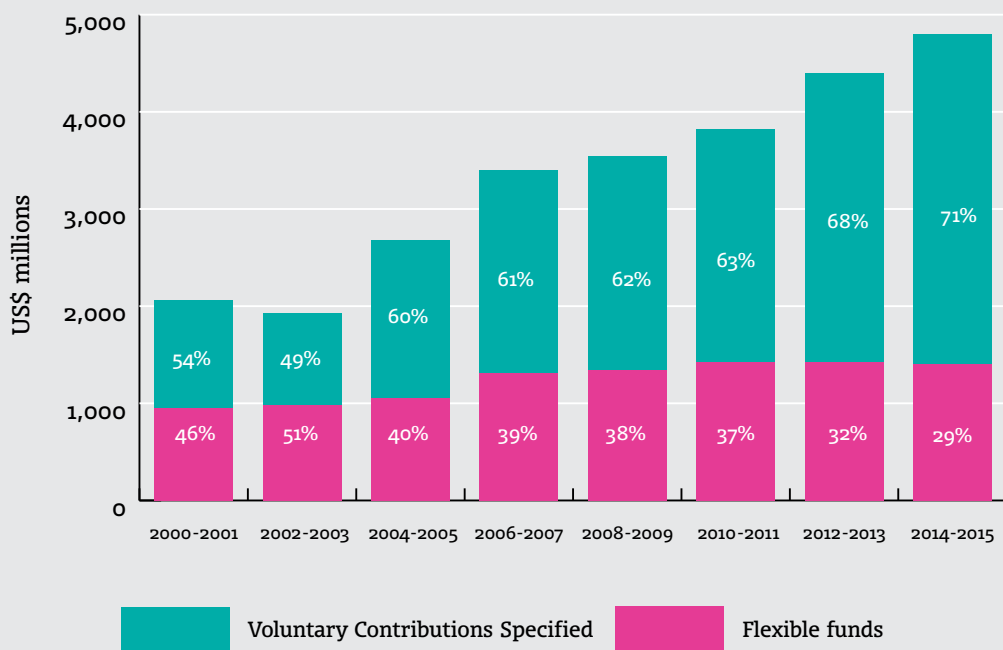
## Conclusion

All these efforts need to be embedded in a comprehensive and organisation-wide resource mobilisation

approach which is continuously improved to respond to evolving challenges. The immediate resource mobilisation priorities will focus on exploiting the growing funding potential at the country level by developing and implementing targeted local resource mobilisation in countries; taking the Financing Dialogue (FD) to the next level by enhancing the process of engagement with contributors in the lead-up towards the FD meeting, and articulating an investment case which demonstrates returns within the SDGs context and positioning WHO in the complex global health architecture.

Finally, this reform is a joint journey between WHO, its Member States and its contributors. It can neither endure nor advance without trust. Trust is built and maintained by many small actions over time and some of the initial efforts planned include the development and implementation of a value-for-money plan, meaning that efforts and resources are optimally deployed and that results achieved in terms of health impact and contributions to the SDGs are better articulated and reported.

Figure 27: Level of flexible funds and Voluntary Contributions Specified, 2000-2015



## Footnotes

<sup>1</sup>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, (New York: United Nations; 2015), A/71/63-E/2016/8.

<sup>2</sup>WHO, 'WHO mid-term programmatic and financial report for 2016-2017, including audited financial statements for 2016', (financial report, World Health Organization, 2017)





# Rising powers in UN development funding

## – Growing responsibilities, growing engagement?

By Sven Grimm and Zhang Chun

Over the past year we have witnessed multilateralism lose ground in the Western political landscape, particularly in the United States. US President Donald J. Trump's nationalistic rhetoric indicates a narrow understanding of US priorities at the expense of an international agenda. The announced budget cuts to US foreign policy more broadly, and intended drastic reductions to contributions to the United Nations (UN) more specifically<sup>1</sup>, sent a clear message: the US intends to turn priorities away from the UN; managing global governance is no longer a political priority. On top of this, the UK's decision to leave the European Union might soon limit Britain's ability to pay.

The setting of 2017 presents us with a changed world. The BRICS<sup>2</sup> in particular face increasing pressure to shoulder more international responsibility and to contribute to the global common good. In marked contrast to the US, in January 2017, Chinese president Xi Jinping – at the UN office in Geneva – stated that *'China will firmly uphold the international system with the UN as its core, the basic norms governing international relations embodied in the purposes and principles of the UN Charter, the authority and stature of the UN, and its core role in international affairs.'*<sup>3</sup> Ironically, countries that have previously been regarded as a threat to the Western-dominated global order might become anchors of stability in a more chaotic world. This, indeed, reflects changes in the global power structure.

### Contributions to the UN:

#### China as the champion amongst the BRICS

UN regular contributions are linked to a formula that includes economic performance. Consequently, BRICS' overall contribution to UN regular (assessed) budget contribution has more than doubled over the last two decades and has reached close to 16% in 2017. This combined number is still less than the 22% of the US funding to the UN budget (which is capped at that percentage point by the UN). Yet, BRICS' funding is clearly becoming more relevant for the regular budget – and to selected policy areas.

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China is the heavyweight with regard to global power resources among the BRICS. These resources include both the will to engage in a broad range of issues and regions, and the capacity to deliver on engagement. Areas of engagement include peace and security, environmental aspects such as global climate change but also more 'traditional' development finance.

Alongside its economic rise, Beijing's share in the regular UN budget has increased more than tenfold between 1997 and 2017 (to almost 8%) and has surpassed contributors like the UK (4.46% in 2017) or Germany (6.39% in 2017). This is by far the largest increase of any BRICS country. India has steadily more than doubled its share to the UN core budget (to 0.74% in 2017), but this puts them in a very different league of financial contributors. Other BRICS are less steady in their economic and political rise – and consequently also in their regular UN contributions (Table 7).

**Table 7: Main adjustments of contributions by P5 and emerging powers to the UN regular budget in %, 2007-2016**

|              | 2007 | 2010 | 2013 | 2016 |
|--------------|------|------|------|------|
| USA          | 22   | 22   | 22   | 22   |
| UK           | 6.6  | 6.6  | 5.2  | 4.5  |
| France       | 6.3  | 6.1  | 5.6  | 4.9  |
| Russia       | 1.2  | 1.6  | 2.4  | 3.1  |
| China        | 2.7  | 3.2  | 5.1  | 7.9  |
| India        | 0.5  | 0.5  | 0.7  | 0.7  |
| Brazil       | 0.9  | 1.6  | 2.9  | 3.8  |
| South Africa | 0.29 | 0.39 | 0.37 | 0.36 |

Source: The authors compiled. UN Committee on Contributions, 'Regular Budget and Working Capital Fund,' <http://www.un.org/en/ga/contributions/budget.shtml>, accessed on 5 April 2017.

An increase in multilateral funding is a trend for almost all BRICS countries: between 2009 and 2013 Brazil, China, India and South Africa increased their multilateral funding quite substantially, as the OECD noted in 2015.<sup>4</sup>

### Contributions to the UN development activities (in a broad sense)

The development agenda can be supported by good practice in domestic policy and political support to UN agendas in a number of political forums, including the G20. Ultimately, however, finance is crucial. Nevertheless regular budget contributions do not yet mean engagement in international development via the UN system, as they are assessed by formula and do not necessarily fund development. Key activities of BRICS countries are peace and security (see box) and the provision of finance.

### Limited engagement in UN development programmes and global funds

Despite similar rhetoric on the legitimacy of the UN, there is no common BRICS denominator in funding for specialised programmes and global funds. Overall, the rising powers are very underrepresented amongst the voluntary contributions to the UN system, and particularly with regard to the core funding they provide. India was the largest voluntary core funder of the UN Development Programme (UNDP) amongst the BRICS in 2015, providing US\$ 8.8 million (rank 15) and thus double as much as China (US\$ 4.8 million, rank 20).

### The BRICS in UN peace and security efforts

For China, peace and security funding takes the largest share of its UN funding (Table 8).

To summarise in one sentence, the traditional call for UN engagement has become more of an engagement through the UN. Yet, the approaches on peace and security differ between UN Security Council (UNSC) members and those rising powers that are not amongst the 5 permanent members of UNSC (P5). The picture in 2017 showed the following:

China provides more than 10% of the UN peace-keeping funding and about 2,567 uniformed personnel (by January 2017). This is the largest number of peacekeepers amongst the P5 in the UN Security Council and clearly is a political reflection of increasing responsibilities for Beijing. Russia, another P5 amongst the BRICS, is stronger in finance (around 4%) than staff numbers (99). Meanwhile, India, a non-P5 with explicit ambitions for a permanent seat in the UN Security Council, supplies most military staff to peacekeeping missions (7,606 staff), thus outnumbering China, but has a negligible share in the financing (0.15%). South Africa and Brazil also have rather larger numbers of military staff (1,428 and 1,291 respectively), often in their respective region, but contribute very limited funding (0.07% and 0.76%).





However, China had a much larger share of non-core funding. Beijing's earmarked contributions were 2.5 times higher than core contributions. For Brazil, the proportion between core and earmarked funding was much steeper, with a ratio of 1:12 between core and non-core funding; in core funding to UNDP, Brazil only ranked below Burundi and Burkina Faso in 2015. Brazil uses UNDP as an implementer of parts of its South-South cooperation and for development efforts within Brazil, which explains the strong reliance on earmarked funding.

In some programmes and global funds, BRICS countries cite political concerns as the reason for their non-engagement and then contribute through different channels. China specifically uses a strategy of 'shadowing' institutions, ie it contributes to the goals, but rather uses bilateral channels and institutions. For example, instead of contributing to the Global Climate Fund (GCF), China has set up its own (bilateral) fund with US\$ 3.1 billion for South-South Cooperation on Climate Change<sup>5</sup>. The amount exceeds the US contributions to the GCF, which certainly is a political statement.

#### 'Shadowing' finance institutions and country-to-region bilateralism

The shadowing is even more pronounced with regard to development finance institutions. This has been driven by the fact that in the 'legacy' multilateral development banks, such as in the World Bank Group (WBG) and the International Monetary Fund (IMF), China has

expressed discontent with their level of representation. This has in turn led to a search for alternative channels and approaches.

The first approach has been to join and contribute to established regional development banks where there previously was limited Chinese engagement. Smaller amounts of core contributions were coupled with more substantial engagement in specialised funds, also in creating dedicated funds. This has been the case for Chinese engagement in the African Development Bank (AfDB) as well as the Inter-American Development Bank (IDB).<sup>6</sup>

Another approach has been to create new institutions such as the New Development Bank (NDB; the 'BRICS Bank') or the Asian Infrastructure Investment Bank (AIIB) or the Silk Road Fund. While NDB is about the perceived shortcomings in the multilateral system, AIIB and the Silk Road Fund are directly related to China's *One Belt, One Road Initiative*<sup>7</sup> that opened additional funding lines. The final instalments of these two organs – a combination of funding – are around US\$ 100 billion and are usually governed by Chinese rules and institutions. These initiatives refer to the Agenda 2030 and thus foster the goals of the international community at large, at times with substantial additional money. They do, however, constitute separate financial channels beyond existing multilateral settings.

**Table 8: Effective rates of assessment for peacekeeping operations by P5 and emerging power in %, 2007-2018**

|              | 2007 | 2008-2009 | 2010 | 2011-2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------|------|-----------|------|-----------|------|------|------|------|------|------|
| USA          | 26.1 | 26.0      | 27.2 | 27.1      | 28.4 | 28.4 | 28.3 | 28.6 | 28.5 | 28.4 |
| UK           | 7.9  | 7.9       | 8.2  | 8.1       | 6.7  | 6.7  | 6.7  | 5.8  | 5.8  | 5.8  |
| France       | 7.5  | 7.4       | 7.6  | 7.5       | 7.2  | 7.2  | 7.2  | 6.3  | 6.3  | 6.3  |
| Russia       | 1.4  | 1.4       | 2.0  | 2.0       | 3.1  | 3.1  | 3.1  | 4.0  | 4.0  | 4.0  |
| China        | 3.2  | 3.1       | 4.0  | 4.0       | 6.6  | 6.6  | 6.6  | 10.3 | 10.2 | 10.2 |
| India        | 0.1  | 0.1       | 0.1  | 0.1       | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  |
| Brazil       | 0.2  | 0.2       | 0.3  | 0.3       | 0.6  | 0.6  | 0.6  | 0.8  | 0.8  | 0.8  |
| South Africa | 0.06 | 0.06      | 0.08 | 0.08      | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 |

Source: The authors compiled. UNPKO, 'Financing Peacekeeping,' <http://www.un.org/en/peacekeeping/operations/financing.shtml>, accessed on 5 April 2017

As for China's other international development support, large chunks of Chinese development funding is managed beyond the UN. Interestingly, the settings are often not traditionally country-to-country bilateral, but rather bilateral as country-to-region. In the Forum on China Africa Cooperation (FOCAC, since 2000) or other regional settings, such as the China-Arab or China-Latin America forums, the country engages in regular meetings with regional groupings<sup>8</sup>. Development funding in this context is often also provided via the Chinese Ministry of Foreign Affairs and with the involvement of large policy banks, such as China EXIM or China Development Bank. During the last FOCAC, US\$ 60 billion was promised in funding with most of it directed towards investment with a lower share marked as development assistance (US\$ 5 billion), compared to

previous FOCAC. Other rising powers, including India, but also Turkey and Korea, have emulated this form of cooperation, albeit with substantially smaller financial commitments.

## Conclusion

China and other BRICS are working with the UN and are becoming more and more relevant to the organisation. However, China and other BRICS still attach more importance to bilateralism rather than multilateralism. On one hand, funding is simply given to the amount and the institution as before. On the other hand, rising powers specifically seek room to manoeuvre beyond the UN, which is justified by their self-perception as emerging, but not established, powers.

## Footnotes

<sup>1</sup>Amy B. Wang, 'Why Trump's plan to slash UN funding could lead to global calamity,' Washington Post, 18 March 2017, [https://www.washingtonpost.com/news/worldviews/wp/2017/03/18/why-trumps-plan-to-slash-u-n-funding-could-lead-to-global-calamity/?utm\\_term=.e945249ecd4a](https://www.washingtonpost.com/news/worldviews/wp/2017/03/18/why-trumps-plan-to-slash-u-n-funding-could-lead-to-global-calamity/?utm_term=.e945249ecd4a)

<sup>2</sup>BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.

<sup>3</sup>H.E. Xi Jinping, 'Work Together to Build a Community of Shared Future for Mankind' (speech, Geneva, 18 January 2017), Chinese Embassy, <http://pg.china-embassy.org/eng/xwtd/t1434130.html>.

<sup>4</sup>OECD, Multilateral Aid 2015: Better Partnerships for a Post-2015 world (Paris: OECD Publishing, 2015) [https://www.oecd.org/dac/financing-sustainable-development/multilateral\\_aid\\_2015\\_in\\_figures.pdf](https://www.oecd.org/dac/financing-sustainable-development/multilateral_aid_2015_in_figures.pdf)

<sup>5</sup>Weigel, Moritz, China's Climate Change South-South Cooperation: Track Record and Future Direction (Beijing, China: United Nations Development Programme in China, 2016).

<sup>6</sup>For Chinese engagement in regional banks, see: the AfDB website 'China: Partnership Overview,' and the IDB website, 'Asian Trust Funds', <http://www.iadb.org/en/asia/asian-trust-funds,1381.html>

<sup>7</sup>'One Belt, One Road' is the official term used for Chinese President Xi Jinping's initiative of 2013 to create a 'Silk road of the 21st century', which consists of the land route ('belt') to Europe through Central Asia and the maritime route ('road') connecting China with South Asia, East Africa and Europe. The term has since been expanded (with the UK, South Africa, Australia and others interested in collaborating), so that it has become rather a 'grand strategy' than a specific investment initiative.

<sup>8</sup>Alden, Christopher and Ana Cristina Alves, 'China's regional forum diplomacy in the developing world: socialisation and the 'Sinosphere'', Journal of Contemporary China, Vol. 26, No. 103 (2017), 151-165.



# Scaling up financing for the poorest countries through innovation

By Lisa Finneran and Annely Koudstaal

A paradigm shift for development finance has been achieved with the recent 18th replenishment of the World Bank Group's (WBG) International Development Association (IDA): the largest source of un-earmarked concessional finance for the world's poorest countries. The IDA18 negotiations concluded in December 2016 with a historic outcome of US\$ 75 billion for the poorest and neediest countries. IDA18, which will start implementation on 1 July 2017, for a three-year period, marks a 50% increase from the US\$ 52 billion committed under IDA17. IDA18 is a milestone for the World Bank Group, both in terms of policy and financial innovations.

## A focus on addressing fragility and crisis

Within the framework of the overarching theme 'Toward 2030: Investing in Growth, Resilience and Opportunity', fully aligned with the Sustainable Development Goals (SDGs) and Agenda 2030, IDA18 will double country-based allocations to fragile and conflict-affected States (to over US\$ 14 billion), will seek to address the root causes of these risks before they escalate and will also provide additional financing for refugees and their host communities (US\$ 2 billion). Increased financing will provide support for crisis preparedness and response, pandemic preparedness, disaster risk management, small states and regional integration. Efforts to stimulate private sector development in the most difficult environments – at the core of job creation and economic transformation – will receive a major push in the form of a new US\$ 2.5 billion Private Sector Window (PSW). Moreover, recognising the critical importance of strengthening domestic resource mobilisation as a critical source of development finance, IDA18 contains numerous commitments to support this through its work on governance and institutions.

To ensure IDA countries' preparedness and rapid response when crisis hits, a contingent financing instrument will be introduced. IDA countries will be able to

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access a contingent credit line that provides immediate liquidity to countries in the aftermath of a catastrophe and serves as early financing to respond while funds from other sources are being mobilised, thereby enhancing their capacity to plan for and manage crises.

## Optimising the use of IDA's balance sheet

IDA18 will introduce a hybrid financial framework, an innovation that will result in exceptional value for money for donor investments, with every US\$ 1 in partner contributions generating about US\$ 3 in funding available to IDA clients. Through the hybrid model, IDA will leverage its equity by blending donor contributions with funds raised on the capital market.

This innovation transforms IDA's financing model from a pure revolving fund to one that accesses capital markets to scale up financing and increase development impact. Accessing the capital market is a step beyond accessing sovereign debt, which IDA started doing three years ago in the form of concessional partner loans from generous donors. Relying on the experiences of the International Bank for Reconstruction and Development (IBRD) – which has been funded primarily through the capital markets, leveraging paid-in and callable capital from shareholders – IDA obtained its first ever triple-A credit rating from S&P and Moody's in September 2016. The rating provides the foundation access to capital markets and is evidence of a strong capital base to backstop risks of issuing debt on capital markets; strong shareholder support; sound governance structure and financial and risk management policies; and a strong track record of repayments from clients.

The implementation of this groundbreaking innovation rests upon key principles of financial sustainability and prudence, and builds upon existing WBG structures and experience in accessing capital markets. Firstly, the model adds an additional source of funding to traditional donor contributions and preserves space for adjustments in future replenishments. Even as IDA's equity is being used to mobilise additional resources on the market, continued strong donor contributions remain critical as a source of the grant element of concessional loans to the poorest countries, and for grant financing. Hence, the level of donor contributions will continue to determine the overall amount of resources available at each IDA replenishment.

Secondly, the new hybrid model will rely on a robust capital adequacy and a prudent risk management framework, which has been developed based on the experience and expertise of IBRD which has been accessing capital markets for over 70 years. As a result of leveraging existing WBG structures, implementation of these financial innovations can be done extremely cost-effectively. Thirdly, the hybrid model allows IDA to retain its concessional nature, consistent with its core mandate to serve the poorest countries; only a small portion of the IDA18 envelope is offered to clients on non-concessional terms. Related to this, the model provides maximum additionality in resources to clients, meaning that all IDA clients benefit from the financial innovations introduced.

The new model further expands the range of financing instruments and financing terms offered to IDA clients. In addition to the introduction of the new contingency instrument for IDA countries to respond to crisis mentioned above, a portion of the IDA18 resources will be allocated on non-concessional terms, to scale up high-quality transformational operations with strong development impact, and by providing transition support for countries graduating out of IDA and into IBRD-only status. Strong client demand signalled that non-concessional resources (on IBRD terms) to complement concessional financing would be attractive for a broad spectrum of credit-worthy clients. About US\$ 6 billion in complementary non-concessional resources will provide the financing needed to allow transformational projects with strong development impact to come to fruition.

At the same time, the new hybrid model allows IDA to stay true to its mandate of serving the poorest countries. An important consideration in building the new hybrid financial model has been the balance between grants, concessional financing and non-concessional financing. Considering that the poorest and most fragile IDA countries rely on resources provided in the form of grants and concessional loans, the IDA18 financing

model was built to allow for an increase of the grant element of IDA's concessional financing (from 52% in the previous replenishment to approximately 58% in IDA18) while remaining financially sustainable for the long run.

## Crowding in the private sector

The private sector plays an indispensable role in achieving the SDGs by supporting pathways out of poverty. A healthy and inclusive private sector raises workers' productivity levels and links them to local, regional and global value chains. It also offers opportunities for entrepreneurship, develops critical skills, expands learning opportunities for the labour force, facilitates technology transfer, increases the tax base and, in many cases, supports the public sector in designing and providing efficient services.

That is why IDA18 will include a US\$ 2.5 billion Private Sector Window (PSW) – an innovation that will mobilise increased private sector investment and scale up the growth of sustainable and responsible private sectors in the poorest and most fragile IDA countries. The window leverages long-standing expertise of International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency's (MIGA) platforms, complementing IDA's continued support to policy reforms and business environment in these countries.

The PSW is anchored in a clear public policy rationale that well-targeted public resources, when applied appropriately to minimise potential market distortions, can help promote public goods through supporting direct private sector interventions. Challenges in developing the private sector in many IDA countries are substantial, in particular in fragile and conflict-affected states. Development in these countries is particularly constrained by a small and informal domestic private sector, a weak macroeconomic and regulatory environment, significant infrastructure bottlenecks and a limited skilled labour force. Addressing these challenges to attract foreign investment and grow the domestic private sector requires reallocation of risks at both the country and transaction levels. The PSW will de-risk private investments to mobilise 'first movers', justified because of the positive development outcomes they can generate. 'First movers' willing to make pioneer investments in challenging environments – such as fragile states – demonstrate the viability of doing business in these countries. As other investors observe the actions and results of the pioneers, they will be more likely to move in too – which in turn can generate greater development impact.

The addition of the PSW to the toolbox expands the spectrum of available instruments that crowd in the private sector in challenging markets with four key development objectives. Firstly, the PSW will facilitate



an increase in infrastructure projects by providing private sector investors with a project-based guarantee (through IFC) for non-commercial or political risks, such as liquidity support or breach of contract, for infrastructure projects. Secondly, the PSW facilitates more projects in high-risk markets by providing private sector clients with political risk insurance such as expropriation, currency transfer restriction, war and civil disturbance and breach of contract. Thirdly, the PSW will provide local currency-denominated financing to private sector clients who operate in the poorest and most fragile countries, where the local currency market is underdeveloped and therefore expensive, or non-existent (and no other mechanisms are available), through a guarantee or swap. This facilitates projects with potentially high development impact that require medium to long-term solutions which would not have been served by costly, short term loans—to come to fruition.

Finally, the PSW will facilitate greater capital flow to local firms, especially small- and medium-sized enterprises (SMEs) and agribusiness (as well as in other sectors such as energy, telecom, technology, water and sanitation, affordable housing, health, education, manufacturing and climate finance) that are constrained by market failures and weak investment climates in the poorest and most fragile countries. This will be done through concessional loans, equity and subordinated debt, and first-loss risk sharing facilities, to mitigate some of the financial risks that would unlock private sector opportunities with strong development impact – for instance, by boosting banks' risk appetite to support local entrepreneurship.

## Partnerships

Successfully implementing IDA18's key innovations requires building on IDA's strong partnership track record. The magnitude of this agenda is summarised by the 'Billions-to-Trillions' paper released jointly by several Multilateral Development Banks in 2015. Partnerships are critical to IDA18; they allow for maximum leverage of scarce official aid flows by working with borrowing countries to strengthen domestic resource mobilisation, by investing jointly with others – including the private sector – and by facilitating policy dialogue with the full range of stakeholders. One of the challenges for the WBG and the United Nations (UN) is to enhance the capability of the multilateral system to attract additional public and private resources for SDG-relevant investments. Developing ever closer partnerships building on

ongoing collaborations – such as with World Health Organization (WHO), UNICEF and UN Population Fund (UNFPA) on health-related issues, with International Labour Organization (ILO) on the jobs agenda, and with UN Women on promoting opportunities for women and girls – will help enhance this mobilisation capability. Enhanced collaboration between the World Bank and the UN, especially in relation to IDA's expanded toolkit to respond to fragility, crisis and the refugee crisis, will be key to strengthening the link between humanitarian assistance and development. Shocks and disruptions, such as financial and humanitarian crises, pandemics, natural disasters, social instability and forced migration, have increased in frequency as well as in range and speed of propagation. More often, humanitarian crises become chronic, requiring a longer-term response that goes beyond immediate humanitarian assistance. This calls for stronger synergies between immediate humanitarian responses and development investments that are necessary to ensure that these humanitarian crises do not turn into longer-term profound development crises.

In Jordan and Lebanon, the World Bank and the UN have joined hands to deliver necessary concessional financing to these two middle-income countries severely impacted by the flow of large numbers of Syrian refugees, in support of the refugees as well as their host communities. The partnership not only raises the volume of concessional resources but also unites development stakeholders behind promoting peace and stability. In response to the severe food insecurity currently threatening millions of people in Ethiopia, Kenya, Nigeria, Somalia, South Sudan and Yemen, the World Bank, the UN and other partners are complementing each other to provide the immediate necessary life-saving support. This includes the immediate provision of food and water, as well as medium to longer-term development responses such as projects to lay the foundations for recovery of the agricultural sector, better anticipate droughts and build institutional and societal resilience to address the root causes of fragility. Joint commitments, harmonisation and collaboration in these cases demonstrate the power of partnerships.

It is only by combining financial innovations, active involvement of the private sector and true partnerships that billions of dollars for development can become trillions, and the SDGs can be realised.





# Strengthening bilateral finance for multilateralism:

## Considerations for the United Nations system

by Romilly Greenhill and  
Nilima Gulrajani

These are troubling financial times for the United Nations (UN). Recent estimates suggest the UN is US\$ 22.8 billion short for meeting the humanitarian needs of 98.2 million people affected by crisis in 36 countries.<sup>1</sup> Meanwhile, the single largest donor to the UN, the United States, is threatening to cut assessed and voluntary funding by as much as 50%.<sup>2</sup> The ambitious global mission of the United Nations is, sadly, not matched by its balance sheet.

What will it take for states to be more generous to the United Nations Development System (UNDS), where the need for sustainable finance is both obvious and uncompromising? How can UN bodies make themselves more attractive to donor nations, without losing sight of their core purpose and mission?

Recent Overseas Development Institute (ODI) research can cast light on both these questions.<sup>3</sup> UN bodies need to understand what advantages they possess in comparison to bilateral channels, and the main factors that drive decision-making within donor governments. To become more attractive, we believe the UN will need to stay relevant to donor shareholders, while still preserving the integrity of its objectives and retaining its legitimacy as an effective global institution.

### Why the UN is not necessarily an obvious investment channel

To some, the competencies and investments of multilateral bodies looks similar to those of bilateral donors. Multilateral and bilateral channels offer financing on similar terms, to common countries, through identical public institutions, and to the same sectors.<sup>4</sup> They also engage in comparable policy debates, global fora and country relations, with their participation often occurring in parallel.

The possibility of substitution across these two channels creates choices for donor governments about where to allocate funding towards global development and humanitarian affairs. While non-governmental entities

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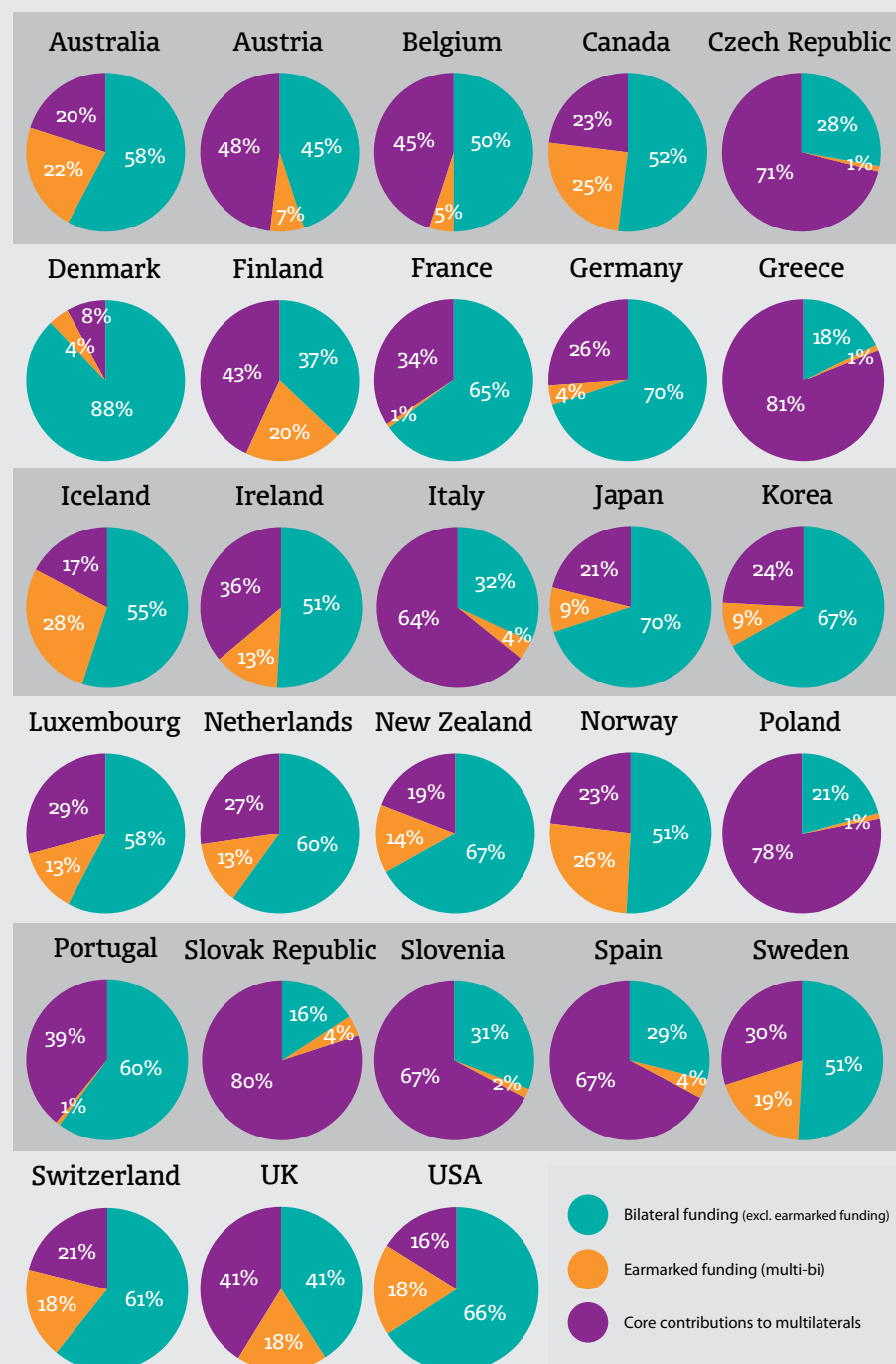
and private partnerships are also plausible channels, most bilateral donor governments see bilateral and multilateral conduits as the principle public alternatives. These two channels are an important fault line in fiscal allocation decisions for donor nations.

Over 2010–14, Development Assistance Committee (DAC) donors disbursed 61% multilaterally and 27% bilaterally, with 12% provided as multi-bi finance – contributions to multilateral organisations earmarked for specific purposes. These average DAC figures however mask differences in the use of bilateral and multilateral channels across individual donors (Figure 28). For example, the proportion of core multilateral aid as a percentage of total gross Official Development Assistance (ODA) ranged from 8% (Denmark) to 81% (Greece).

Interestingly, the relative balance achieved between multilateral and bilateral allocations is not subject to major policy reflection or serious scrutiny by most donors. In a recent survey of DAC members, only 14 of 22 respondents said that the allocation between bilateral and multilateral ODA is explicitly discussed. And even in those instances, the allocative ratio is extremely flexible. In addition, only two DAC members have quantitative targets for the balance between bilateral and multilateral aid (Switzerland and Ireland). A small number of DAC members indicate they have a policy or framework for the balance between core and earmarked multi-bi funding (Austria, Finland, the Netherlands, Belgium and France).



Figure 28 : Gross ODA allocation across bilateral, multilateral and multi-bi channels, 2014



Source: OECD (2016), Development Co-operation Report 2016: The Sustainable Development Goals as Business Opportunities, OECD Publishing, Paris. DOI: <http://dx.doi.org/10.1787/dcr-2016-en>

We know there is a strong path dependency to decision-making, such that once allocation ratios are set they tend to stick.<sup>5</sup> Nonetheless, the lack of formal dialogue on the balance between multilateral and bilateral allocations does create an opportunity for the UNDS to shift relative allocations in their favour.

### The importance of staying relevant to bilateral governments

Our research shows bilateral donors delegate more to multilaterals that share their priorities rather than those

with different, and perhaps complementary priorities. Overall, sectoral and thematic allocation patterns overlap significantly between bilateral donors and the multilaterals they delegate to.<sup>7</sup> Priority alignment seems to be a stronger driver of delegation than the degree of influence bilateral donors can wield over multilaterals. This makes it clear that the UN needs to show it is aware of bilateral strategies and priorities and can adapt to their evolving nature. Ideally, this should not take the form of strictly earmarked funds, which can trigger unproductive internal competition for funding, policy incoherence,

higher transaction costs and losses on overheads.<sup>8</sup> The UN needs to demonstrate sensitivity and responsiveness, without pandering to every single donor prerogative. Building better relationships at the working level, and getting the right human resources in place will be critical to achieving this objective.<sup>9</sup>

Furthermore, multilaterals are better placed than bilaterals to shape and steer global norms and further international collective action.<sup>10</sup> For many donors, this comparative advantage is a major reason to delegate authority and funds to multilateral channels to deal with threats like climate change, protracted conflict and humanitarian relief.<sup>11</sup> An obvious niche for the UN is to demonstrate its unique role in tackling global public goods, even if the current political climate assumes depreciating value to global burden-sharing. The advantages of working through the UN as opposed to other multilateral, regional or even bilateral channels need to be made obvious.

Relatedly, UN agencies need to up their game on demonstrating their relative efficiency and value-added. For example, a clear area of multilateral comparative advantage is on fragmentation, where they possess higher geographic and sectoral concentration ratios. Donors increasingly need to justify their multilateral spend to a sceptical public, even if to date evidence of effectiveness has minimally informed bilateral delegation decisions.<sup>12</sup> Such evidence should be both transparent and accessible to persuade DAC donors that investing through UN channels is a smart allocation decision.

Finally, UN agencies should highlight their popularity with their partners, particularly those located in-country. Several surveys suggest aid-receiving countries prefer multilateral channels to bilateral ones due to their greater flexibility and responsiveness, high levels of alignment, predictability, technical skills and policy expertise.<sup>13</sup> This buy-in is potentially critical in this 'age of choice' for development finance, where countries have a much wider range of options to finance development and can selectively choose among donors.

This advantage should not be overblown, however. DAC donors remain the single largest source of funds to the UN, comprising 63% of operational funding to the UNDS in 2015. There is limited evidence to date that donors are strongly informed by partner countries' priorities when making funding decisions. Nonetheless, testimonials on the demand side are surely ammunition for directing greater finance through multilateral channels like the UN, if only because the likelihood of impact should be greater.

### Preserving integrity and legitimacy

As the UN seeks to ensure its relevance, so too should

it preserve the integrity of its purpose and the legitimacy of its action. One of the strongest findings in our research is that multilateral channels are less politicised conduits for development finance than bilateral channels.<sup>14</sup> Structurally at arm's length from major shareholders and serving a heterogeneous set of state preferences, they can maintain greater objectivity in decision-making and are less vulnerable to capture by vested national interests. This is perhaps more so in the case of the UNDS where the 'one-country, one-vote' principle gives it greater perceived neutrality than the Bretton Woods system.

And yet, the growth of non-core financing to UN agencies illustrates the fact that donors are increasingly seeking to project their priorities onto multilaterals, potentially diluting their objectivity. In 2015, the United Nations financed about 77% of its operational activities for development through earmarked contributions. Almost 90% of these earmarked resources supported individual projects rather than broad thematic priorities, implying that about 66% of all resources for development are strictly earmarked according to donor priorities.<sup>15</sup> There is a risk such earmarking pushes agencies to respond to individual donor demands, and circumvents the UN's legitimate – but also sluggish and sometime burdensome – decision-making and oversight processes.

The perception of neutrality provides the UN with legitimacy as an institution where all countries wield equal influence. For example, in September 2010, the UN General Assembly recognised the Development Cooperation Forum (DCF) as a focal point for a holistic consideration of development cooperation involving all stakeholders, including Southern partners. At the same time, the DCF is also perceived as a weak organisation for dealing with technically complexities and politically fraught negotiations.<sup>16</sup> This suggests that global legitimacy of the UN may be a constrained asset. To attract greater financial investment, it will be important to not only be perceived as legitimate, but also illustrate its legitimate capacity to deliver.

Preserving legitimacy and integrity of purpose against the backdrop of a funding crisis will involve some juggling on the part of UN agencies. Neutrality may be one of the UN's core strengths, but we also know that foreign policy concerns are a key driver of delegation to multilaterals. Countries like Brazil and Norway delegate to the UN to champion domestic interests, either in terms of securing a UN Security Council seat (Brazil) or protecting interests in global hotspots like the Arctic (Norway)<sup>17</sup>. Yet, if the UNDS is seen to be excessively influenced by the concerns of individual donors, it will ultimately lose its most coveted and unique attribute—its capacity to serve as an arbitrator of international norms and creator of global goods.





## Safeguarding the way forward

To preserve the UN's integrity of purpose while still beholden to a plethora of earmarked extra-budgetary resources is no obvious task. This is perhaps why the 2016 Quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR) asks donors to maintain and substantially increase core assessed contributions.<sup>18</sup> While intuitively appealing, this call is likely to fall on deaf ears in the political environment the UN now finds itself. A more pragmatic course of action may be put into place safeguards against the worst negative externalities of earmarked finance.

Certainly under the aegis of the UN Multi-Partner Trust Fund Office, some promising steps have been taken to make earmarked finance as 'core-like' as possible. In 2013, several UN entities revised their fee structures for earmarked finance upwards, although an independent assessment concluded these rates were not consistently

applied.<sup>19</sup> A common standard for reporting on funding flows and integrated budgets, tracing core and earmarked finance, has helped increase transparency and promote long-term commitments.<sup>20</sup> But there remains more work to be done. Access to fine-grained data can help, as can greater efforts to recover the full costs of earmarking. We also need stronger administrative rules to curb fragmentation like minimum contribution thresholds and greater use of multi-donor trust funds over single-donor trust funds, especially designed to facilitate country ownership.<sup>21</sup>

In an increasingly turbulent environment, the UN must display its functional relevance by championing global public goods, offering the prospect of generating progressive results and serving donor agendas. The key dilemma it faces, however, will be to remain relevant to donors without undermining the integrity of its purpose and its core values.

## Footnotes

<sup>1</sup>OCHA, 'Humanitarian Funding Update', Reliefweb, March 2017, <http://reliefweb.int/report/world/humanitarian-funding-update-march-2017-united-nations-coordinated-appeals>

<sup>2</sup>Bathseba N. Crocker, 'The UN needs a funding review', Brookings, 12 April 2017, <https://www.brookings.edu/research/the-u-n-needs-a-funding-review-but-trump-administration-proposals-go-too-far/>.

<sup>3</sup>See Nilima Gulrajani, 'Bilateral versus multilateral aid channels: strategic choices for donors' (report, ODI, 2016) and Romilly Greenhill and Gideon Rabinowitz, G, 'Why do donors delegate to multilaterals? A synthesis of six country case studies' (report, ODI, 2016)

<sup>4</sup>Gulrajani, 'Bilateral versus multilateral aid channels.'

<sup>5</sup>Greenhill and Rabinowitz, 'Why do donors delegate.'

<sup>6</sup>Rather than, for example, donors delegating to multilaterals who can do the things they cannot do well, for example a small donor investing in a multilateral that can support large scale infrastructure projects.

<sup>7</sup>Greenhill and Rabinowitz, 'Why do donors delegate.'

<sup>8</sup>See UN, 'Analysis of funding of operational activities for development of the United Nations system for the year 2010. Report of the Secretary General' (report, UN Department of Economic and Social Affairs, 2012); Bernhart Reinsberg, 'Five steps to multi-bi aid: A new way forward for earmarked finance' (report, ODI, 2017); Gulrajani, 'Bilateral versus multilateral aid channels.'

<sup>9</sup>Barbara Nunberg, 'Improving human resource management in development agencies' (report, ODI, 2017).

<sup>10</sup>Gulrajani, 'Bilateral versus multilateral aid channels.'

<sup>11</sup>Greenhill and Rabinowitz, 'Why do donors delegate.'

<sup>12</sup>Greenhill and Rabinowitz, 'Why do donors delegate.'

<sup>13</sup>Robin Davies and Jonathan Pickering, 'Making Development Cooperation Fit for the Future A Survey of Partner Countries', (report, OECD, 2015); Samantha Custer et al., 'Listening to Leaders: Which Development Partners do they Prefer and Why?', (report, Aiddata, 2015).

<sup>14</sup>Gulrajani, 'Bilateral versus multilateral aid channels.'

<sup>15</sup>Jenks and Topping, 'Financing the United Nations Development System', p. 10; Reinsberg, 'Five steps to multi-bi aid'.

<sup>16</sup>Gerardo Bracho, 'In Search of a Narrative for Southern Providers The Challenge of the Emerging Economies to the Development Cooperation Agenda', (report, German Development Institute, 2015), p. 19.

<sup>17</sup>Greenhill and Rabinowitz, 'Why do donors delegate.'

<sup>18</sup>Glauco Seoane, 'Quadrennial comprehensive policy review of operational activities for development of the United Nations system', (report, UNGA, 2016), [https://www.un.org/ga/search/view\\_doc.asp?symbol=A/C.2/71/L.63&referer=/english/&Lang=E](https://www.un.org/ga/search/view_doc.asp?symbol=A/C.2/71/L.63&referer=/english/&Lang=E).

<sup>19</sup>Jenks and Topping, 'Financing the United Nations Development System'

<sup>20</sup>Jenks and Topping, 'Financing the United Nations Development System'

<sup>21</sup>See Reinsberg, 'Five steps to multi-bi aid' for a more detailed discussion.

# A new contract for financing the UN development system: What does it mean and how can it be achieved?

By Max-Otto Baumann and Pratyush Sharma

‘Follow the money’, goes the advice, for understanding any organisation. In the UN development system (UNDS), the bulk of member states’ contributions take a fairly ballistic course: launched with political fanfare, the money is aimed at the narrow landing place of a concrete project or purpose. 77% of development and humanitarian resources were earmarked in this way in 2015, ‘bilateralizing’ and bypassing the UNDS’ multi-lateral- and value-adding mechanisms. The three largest donors, accounting for 47%, also rely heavily on earmarking, and have thus practically cancelled the contract according to which the UNDS, like any other organisation, is (core-) funded to implement joint global agendas. Emerging donors are adapting the same transactional funding pattern for their South-South Cooperation.

Although the UNDS has seen a rise from US\$ 9 to 27 billion in annual income over the last two decades, this success masks deeper problems. First, earmarked funding has significant collateral damage: the donor orientation of the system, its fragmentation and inefficiencies. It also leads to lower value addition in project implementation due to lack of coherence and smart allocation of resources. Second, the current funding system is inadequate for Agenda 2030 with its new demands for well-coordinated, coherent policies and normative activities that go beyond operational services.

Humanitarian and conflict-related contributions aside, UNDS funding has in fact stagnated during the last decade. The sense of security displayed by all stakeholders that ‘the system works’ and business will continue as usual, is therefore misplaced. If member states have a vision for the UNDS that requires (i) securing or expanding the funding level, (ii) improving the funding quality and (iii) broadening the donor-base, then they need to go beyond adjusting technicalities of funding. They need to address and renegotiate the political and organisational incentives that define how member states relate to the UNDS (and, to a lesser extent, about how member states relate to each other).

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## Drivers of financing decisions

The financing discussion should start with a frank recognition of the interests involved in financing the UNDS. Research has established a number of factors that determine both the amount and the modalities of financing international organisations. Member states favour core contributions for organisations whose policies reflect their priorities, but where they perceive policy-differences, they accept the higher transaction costs of short-term, earmarked contributions that allow for direct control. Member states also want to retain visibility and flexibility, while being able to shift blame to international organisations – creating more incentives for earmarking. The reputation of an entity, its efficiency and effectiveness also determine financing decisions.

UNDS entities for their part are no saints either. They are bound by their mandates but, like member states, they also follow their self-interests. They compete for resources, they attempt to widen their mandates, and they tend to identify problems for which they can offer solutions from the arsenal of operational activities, even if political and normative responses are more effective. They find ways to deflect strong oversight by member states. Often, this interest in organisational survival dovetails with donor’s preference for earmarked funding.



## Elements of a new financing contract

UNDS multilateralism rises and falls with the regulation of these divergent interests. We think it helps to formulate abstract criteria for a financing contract between member states and the system. This ‘contract’ is not a signed document, but a concept that brings together key factors for sound UNDS financing. In response to the problems described above, and based on contract theoretical thinking, we suggest ten criteria that spell out essential obligations for both sides, member states and system (see table 9). These ten criteria constitute the financing contract. They can help to ask the right questions in designing and negotiating the parameters

of a repositioned UNDS. They particularly convey the message that the volume, modalities and burden-sharing aspects of funding financing can neither be resolved by appeals to responsible financing nor exclusive attention to financing technicalities alone. Rather, establishing sound UNDS financing practices requires attention to how member state behaviour is linked to organisational design, in particular governance arrangements.

The reform package proposed by the Independent Team of Advisors (ITA), that aims to boost performance through integration, points in the right direction for giving practical meaning to a new financing contract.

**Table 9: Basic criteria of any financing contract**

| The Ideal Board/Member                                                                        |                | The Ideal Agent                                                                                                              |
|-----------------------------------------------------------------------------------------------|----------------|------------------------------------------------------------------------------------------------------------------------------|
| Provides clear directives, sets strategic priorities in line with global multilateral agendas | Leadership     | Exercises rigorous management for efficiency and outcome-orientation based on strategic vision                               |
| Diligently exercises oversight and demands compliance by organisation                         | Accountability | Practices full transparency regarding all organisational activities and goal attainment                                      |
| Grants appropriate operational autonomy to the organisation for implementation                | Trust          | Focuses on advising and implementing governance decisions, puts the organisation's interest above the agency's self-interest |
| As individual member, finances according to capacity and participates in burden-sharing.      | Fairness       | Does not (dis)advantage and play off members states against each other, e.g. by cross-subsidisation                          |
| As individual member, finances according to agreed multilateral agendas.                      | Self-Binding   | Operates according to a system that ensures compliance and professionalism.                                                  |

A system-wide leadership that can speak for, and manage the UNDS is a prerequisite for entering into a contract with member states. Focusing specifically on the relationship between member states and the UNDS, we see five reform priorities that would go a long way in resetting the financing contract:

1. **Governance:** Intergovernmental decision-making needs to become the motor of the UNDS. For that, it needs to better reflect the political reality, while giving due weight to broad inclusion. If agencies' individual boards are retained (ITA recommends merging them), one idea to explore further would be a constituency-based approach and a substantial involvement of expert consultations to depoliticise decision-making.
2. **Normative functions:** The current system is largely transactional, but to have a strong rationale for why all member states should invest in UN development cooperation, it needs to become more transformational, perhaps even political. It needs a greater focus on global challenges, including on financial issues (eg illicit flows, global tax architecture). Regarding operational activities, it needs to be able to add value through normative, knowledge and coordination activities.
3. **Transparency:** Here, it will not suffice to sign on to the International Aid Transparency Initiative (IATI) which only shows who funds what. There needs to be heuristic transparency on how the system implements mandates, conducts its operations, about its internal funding flows, and whether outcome goals are achieved.
4. **Fairness & burden sharing:** The practice of cross-subsidies between core- and non-core contributions needs to be reviewed. Cross-subsidies do not have to be entirely eliminated, but they need to be transparent and based on a clear burden sharing agreement. Gaps in core-functions like coordination should not be filled by a few donors on an ad-hoc basis.
5. **Efficiency:** Although efficiency should not be counted as a comparative advantage of the UNDS, it is a legitimate concern for any donor. To remove the greatest obstacles – non-compatible business practices, competition, duplication in the system, oversized country-presence, bloated procurement practices – and prevent the system from lapsing back requires a significant strengthening of central management.

## A code of conduct to incentivise good behaviour?

These institutional reforms will likely not suffice to implement a new financing contract, because institutions depend on the continuous support of their stakeholders. To counter both member states' and the system's own proclivity to follow their narrow, short-term political interests, counter-incentives are necessary. A code of conduct that translates the above stated criteria into specific behavioural norms, could provide the necessary prodding. To give an example: the concept of a 'critical mass' of core resources needed to implement strategic plans has been discussed for years and could be re-stated as a behavioural norm such as 'member states should give at least half of their resources as core contributions'. For the system, norms on leadership, accountability, trust, burden-sharing and self-binding could also be stated as actionable imperatives. Extending our concept to other stakeholders, the private sector could be asked to spend a certain percentage of their net profits on sustainable development, as is the case in India. Such a code would not be legally binding, only politically. Independent monitoring by experts from South and North would be essential to incentivise compliance with the code of conduct and thus with the financing contract, which is a form of collective action.

## Strengthening both oversight and integration

It remains to be seen whether the current reform process will take steps towards a new financing contract for UN development cooperation. Concerned member states should articulate their interests in UNDS multilateralism more forcefully. The outcome of reform will be the result of tough negotiations, conducted in the spirit of shared global interests. Identifying new functions that transform operational activities and tackle pressing global challenges could be the basis for a fairer burden-sharing and a broadened donor-base. Bringing back into the UN reform process the highly important issues of Illicit Financial Flows and Global Tax Regime could assuage especially developing countries and emerging economies and raise their interest and participation in global cooperation for sustainable development. North and South could also come together around the idea that any strengthening of intergovernmental oversight (interest of G77) requires an integrated UNDS (interest of industrialised states), which can effectively implement decisions.





# The value of leveraging

## Introduction

*‘Give me a lever and a fulcrum on which to place it and I will move the world.’*  
(Archimedes)

As Archimedes reminds us, the concept of leverage originates from the classical field of mathematics and it explained the relationship between input and output force, effort, and distance for mechanical ‘advantage’. It has evolved in modern usage to become widely (and often loosely) used, but perhaps most prominently ‘leverage’ appears today as a central concept in the world of finance and business. It is an interesting and at times difficult concept to fully grasp as it combines a dimension of force and power with the use of assets and financial instruments to increase return. Across the range of applications, a constant feature is that successful leverage requires a sound understanding of the value of the ‘asset’ or force, the risk and counter-forces at play, the cost of finance and ‘market’ dynamics and their interplay to create advantage.

Last year’s report touched lightly on the concept of leverage in UNDS financing with a commitment to explore the notion more fully in this year’s report; specifically, in the context of the UN and how to most effectively apply the concept to the UN’s role in supporting Sustainable Development Goal (SDG) outcomes. Strengthening the leveraging role and impact of the UNDS rests on the question of how UN ‘assets’ are valued, quantified and positioned in order to leverage greater impact and investment from external public and private sources. Recognising that the UN’s normative functions, for example, are widely accepted as valuable

and unique assets of the UN system, we explore further in Chapter Four of the report how these functions should best be financed (noting also the weaknesses in normative funding data). This chapter explores how the UN’s normative and operational functions and capacities as ‘assets’ can be valued, quantified and positioned to leverage positive impact investment for more and better SDG outcomes.

The papers in this chapter explore the current state of ‘leveraging’ from the experience and research of a wide range of partners and contexts in SDG finance. Two of the papers—one by the UN Global Compact and one by Sahba Sobhani and Robert de Jongh—examine the added-value and future potential for business and private sector mobilisation of SDG investment and the UN’s role in this space. Eric Usher and Careen Abb of the UN Environment Finance Initiative reflect on 25 years of the initiative working specifically with financial institutions to unlock and position positive impact finance. Meanwhile, Homi Kharas from Brookings Institution examines the promise of blended finance in the SDG era and the role of the UN system in attracting more and better blended finance. This perspective of ‘promise’ in blending is complemented with insight and nuance in the following paper by Cordelia Lonsdale and Sarah Dalrymple of Development Initiatives which looks at the specific challenges, limitations and possible opportunities with blended finance in fragile country contexts in particular.

The next two papers of the chapter by Judith Karl of the United Nations Capital Development Fund and Bianca Adam from the World Bank’s Disaster Risk Financing Program explore the role of innovation and leveraging in ‘last mile’ finance for the SDGs. They underpin the ‘no one



left behind' principle, in Least Developed Countries in particular, and reveal how risk protection can leverage returns for disaster preparedness and response in the most disaster prone and vulnerable settings. The final paper from the UN Multi-Partner Trust Fund Office (MPTFO) looks specifically at the experience of pooled funding instruments as potential game-changers among UN financial instruments. These pooled instruments leverage broad-based SDG partnerships and finance based on their risk and benefit sharing characteristics as well as their effect on reducing fragmentation in the financial landscape.

Emerging from these perspectives is a picture which shows that strengthening the UN's leveraging role and impact will require more effort on the part of the UN in developing robust system-wide financing data and strategies, employing relevant, professional capabilities and developing existing capacities in financing to analyse, strategise and effectively partner with a broader range of financing actors at the local, regional and international levels. A firm commitment to improve these areas would provide for more evidence-based and analytical decisions and platforms, which in turn would promote a more optimal mix, blend and sequence of financial flows and instruments. It would also result in better informed decisions on what type of financing could be employed and attracted to the very diverse settings in which the UNDS and other public finance operates.

A common thread from the different perspectives in each of the papers is an approach to leveraging that values how UN and public Official Development Assistance (ODA) resources can help generate maximum returns, impact and financial flows to development outcomes, and not necessarily the volume of financial

flows through or to the UN system. Given that one of the most common traditional measures of performance in the UN is the size and growth in the income level of entities and organisations, the question emerges as to how this radically different and important perspective on value can be included in reform discussions, and integrated into the way results, impact and effectiveness are measured.





# Mobilising private finance in the era of the Sustainable Development Goals

By Gavin Power and  
Moramay Navarro Perez

Until recently, the notion of financiers and investors in regular attendance at serious United Nations (UN) deliberations would have seemed outlandish – or at the very least, inappropriate. Indeed, it wasn't until the end of the 1990s, with the adoption of the Agenda for Development, that the UN even began exploring the theme of financing for development – convening conferences and forming the 'Ad-Hoc Open Ended Working Group of the General Assembly on Financing for Development'. Multilateral banks as well as business and non-governmental organisation (NGO) representatives were brought on to help shape what would later become the international conferences on Financing for Development (FfD). While paying some lip service to the role of private finance, the focus of the FfD agenda was largely on public funding and official development assistance (ODA).

Twenty years later, with the adoption of Agenda 2030 and the UN Sustainable Development Goals (SDGs), it has never been clearer that the private financial sector – at international and domestic level – is essential in achieving global sustainability. Reflecting this change, delegations of institutional investors, bankers, insurers, and their peers are now consistently participating at special UNHQ finance sessions – exploring everything from green bonds to social impact funds.

The United Nations Conference on Trade and Development (UNCTAD) estimates that the investment needed in key sectors related to the SDGs at the global level is approximately US\$ 5 trillion to US\$ 7 trillion per year. In developing countries alone, the estimated needs range from US\$ 3.3 trillion to US\$ 4.5 trillion, leaving an annual funding shortfall of around US\$ 2.5 trillion.<sup>1</sup> This means that the successful implementation of Agenda 2030 will require a significant increase in investment from all available sources, including public, private, international and domestic arenas. Public finances alone – although central and fundamental to investment in sustainable development – cannot meet the demands for financing development. Predictably, consensus is growing

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

around the importance of private finance and investment to scale up sustainable development solutions.

## A change in mindset: private finance and sustainable development

To be sure, widespread agreement on the relevance of private finance for development only came about very recently. A convergence of trends – including the corporate sustainability movement and the integration of Environmental, Social and Governance criteria in investment decision-making – have enabled this shift in thinking and mindset. In addition, important milestones such as the United Nations Monterrey Conference on Financing for Development in 2002 coupled with the emergence of voluntary initiatives for the private sector and investors have contributed to strengthening the case for increasing private investment for global goals – today the SDGs.

The Monterrey Conference, for example, marked the first quadripartite exchange of views between governments, civil society, the business community and institutional stakeholders on global economic issues.<sup>2</sup> Participants agreed on a broad vision on how to fund development through domestic and international, public and private financial flows and their inter-relations.





The resulting Monterrey Consensus was reaffirmed in 2008 in the Doha Declaration and has been particularly instrumental in recognising the importance of private flows to advance sustainable development.

Important initiatives such as ‘Who Cares Wins’, which was launched in 2004 by UN Secretary-General Kofi Annan in collaboration with the UN Global Compact, greatly contributed to enforcing the investment rationale for more rigorous inclusion of environmental, social and governance (ESG) criteria into financial analysis. It also provided a case for the integration of ESG issues as a contributor to shareholder value creation. Other voluntary initiatives have also significantly advanced traction throughout the private investment chain. Examples include the pioneering UNEP Finance Initiative, the Equator Principles, the Global Impact Investing Network and the UN-supported Principles for Responsible Investment (PRI).

In particular, the PRI is a shining example of how this shift in thinking is evolving (Figure 29). Launched in 2006 by the UN Global Compact and UNEP FI, the initiative has now reached a critical mass of over 1,700 signatories worldwide with combined assets under management of approximately US\$ 62 trillion. These signatories – asset owners, investment managers and service providers – have agreed to six principles that are, in conceptual terms, aligned with UN priorities and which are based on the belief that, in PRI’s words, an ‘economically efficient, sustainable global financial system is a necessity

for long-term value creation. In turn, such a system will reward long-term, responsible investment and benefit the environment and society as a whole’.

Overall, private sustainability finance has been shifting towards a longer-term time horizon and a deeper adoption of sustainability considerations in investment decision-making throughout the investment chain: from responsible investment and active ownership, to sustainable Foreign Direct Investment (FDI), and catalytic philanthropy. In the case of FDI, as opposed to portfolio investment, this means moving beyond the current priority on investment volume for the sake of volume to a focus on quality and an assessment of the positive environmental, social and governance impact of capital investments by companies. In the portfolio investing realm: ‘Impact investing’, ‘ESG Investing’, ‘SRI’, ‘Blended Finance’, even the newly coined ‘SDG Investing’ – these are all examples of a new era in private finance, and one that is better aligning investors with broader objectives of society, including the SDGs.

These movements have been aided, enormously, by new intellectual and legal work and arguments related to the fiduciary duty of those responsible for managing other people’s money. For many years, sceptics claimed that looking at non-financial indicators – ie environmental and social concerns – was fundamentally inconsistent with their fiduciary duty to secure investment returns. But a landmark report, ‘Fiduciary Duty in the 21st Century’ (published in 2015 by PRI, with the UN Global

Figure 29: Growth in the number of signatories to the PRI since its inception<sup>3</sup>

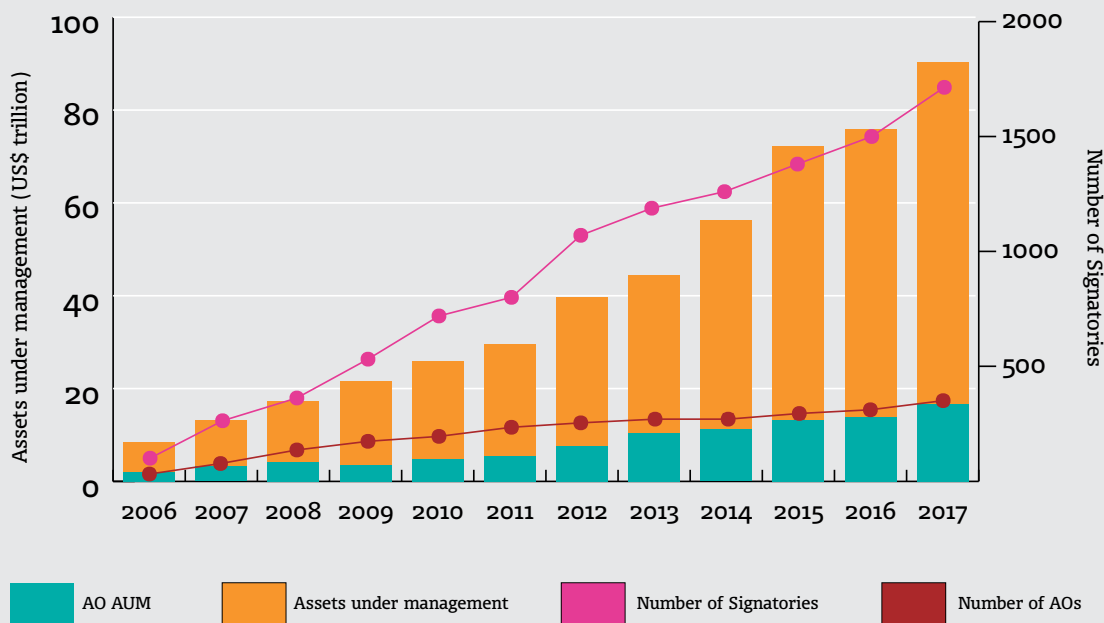
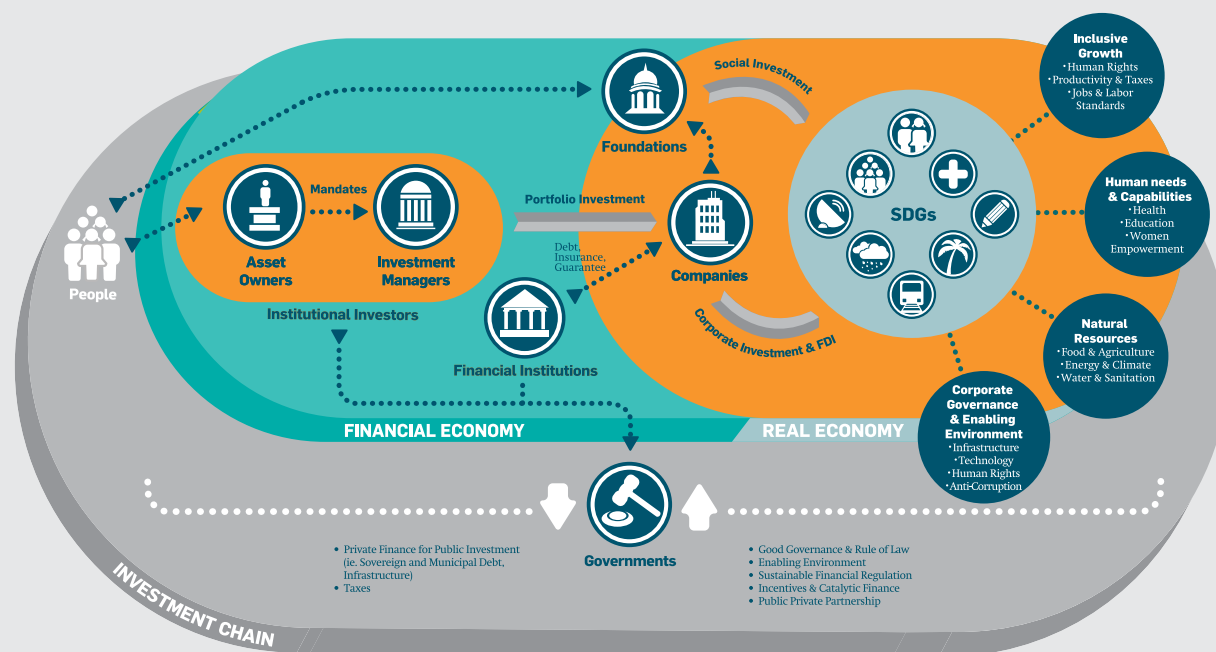


Figure 30: The private investment chain



Source: Private sector investment and sustainable development, UN Global Compact, UNCTAD, UNEP FI, PRI, 2015.

Compact and UNEP FI) found the opposite – that rather than being a hindrance or obstacle, fiduciary duty actually demands that sustainability issues be factored into investment decision-making given their materiality to the performance of the underlying investment.

Indeed, there is more and more evidence that investing in ways that consider environmental and social issues can boost investment returns – or, at the very least, shows correlation. For example, the Global Compact 100 Stock Index has outperformed its benchmark by approximately 40 basis points since launch about three years ago. This is in sharp contrast to the vast majority of standard, actively-managed investment funds that routinely underperform the broader market and related indices. While this should not be construed as a casual relationship, it points to a correlation between sustainability practices and market performance.

The fiduciary and materiality case also helps explain the adoption of ESG approaches within one critical market-making enabler – Stock Exchanges. By way of example, the Sustainable Stock Exchanges (SSE) initiative was launched in 2009 to provide a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulator, and companies, can enhance corporate

transparency and, ultimately, performance on ESG issues as well as encourage sustainable investment. The SSE is organised by UNCTAD, UN Global Compact, UNEP FI, and the PRI – with more than 40 stock exchange partners.

### Increasing the impact of private investment on sustainable development

It has become clear that companies, markets and investors are more aware of the overlap between public and private interests and aims – recognising that the ability to prosper and grow depends on the existence of sustainable societies and economies, and the avoidance of negative material impacts on supply chains, capital flows and employee productivity.

Despite the growth of corporate sustainability, private investment in sustainability is still at a comparatively low level. Responsible investment with approaches based on exclusion, ‘best in class’, or the integration of ESG issues are just beginning to hit critical mass. At the same time, the promising ‘impact investing’ movement remains largely a niche market – in need of mainstreaming and scaling to bigger-ticket instruments and deals that will attract major institutional investors, and help answer the world’s need to move from ‘billions’ to ‘trillions’.



Taking all these important developments into consideration – how can the world increase the impact of private investment and guarantee alignment of long-term financial success with sustainable development?

If one takes a closer look at the investment chain (Figure 30), there are great synergies between different public and private actors who are already embracing sustainability. Institutional investors connect with sustainability issues through the projects and companies in which they invest by providing capital and by engaging as active owners. Institutional investors also invest directly in the real economy through property, infrastructure, forestry and agriculture. Foundations and philanthropic initiatives provide capital for social enterprises and civil society organisations aimed at delivering societal benefits.<sup>4</sup> At the same time, companies contribute through new investments or redirection of existing investments as well as contributions through more responsible and sustainable conduct, FDI, or products and services that address sustainability needs.

The interplay and complementary nature of all these actors will be critical to financing sustainable development. Closing the gap by addressing market failures, creating new markets with innovative solutions to address sustainability challenges and enhancing investors' role in supporting company growth and taking sustainability options to scale, could create the synergies and momentum needed to achieve the SDGs.

Governments also play an important role in mobilising private investment for Agenda 2030 through enhanced enabling environments and sound policies – including risk coverage and co-investing through development banks – that will enable private flows to be redirected into sustainability and to geographic areas in need. And, of course, ODA must remain an essential 'primer of the pump' in terms of funding critical needs and kick-starting private investment.

Activating new and important financial sub-sectors will also be required. The multi-trillion-dollar corporate pension industry (a true sleeping giant) could potentially

play a catalysing role in channelling portfolio investment towards suitable sustainability assets – be they equities, fixed-income securities, infrastructure funds or commodities – that answer investors' fiduciary requirements while contributing to the achievement of the SDGs. Related, the UN Global Compact and PRI recently called on the largest corporations in the world to activate their associated pension plans and 'switch on' to sustainability.

Clearly, there is a range of options available for private and public sector actors to scale up private sector investment for development. An initiative recently launched by the UN Global Compact – with partners PRI and UNEP FI – focuses on developing innovative financial instruments that have the potential to direct private finance towards critical sustainability solutions. The platform will develop guidance on impact investment strategies that support the SDGs, map current and emerging financial instruments, and provide a laboratory for the development of new innovative instruments. Ultimately, the goal is to improve the risk/return profile of SDG investments to attract institutional investors. This platform will run for two years starting in 2017 and will involve stakeholders across the investment chain in an effort to find concrete SDG financing opportunities, with an eye towards neglected areas such as water, sanitation, gender, education and infrastructure.

## Conclusion

The Addis Ababa 2015 conference and action plan has helped put 'wind in the sails' of the financing for development imperative. New multi-stakeholder initiatives and projects are being launched to help finance progress on the SDGs – and this is to be applauded and encouraged. Still, much more work remains in order to fully activate and unlock the massive potential of private finance and investment. We will see how, as we move towards 2030, all these initiatives and platforms can combine and come together to deliver concrete solutions and innovation to address the myriad challenges we are facing. For this to happen, everyone – from companies to governments, from pension funds to impact investors – needs to be involved, and move forward with passion and determination.

## Footnotes

<sup>1</sup>UN Global Compact, 'Private Sector Investment and Sustainable Development: Principles for Responsible Investment', (report, UNCTAD, UNEP FI, UN Global Compact, 2015).

<sup>2</sup>International Conference on Financing for Development, Monterrey 2002.

<sup>3</sup>Source: 'About the PRI' webpage: <https://www.unpri.org/about>

<sup>4</sup>UN Global Compact, 'Private Sector Investment and Sustainable Development'.



# Business and the Sustainable Development Goals: Why it matters

By Sahba Sobhani and Robert de Jongh

In an increasingly interconnected, complex and turbulent world, business is navigating uncharted waters. Amidst this uncertainty, the global community came together in a global call to action to guide all stakeholders— including business— in building a more sustainable, equitable and inclusive society. While the Sustainable Development Goals (SDGs) were designed for and approved by governments, they also constitute a global framework for measuring business contributions to society — how companies can ‘win with purpose’. According to a recent survey, more than two thirds of participating companies said they were already planning to engage with the SDGs, but less than half plan to embed them into their business strategy in the next five years.<sup>1</sup> As the United Nations Global Compact 2016 CEO Survey notes, only 59% of companies report that their company is able to accurately quantify the business value of their sustainability initiatives.<sup>2</sup> Therefore, the central question is: Should the SDGs really matter to business?

## Five ways the SDGs can help business generate value

In short: Yes — the SDGs are more than just an aspirational framework for governments. They are a roadmap for business opportunity. There are a number of compelling reasons for businesses to pursue social impact and engage with the SDGs. Beyond the need to heed society’s call for greater transparency and accountability, blending purpose with profit can generate a unique competitive advantage well-suited to discerning consumers and investors. Five distinct drivers of financial value compel companies to make both social impact and SDG alignment part of their core business in order to:

1. **Generate new revenue** by creating new opportunities for market differentiation and growth;
2. **Recruit and retain talent** by optimising your work- force;
3. **Increase supply chain resilience** by enhancing supply chain sustainability and operational efficiency;

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4. **Spawn investor interest** by increasing attractiveness to a wider range of investors; and
5. **Assure license to operate** by addressing regulatory compliance and managing risks.

### 1. Generate new revenue

In our global economy, the emergence of a new global middle class, dramatic shifts in consumer preferences toward ‘responsible’ products and frugal innovation are creating new markets poised for growth.

- The global middle class is expected to expand by 3 billion people by 2030. By then, 59% of middle-class spending will occur in Asia; today Asia only accounts for 29%.<sup>3</sup> This emerging market middle class will represent 3 billion new consumers by 2030 and 70% of global consumption.<sup>4</sup>
- With unprecedented global demand for goods and services, accessing new markets can be highly lucrative — including those with a growing middle class and traditionally underserved markets. According to a recent study, this segment currently generates over US\$ 2.5 trillion in annual income and is growing at a rate of over 8% per year.<sup>5</sup> Beyond the potential for growth associated with a rapidly emerging and diverse consumer base, consumer preferences have also been shifting dramatically:



- 91% of global consumers ‘unequivocally believe companies must operate responsibly to address social and environmental issues’; 90% would ‘like to see more responsible products and services offered from companies’; and 90% are likely to switch brands to one affiliated with a good cause if quality and price are similar.<sup>6</sup>

## 2. Recruit and retain talent

Beyond the generation of new revenue and growth, diversity and inclusion are increasingly tied to improvements in company performance and are accelerating competition for talent. Businesses now compete globally for progressively scarce technical and professional skills. Corporate citizenship (ie a company’s role in, or responsibilities towards society) is emerging as an important criterion in the talent market. This has led to more socially conscious companies gaining an edge in attracting, engaging and retaining top employees. There is growing belief – and evidence – that better and more diverse talent produces better results. For example:

- A 2012 research report from Deloitte Australia entitled ‘Waiter, is that inclusion in my soup?’ identified an 80% improvement in business performance when diversity and inclusion were high.<sup>7</sup>
- The Center for Talent Innovation in New York found that publicly traded companies that embraced diversity were 45% more likely to have expanded their market share in the past year and 70% more likely to have captured a new market.<sup>8</sup>

## 3. Increase supply chain resilience

Optimising supply chains for resilience can lower transaction costs and increase operational efficiency. Beyond revenue increases via growth and new market opportunities, engagement in social impact can help to manage costs and optimise efficiency. For example, supply chain sustainability is increasingly understood to be a core generator of business value while providing meaningful contributions to companies’ reputations and brands. In the growing retailer-driven supply chain environment, suppliers are looking for opportunities to differentiate themselves by not only reducing costs, but by integrating social and environmental considerations.<sup>9</sup> Some key trends that show the need for increased supply chain resilience include the following:

- Eighty percent of companies involved in a major survey had at least one instance of supply chain disruption in the past 12 months and over 30% reported that disruptions are causing losses in excess of US\$ 250,000.
- Significant supply chain disruptions can cut the share price of companies by 7% and can have lasting consequences, especially in industries such as food, where total profits will be at risk by 2030 as a direct result of supply chain disruptions.<sup>10</sup>

## 4. Spawn investor interest

Socially responsible investing has eclipsed US\$ 6 trillion per year – growing more than 76% since 2012 and meeting or exceeding market returns.<sup>11</sup> The SDGs are coming to be seen as the framework against which many sustainable investments will be assessed for social and environmental impact. Companies pursuing social impact as a part of their core business strategies are seeing increased access to financing in a diversity of forms – from philanthropic grants and impact investments to partial credit guarantees and pay for performance. This phenomenon is not new, but recent trends show that it is becoming more common:

- The socially responsible investing industry exceeded US\$ 6 trillion in the United States alone in 2014 and stands at US\$ 21.4 trillion globally.<sup>12</sup>
- Impact investors and development finance institutions have been leading the way in creating a new impact investing asset class that is projected to grow from US\$ 51 billion in 2014 to US\$ 400 billion in 2025. This figure is likely to continue to grow at nearly 20% per year.<sup>13</sup>
- In public markets, major money managers are expanding the practice of environment, social and corporate governance (ESG) integration – the systematic and explicit inclusion of ESG risks and opportunities into traditional financial analysis – to wider portions of their portfolios.<sup>14</sup>

## 5. Assure license to operate

Aligning with the SDGs allows companies more options when managing risks associated with their license to operate. An emphasis on transparency and accountability combined with environmental pressures continues to translate into increasing regulatory scrutiny. In fact, policy and regulatory risk has risen dramatically in emerging markets since the 1980s.<sup>15</sup> Companies that explicitly recognise the dynamism of the environment in which they operate can implement appropriate strategies to address it. Strong community relations, goodwill from governments and respect from locals can mitigate political and regulatory risks.<sup>16</sup> Governments are increasingly providing both positive and negative incentives to support domestic production and consumption, which can accelerate inclusive business development. A growing number of countries around the world are supporting inclusive businesses through a variety of policy instruments. These efforts are driven by the governments’ desire to engage the private sector in order to accelerate the pace of addressing poverty and other social and environmental challenges. Government approaches typically focus on:

- Enabling inclusive businesses to enter and operate in low- income markets (ie by removing obstructive policies or making information on consumption patterns available);



- Assisting inclusive businesses in integrating the low-income market segment into their value chains (by encouraging companies to source from low-income producers); and
- Empowering low-income communities to participate in inclusive business value chains (by building their capacity and by providing access to financing).

In 2015, the G20 Inclusive Business Framework identified a list of policy instruments available to governments to support inclusive business. These instruments were organised around the core challenges faced by inclusive businesses – rules and regulations, financing, information and capacity.

The five drivers of financial value clearly outline why businesses should integrate social impact into their core business strategies. Today more than ever, each of these drivers is amplified by prominent market trends, from transformative technology to responsible governance and stronger partnerships.

### Three notable trends enhancing value creation

#### *Transformative technology*

Technology is enabling companies to reach more consumers at a lower cost than ever before – shortening the distance to reach customers, transcending historical constraints and enabling new business models. Take mobile technology: the mobile industry contributed US\$ 3 trillion to global gross domestic product (GDP) in 2014; today's 3.6 billion unique mobile subscribers around the world are expected to grow by an additional 1 billion by 2020<sup>17</sup> and data traffic is expected to increase tenfold in the next five years. Clearly, the business opportunity is significant. Moreover, stakeholders are using technology to become savvier consumers, employees and investors. This proliferation of data and increased access to information is fuelling the trend of conscious capitalism.

#### *Responsible governance*

Companies are responsible to a growing set of stakeholders. As a global CEO states: 'Being a CEO is no longer [just] dealing with your employees, your customers, suppliers, your investors. It is dealing with governments, NGOs, with any interested party who decides to challenge your company.'<sup>18</sup> Meanwhile, shareholders themselves are helping to lower risk in business activity by reinterpreting laws around fiduciary duty and the extent to which they require a sole focus on maximising shareholder impact. As the corporate responsibility (CR) reporting chart below suggests, the rate of CR reporting has dramatically increased over the last 30 years.

#### *Partnerships*

Today's most intractable challenges are blurring lines across sectors, with a growing acknowledgement – not only in government – that problems are too complex to tackle alone. In business, as well, these challenges present threats as well as opportunities, as seen in the recent UN Global Compact CEO survey that indicates 85% of businesses see cross-sector coalitions and partnerships as essential to accelerating transformation towards the implementation of the SDGs.<sup>19</sup>

The SDGs themselves unite these sectors, providing a common reporting platform for impact. In addition to anecdotal evidence of an increase in public-private partnerships, there is a growing number of blended finance sources, with US\$ 36.4 billion mobilised from the private sector between 2012 and 2014 by official development finance interventions in the form of guarantees, syndicated loans and shares in collective investment vehicles (development-related investment funds).<sup>20</sup>

### The role inclusive business can play in driving SDG alignment

In the preceding sections, a case has been made regarding why the SDGs and the intentional pursuit of social impact should matter to business. Yet, while there is incremental understanding within the private sector that social impact in underserved markets represents a significant opportunity for growth and profitability, most investments are still focused on the consumption and service needs of middle- and high-income consumers, who compose only a fraction of the total market. The remaining 3.7 billion who represent an increasingly dynamic consumer market, diverse supplier network, source of untapped entrepreneurship and new channels for distribution, innovation and productivity, are relegated to consuming substandard goods and services or are denied access altogether. To a large extent, the perception remains that business cannot operate effectively and efficiently in low-income markets – and even less so in commercially viable ways. So how can business take advantage of this mass market opportunity? Beyond thinking of these underserved markets solely as a consumer base, what are other ways in which a company can create value consistent with the SDGs? The answer, in part, is inclusive business.

Inclusive business is just like any other business – it drives revenue growth, creates value, leverages investment and enhances the company's brand and reputation. But there is one important difference: inclusive businesses are designed to provide access to goods, services and employment opportunities to underserved populations in commercially viable ways. These populations are integrated within the inclusive business value chain as suppliers, distributors, retailers or customers.<sup>21</sup> Inclusive business contributes to a company's bottom line by



increasing profits and reducing costs on the one hand, while providing income and employment opportunities, and access to previously unavailable or lower-quality goods and services on the other.

Most inclusive businesses:

- Generate market returns as strictly for-profit ventures;
- Maintain social impact as a core part of their business strategies;
- Include underserved populations as suppliers, distributors, consumers and/or sources of formal or informal labour, and generate measurable social returns; and
- Are designed with scale in mind, optimising both the route to impact and creation of company value.

## Aligning with the SDGs is good for business

While the SDGs have created a new business imperative for social impact, over the last decade inclusive business has spawned a new generation of business models that contribute to commercial successes, transformative social returns and an important knowledge base. The convergence of the SDGs with the inclusive business experience offers a unique opportunity to leverage what has been learned, build upon what has been proven and create new pathways for innovation.

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<sup>3</sup>Homi Kharas, 'The Emerging Middle Class in Developing Countries', (working paper, OECD, 2010).

<sup>4</sup>Homi Kharas, 'The Emerging Middle Class'.

<sup>5</sup>William T. Wilson, 'Hitting the Sweet Spot: The Growth of the Middle Class in Emerging Markets', (report, Ernst and Young, 2013).

<sup>6</sup>Cone Communications, '2013 Cone Communications Social Impact Study', (report, Cone Communications and Ebiquity, 2013).

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<sup>10</sup>USSIF, 'The Impact of Sustainable and Responsible Investment', (report, USSIF, 2016).

<sup>11</sup>USSIF, 'The Impact'.

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<sup>14</sup>Deloitte Consulting, 'Supply Chain Resilience: A Risk Intelligent approach to managing global supply chains', (report, Deloitte Consulting, 2012).

<sup>15</sup>Harvard Business Review (2010). "The Hidden Risks in Emerging Markets." Available from <https://hbr.org/2010/04/the-hidden-risks-in-emerging-markets>

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<sup>17</sup><http://www.hbs.edu/faculty/Pages/item.aspx?num=41104>

<sup>18</sup>Accenture, UN Global Compact, 'Agenda 2016'.

<sup>19</sup><http://www.wri.org/events/2015/09/call-joint-action-achieve-sdgs-advancing-integrated>

<sup>20</sup>'Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans and shares in collective investment vehicles', (working paper, OECD Development Cooperation, 2016).

<sup>21</sup>G20, 'G20 Inclusive Business Framework', (report, G20, 2015).



# From fund-raising to market transformation

By Eric Usher and Careen Abb

What does leveraging finance for sustainable development mean? In the simplest terms, it is when private capital is being raised against public capital to implement sustainable projects and attain specific development goals. Today, there is a growing palette of means by which this is achieved, from special one-on-one partnerships, to the use of match-making platforms, the development of blended finance and the recourse to green or social bonds. Another form of leverage is also at work, namely at UN Environment, through its Finance Initiative (UNEP FI).

Since 1992, UNEP FI has entertained a unique partnership with a network of over 200 banks, asset managers and insurance companies, based on a Statement of Commitment and a membership fee that financial institutions endorse to become members of the Initiative. It is, in essence, a partnership to promote a financial sector and system that can purposefully fulfil its role in the implementation of the sustainable development agenda.

## The special role of the financial sector in achieving sustainable development

An estimated US\$ 5-7 trillion a year is needed until 2030 to realise the Sustainable Development Goals (SDGs) worldwide, including investments into infrastructure, clean energy, water and sanitation and agriculture. Banks alone manage US\$ 140 trillion of assets and institutional investors over US\$ 100 trillion. Capital markets, including bonds and equities, exceed US\$ 100 trillion and US\$ 73 trillion respectively.

Banks, asset managers and asset owners have a special role to play in sustainable development not as philanthropists, and not just through niche investments, but as an integral part of their core business operations. Financial institutions hold a privileged place in the economy, related as they are to all sectors, in all geographical areas. Over the years, the finance sector has already taken important steps towards integrating environmental and social considerations in their analyses and decision-making processes, most notably via their risk management procedures – something enshrined at the highest level

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UNEP FI is a partnership between UNEP and the global financial sector created in the context of the 1992 Earth Summit with a mission to promote sustainable finance. Over 200 financial institutions, including banks, insurers and investors, work with UNEP to understand today's environmental challenges, why they matter to finance, and how to actively participate in addressing them.

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

of financial sector authorities with the recent work and recommendations of the Financial Stability Board on climate-related financial disclosures.

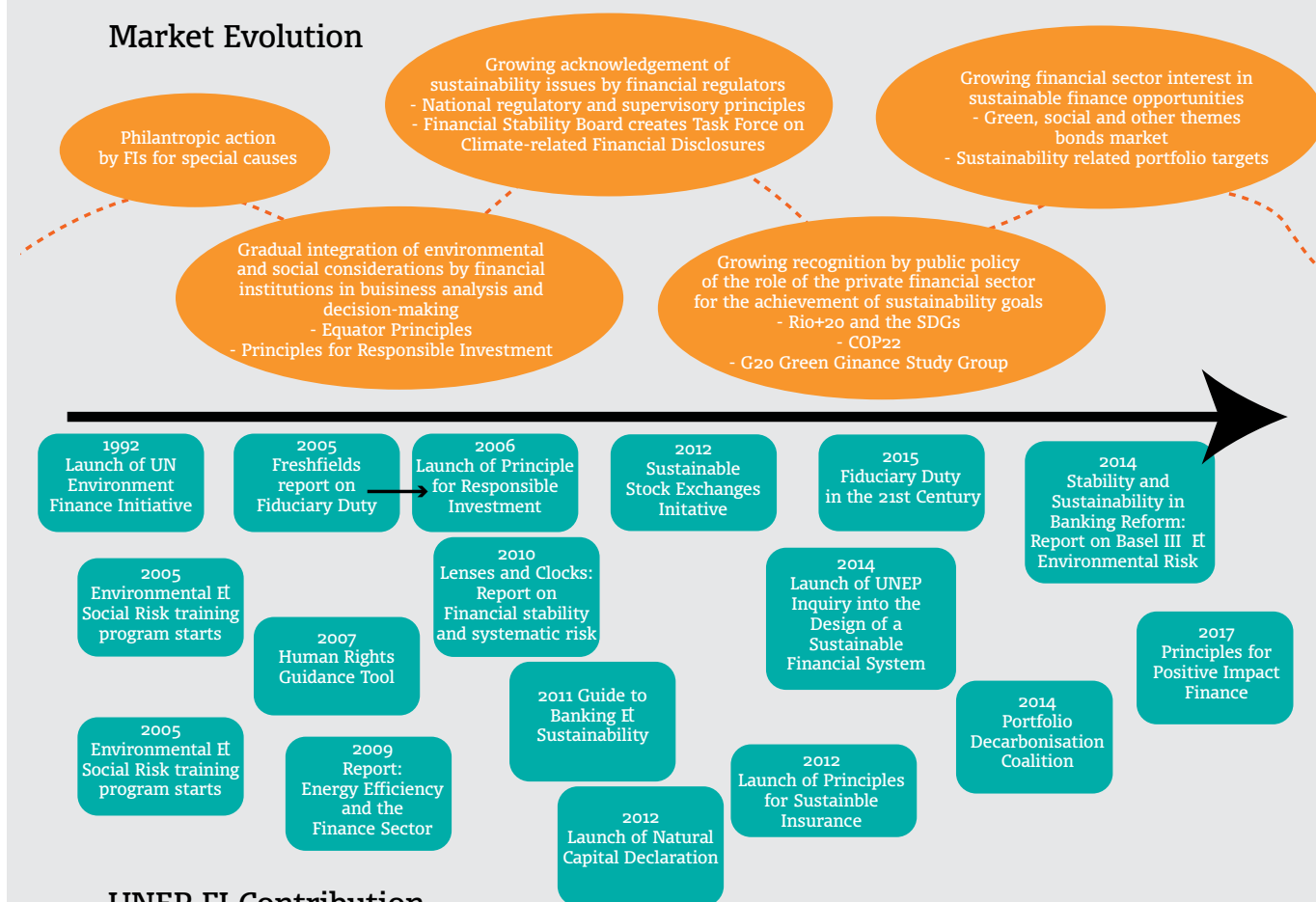
In 25 years of action, UNEP FI has promoted the sustainable finance agenda on several levels, spanning from the establishment of codes of conduct (Principles for Responsible Investment, Principles for Sustainable Insurance), to the development of implementation guidelines (Guide to Banking & Sustainability) and capacity-building for financial institutions, to engagement of financial regulators and the facilitation of finance sector participation at relevant negotiations – the climate negotiations being the most notable case in point. Figure 31 on the next page provides an overview of the partnership's specific contributions to the agenda.

But the role of the finance sector is as yet far from being fully realised, most critically in terms of actually channelling financial services and financial flows to support a range of sustainability objectives, as enshrined in the SDGs. Blended finance, venture capital, impact investing, crowd funding and environmentally or socially oriented market instruments such as green bonds constitute major developments that signal our economies are changing. Nonetheless, the volumes mobilised remain far removed from what is needed (the green bond market represents approximately 1% of the overall bond market).





Figure 31: Sustainable finance timeline



So why is there so little private finance flowing to SDG areas? The difficulty in bridging the gap resides in the fact that the existing projects, entities and individuals which need to be financed do not seem able to comply with the laws of risk and return that constrain the market – or less so than those that currently make up the bulk of the market. They have poor credit ratings, they have no credit record or simply no bank account at all. They lack scale and defeat the logic of current business models. Hardly a commercial target in today's economy.

The private financial sector needs to set itself up internally to be an active stakeholder of the fourth industrial revolution. It must know how to select and engage with corporates, and devise impact-based financing solutions for the new business models, among other things.

In sum, sustainable development is a matter of strategic concern to the financial sector. So, can we go further? UNEP FI firmly believes the answer is yes.

### What is needed is real financial innovation to address two key issues:

- First, the 'financial no man's land' faced by individuals, cooperatives and companies, projects and programmes that are difficult to bank both from a retail and an investment banking perspective. A combination of new technologies, new risk-assessment models and new financial structuring will lead to solutions on this front.
- Second, the absence of impact-based business models and business. These business models will emerge as part of the industrial transformation that is under

### UNEP FI Positive Impact Manifesto & the Principles for Positive Impact Finance

The Positive Impact Manifesto, launched by UNEP FI in October 2015, calls for a holistic and impact-based approach to finance as a means to achieving the SDGs. It outlines a Roadmap to achieve this, a key component of which is the establishment of a common impact-based framework that will enable FIs to switch into a business development mindset on sustainability issues. This will allow them to start making proper headway into delivering 'additive finance', that is finance that actually addresses an existing financing gap.

Accordingly, the Positive Impact Principles were launched in January 2017. By providing a common language for the finance community and the broader stakeholder community, the Principles will help bring coherence and clarity to what is currently a fragmented market, where multiple definitions, objectives and assessment frameworks coexist.

*There are four principles:*

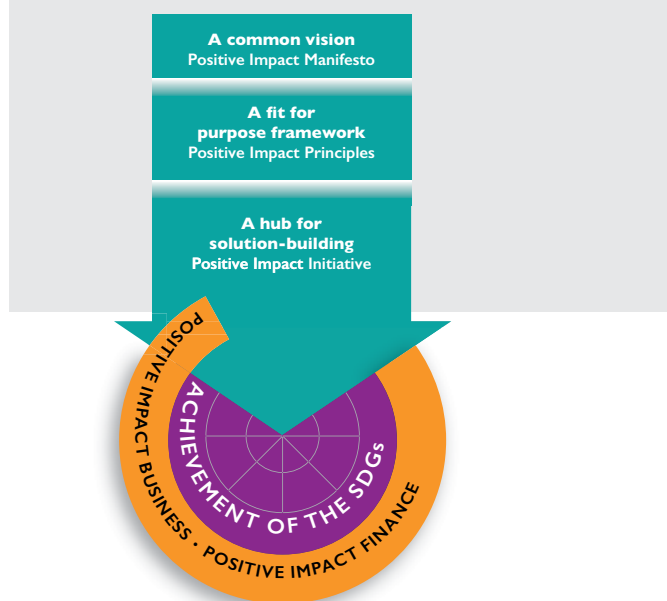
1. The first and most important principle is *definition of positive impact*. Positive Impact finance should be understood as that which serves to deliver a positive impact on one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated. This means Principles are not sector based. The definition embodies a holistic approach to sustainability.
2. The second principle deals with *methodologies and frameworks*. It translates the definition into what needs to happen inside institutions. It establishes the need for dedicated processes, methodologies and tools to identify and monitor impact.
3. The third principle is a request for *transparency* – rather than compliance with set sectors and or methodologies – is required to ensure that stakeholders can judge whether financings are in line with their own needs and requirements.
4. The fourth principle is about *assessment*. The intention is that target impacts must be assessed and verified based on their magnitude, scale, variety and level of additionality.

The Principles propose a new way of looking at business and investment. Over time the emergence of positive impact finance as a recognised standard will further help to build-up the SDG ‘market’, as public and private investors, clients and service providers are empowered to identify private finance players aligned with sustainable development objectives.

### Towards an SDG market

So, what are the implications of such a new financing paradigm for the sustainable development agenda and the ways to finance it? What is in the making is a more fundamental reconsideration of the interaction between financiers, their clients (corporates, businesses and entrepreneurs) and public entities ranging from national governments to municipalities and communities. This implies some fundamental disruptions for public planning.

**Figure 32:**  
**The Positive Impact Roadmap**



Today, to a large extent, the economic actors (corporations, individuals, projects) targeted by the SDGs are considered eligible as clients only if the risks can be carried or shared with multilateral, development and/or export credit agencies. This approach has shown its limits, as evidenced by the difficulties in meeting a variety of public policy targets.

Solution-providers and financiers need to be actively involved at the outset, that is in the design stages of public programmes, to ensure that business models are economically sound, before getting to the pure financing aspects. If the use of public money is to be optimised, private sector players (financial and non-financial) could in theory be asked to prove the need for public funds in the first place.

In sum, what is at stake is for public players to act as programme initiators rather than fundraisers, and for the private sector to see the SDGs as a market where public agencies, whether multilateral or not, are clients.

The UN, with its unique mandate and legitimacy and its broad multilateral network spanning all geographical regions and all sustainability issues, stands in a position of choice to convene all actors of society, to experiment, promote and drive the transformation of public-private interaction.

Can we finance the SDGs? Yes we can.



# The promise of ‘blended finance’

By Homi Kharas

The rough contours of financing for the Sustainable Development Goals (SDGs) are now well known. Low-income and lower middle-income countries alone will need incremental resources of US\$ 1.4 trillion per year over the next 15 years.<sup>1</sup> The challenge is how to mobilise and orient enough capital for investments that contribute to achieving the SDG targets. In this note, I argue that ‘blended finance’, a much used and much abused term that broadly refers to the mixing of funds from public and private sources, offers the greatest promise, but is still in its infancy as an instrument for sustainable development. The Organisation for Economic Co-operation and Development (OECD) estimates that only US\$ 27 billion of private money was mobilised by official development finance interventions in 2015 in blended finance operations.<sup>2</sup> This should increase to several hundred million dollars per year within five years.

Scaling up blended finance, in turn, will require a scale-up of engagement and different approaches by multilateral development banks. They have made some progress, but there is now a risk of a slowdown or even a reversal of momentum due to financial and operational constraints.

## What is blended finance?

Blended finance denotes the co-mingling of public and private financing in projects or programmes that have a distinct development purpose and objective. Although public financing is often concessional (grants, subsidies or concessional credits), it can also be market-based. The defining criterion for blended finance is about the developmental purpose of investments being made rather than about the degree of concessionality. Blending is a way to mobilise more resources for development, by re-orienting purely commercial financing from a short-term profit-maximising to a long-term development-oriented purpose.

The OECD survey shows the many different ways in which blending can occur. Guarantees are the most common instrument, but collective investment vehicles, syndicated loans, direct investment in companies and

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credit lines are also important instruments. There are large regional differences in how blending functions. Credit lines are more important in Eastern Europe, guarantees in Africa, syndicated loans in Latin America, and collective investment vehicles in Asia.

## Why focus on blending?

The reasons for focusing on blending are straightforward. Over the last 10 years, the flow of Official Development Assistance (ODA) to developing countries has only grown by about US\$ 3.5 billion per year. Realistically, sufficient ODA will not be available to finance the incremental investments needed for the SDGs. Innovative financing schemes are helpful, but small. UNITAID’s airline ticket tax has only raised about EUR 1.6 billion in eight years.<sup>3</sup> Only two social impact bonds have been issued in developing countries.<sup>4</sup> Private philanthropy is not growing at scale.

The best option, then, is to re-orient existing business investments in developing countries away from purely short-term profit maximising activities toward activities that are both profit maximising and consistent with the SDGs and poverty reduction. The Business Commission for Sustainable Development, in its report *Better Business, Better World*,<sup>5</sup> shows US\$ 12 trillion of opportunities where business and sustainable development objectives overlap.

Blended finance is a way of getting business to focus on these areas by changing firms’ incentives within the prevailing business environment by using public financial instruments.

## What financing goes into blending?

On the public sector side, blending can be achieved with ODA (US\$ 100 billion per year of country programmable aid), and with public nonconcessional lending (US\$ 50 billion gross disbursements). On the private financing side, there is US\$ 27 billion already mobilised, and US\$ 4 billion in impact investing. The real prize is in re-orienting the US\$ 650 billion of foreign direct investment flowing into developing countries.

Considerable long-term private capital that could be re-oriented towards development objectives is held by institutional investors. Assets held by pension funds in the OECD exceed US\$ 30 trillion, but only one-third is held in foreign assets, and very small amounts are held in infrastructure; 3.5% of total assets, reported by a sub-sample of large pension funds.<sup>6</sup> Many developing regions have their own large institutional investors. Pension funds in the six largest markets in sub-Saharan Africa could have over US\$ 600 billion in assets by 2020.<sup>7</sup> Putting this money to work for development is key.

While it is hard to generalise about mobilisation ratios, current experience is that five dollars of private capital can be mobilised for every dollar of public money.<sup>8</sup> If US\$ 500 billion in private money is to be mobilised, then public funds of around US\$ 100 billion will also be needed. This should be seen as a medium-term (five years, say) target. To achieve the SDGs it is likely that these amounts would double.

## Where can blending make a difference?

In practice, the area with the largest new investment need is sustainable infrastructure. Expansion of renewables, development of energy storage systems, expanding energy access and connecting grids offer large new market opportunities for sustainable development. So does mass transport. Blended finance has great promise in these and other areas of sustainable infrastructure.

One reason for focusing on infrastructure is that trends are moving in the wrong direction. In 2015, there were about 300 projects with US\$ 120 billion in investments involving the private provision of infrastructure, slightly less than in 2009.<sup>9</sup> Data on developments in the first half of 2016 suggests further drops. Partly, this reflects the fact that developing countries, infrastructure, and long-term maturities are a trifecta of risks for private investors, making long-term capital (with maturity over 5 years) difficult to access in the aftermath of the financial crisis. Regulators of banks, pension funds, insurance companies and other financial institutions have placed a premium on liquidity. Basel 3 rules discourage long-term investment allocations by banks and Solvency 2 does the same for insurance companies.

## How to scale up blended finance?

Blended finance needs at least one public and one private partner. On the public side, the best chance for scaling up blended finance, especially for sustainable infrastructure, lies with expanding the engagement of multilateral development banks (MDBs). The mandate of these institutions is development-oriented finance. They have the technical expertise to ensure that the policy environment is sound. They have skills at project identification and implementation. They enjoy political support from borrowers, through cooperative governance arrangements, that reduces default risk. They can deploy the full range of blending instruments discussed above.

But scaled-up blending also needs private partners motivated by profit opportunities and here the development objectives of multilateral banks and governments diverge from the profit-maximisation objectives of business. It bears repeating that infrastructure is a special type of investment because it functions as a network that is used by many other investments and that needs to be accessible and affordable to all elements of society. Consequently, for both equity and efficiency reasons, pricing the use of a particular infrastructure project works best when the costs and benefits of building, operating and maintaining the whole network is considered. The pricing issue (and related allocation of risks) is one of the principal obstacles to scaling up infrastructure and, indeed, to the whole issue of blended finance. As the OECD describes,

*'The question of how to balance the provision of concessional development finance with the need to avoid the distortion of competition is a key question for blended finance. There is unanimity by all sides that official development finance, in particular given its scarcity and mandate, should not subsidise the profits of private sector companies.'*<sup>10</sup>

This concern with not subsidising the private sector, however, has to be understood in the broader context of the pricing decisions that regulators might impose on infrastructure service providers. Often, the more important part of profitability for investors is not the subsidy provided by public concessional or non-concessional finance, but the rules on pricing imposed by regulators. Here, MDBs have an 'honest broker' role to play, ensuring that pricing rules, especially for long-term contracts, appropriately balance the need to ensure profitability for project investors and affordability for users of the infrastructure.



## The Role of Multilateral Development Banks

There are three things that MDBs could do to increase their contribution to mobilising private capital through blending.

### 1. Expand the volume and improve the quality of operations

MDBs could substantially raise the volume of their operations. Standard & Poor's looked at 19 multilateral lending institutions and concluded they could accommodate an additional US\$ 1 trillion of credit exposure.<sup>11</sup> But instead of moving toward scale, the largest MDBs are retreating. New commitments by the five largest MDBs in FY16 amounted to around US\$ 73 billion, but this level is not sustainable under current policies. The International Bank for Reconstruction and Development (IBRD), for example, is on a path toward exhausting its headroom soon unless adjustments are made to its annual commitment volumes, its capital or its equity-to-loans ratio. The same might also apply to other institutions.

MDBs are efficient financial intermediaries because they can leverage publicly-provided equity by borrowing on private capital markets and mobilise private investors directly as part of the project finance structure.

By combining leverage and mobilisation, significant volumes of private capital can be brought into development finance. The International Finance Corporation (IFC) claims that, since 1956, about US\$ 2.6 billion in paid-in equity from member states has permitted IFC participation in projects totalling more than US\$ 245 billion. Not all of this is from privately-sourced money; on average, IFC mobilises about 70 cents of private money for each dollar it invests on its own account.<sup>12</sup> But the principle is clear. Private investors are more prepared to put money into projects where MDBs have done their due diligence and have 'skin in the game', rather than investing on their own.

Selected MDBs appear to have considerable room for expanding their activities (Table 10). The Asian, African and European development banks have low equity/loan ratios, implying they can do more with existing capital. But IBRD, the largest of the institutions, cannot sustain lending at current rates before soon running into statutory lending limit constraints (it has a low headroom to commitment ratio). Table 10 also shows that MDBs can add to their capital through retained earnings, but only at a maximum rate of about US\$ 2.5 billion per year.

**Table 10: Capital Stocks and Loans in five biggest multilateral development banks**

| MDB              | Statutory lending limit <sup>1</sup> | Equity <sup>2</sup> | Total loan and equity assets | Of which, disbursed | Fiscal year commitment | Equity to loan ratio <sup>3</sup> | Headroom       | Headroom to commitment ratio | Fiscal year income <sup>4</sup> |
|------------------|--------------------------------------|---------------------|------------------------------|---------------------|------------------------|-----------------------------------|----------------|------------------------------|---------------------------------|
| IBRD             | 293,439                              | 43,540              | 238,521                      | 173,243             | 29,729                 | 25%                               | 120,196        | 4.0                          | 495                             |
| ADB <sup>5</sup> | 187,989                              | 53,000              | 125,451                      | 98,800              | 15,930                 | 54%                               | 89,189         | 5.6                          | 556                             |
| IDB              | 191,600                              | 26,460              | 111,959                      | 81,952              | 10,803                 | 32%                               | 109,648        | 10.1                         | 848                             |
| AfDB             | 94,602                               | 10,795              | 26,688                       | 20,470              | 6,249                  | 53%                               | 74,132         | 11.9                         | 129                             |
| EBRD             | 41,182                               | 15,783              | 44,928                       | 30,380              | 10,170                 | 52%                               | 10,802         | 1.1                          | 442                             |
| <b>Total</b>     | <b>808,812</b>                       | <b>149,578</b>      | <b>547,747</b>               | <b>404,845</b>      | <b>72,881</b>          | <b>37%</b>                        | <b>403,967</b> | <b>5.5</b>                   | <b>2,470</b>                    |

Source: Compiled from various Annual Reports and Financial Statements

<sup>1</sup>Statutory lending limit consists of unimpaired subscribed capital, reserves and surpluses

<sup>2</sup>Equity consists of paid-in capital and reserves

<sup>3</sup>Equity to loan ratio divides equity by disbursed loan amounts

<sup>4</sup>Net income after transfers

<sup>5</sup>ADB includes ADF and loans outstanding



The MDBs have an aggregate of over US\$ 800 billion in subscribed capital plus retained earnings and reserves, but only US\$ 400 billion has been disbursed in loans and equity. Here may be opportunities to optimise their balance sheets and do more. To make a material difference to SDG investments, they need to more than triple their current lending volumes to, say, US\$ 200 billion per year and have an order-of-magnitude increase in mobilising private investors.

## 2. Move from projects to programmes by supporting national development banks

A second problem that the MDBs must overcome is the inadequacy of the project pipeline. By themselves, MDBs cannot identify and prepare enough projects for their own purposes, let alone for others to participate in. MDB Boards approve each project individually, especially large projects like infrastructure, to ensure compliance with environmental and social safeguards. But a project-by-project approach slows down processing, and efforts to boost the project pipeline have not worked well. For example, Africa50, a new institution set up in 2012 with the support of the African Development Bank and several governments on the continent, is still putting in place its senior management team and has not yet disbursed any project finance. The World Bank established a Global Infrastructure Facility in 2015 with a three-year pilot phase to test its operating and partnership models but so far with limited progress in developing a new approach.

Although MDBs have trouble in building a project pipeline, national development banks in selected developing countries have had less difficulty. The China Development Bank has built up its external assets to US\$ 375 billion and other programmes, including the 'One Belt, One Road' initiative, have quickly found US\$ 40 billion of projects to finance. China has a variety of funds across the developing world totaling in excess of US \$100 billion.<sup>13</sup>

One way of overcoming the project pipeline constraint is by working more closely with national financial development institutions. For example, the IFC invested in Colombia's Financiera de Desarrollo Nacional (FDN) to strengthen a special public-private partnership unit to help structure infrastructure projects, and to ensure that appropriate long-term financing is available for a portfolio of projects. Platforms like the one provided by FDN can facilitate in several ways beyond simply structuring the financing package. They can coordinate across multiple ministries, identify binding constraints (for example land acquisition or resettlement), and help craft local content requirements and tariff agreements in a nationally consistent way. In many middle-income countries, established development finance institutions are natural partners in building platforms. Where these do not exist, MDBs can help develop local capability

so that, over time, the responsibility for developing the pipeline of infrastructure projects shifts to developing country institutions.

## 3. Exit mechanisms –infrastructure as an asset class

A third bottleneck is the lack of exit mechanisms by MDBs. When MDBs participate in an infrastructure project, they hold the asset to maturity and this places a burden on the balance sheet. Commercial financial institutions often try to mobilise private institutional capital after completing a loan. The bundling and re-selling of mortgage loans is a common example of this. Extending the analogy, exiting after the project construction phase, for example, would allow MDBs to use their equity again in early stage financing where it is most effective in orienting investments toward sustainable development. For exit mechanisms of this type to work, infrastructure investments must be seen as a distinct asset class. Some institutions are piloting new approaches. The National Investment and Infrastructure Fund in India is an example of a new fund that explicitly targets private investments in brownfield projects as well as greenfield opportunities, potentially opening opportunities for a new class of institutional investor.

## Getting to Scale

The ability to mobilise and orient trillions of dollars per year toward development purposes hinges on blended finance, especially applied to infrastructure investments. In infrastructure there are particular obstacles related to the credibility of the policy and regulatory environment over a long-term horizon, the need to consider networks, the development of a pipeline of projects, and implementation and coordination issues associated with large, complex projects. Public sector engagement is useful in addressing each of these. Private capital can provide additional resources, management and technical expertise, and operational know-how.

Principles, policy insights, governance arrangements and measurement are needed to advance the blended finance agenda. There is, nonetheless, agreement that multilateral institutions are well suited to play an important role in any scaling up of blended finance. They need to act more swiftly on volumes, platforms and exit mechanisms to make this happen.



## Footnotes

<sup>1</sup>Guido Schmidt-Traub, 'Investment Needs to achieve the Sustainable Development Goals', (working paper, Sustainable Development Solutions Network, 2015).

<sup>2</sup>OECD, 'Amounts Mobilised From The Private Sector By Official Development Finance Interventions: 2016 OECD-DAC Survey – Preliminary Analysis', (report, OECD, 2017).

<sup>3</sup>UNITAID, 'Audited Financial Statements for the year ended 31 December 2015' (financial statement, UNITAID, 2016).

<sup>4</sup>Emily Gustafsson-Wright, '5 Highlights from impact bond activity in developing countries in 2016 (and a look to 2017)' Education Plus Development blog, 13 January 2017.

<sup>5</sup>Business and Sustainable Development Commission, 'Better Business, Better World' (report, BSDC, 2017).

<sup>6</sup>OECD, 'Annual Survey of Large Pension Funds and Public Pension Reserve Funds: Report on Pension Funds', (report, OECD, 2016).

<sup>7</sup>Renaissance Capital, 2012

<sup>8</sup>World Bank., 'Innovative Finance for Development Solutions', (report, World Bank, 2010).

<sup>9</sup>World Bank, 'Private Participation in Infrastructure Database (PPIDB) – Half Year Update (January – June 2016)', (report, World Bank, 2016).

<sup>10</sup>OECD, 'Blended Finance for Sustainable Development: Moving the Agenda Forward', (report from DAC Meeting, 09 March 2017).

<sup>11</sup>'Standard & Poor's Market Intelligence Global Credit Portal', Global Credit Portal, 12 April 2016, Article Says Multilateral Lending Institutions Could Lend An Estimated \$1 Trillion More.

<sup>12</sup>Total Core Mobilization divided by Total Long-Term Finance. Source: International Financial Corporation, 'Annual Information Statement FY16' (report, International Financial Corporation, 2016).

<sup>13</sup>Kevin P. Gallagher et al, 'Fueling Growth and Financing Risk: The benefits and risks of China's development finance in the global energy sector' (working paper, Global Economic Governance Initiative GEGI, 2016).

# Blended finance in fragile contexts: Opportunities and challenges

By Cordelia Lonsdale and Sarah Dalrymple

Financing the 2030 Agenda for Sustainable Development is a substantial undertaking – the annual funding gap for developing countries is currently estimated at trillions. Blended finance (using development cooperation to de-risk, crowd-in or ‘leverage’ private investments in these countries) is attracting attention for its potential to help fill this funding gap, including within the Addis Ababa Action Agenda.<sup>1</sup> With financing especially challenging in situations of conflict, fragility and crisis (‘fragile contexts’ for the purpose of this paper)<sup>2</sup>, the role that blended finance can play in such contexts is a particular focus of emerging international discussions. This paper explores the role of blended finance in fragile contexts and identifies considerations and recommendations for the United Nations and wider development actors. We recognise that fragile contexts are diverse (from prevention and risk, to post-conflict and transition, and active crises) and that considering different types of evidence will be critical.

Blended finance methods are well established in terms of using concessional resources, mainly from public sources, to ‘leverage’ other non-concessional public funds. The EU has ‘blended’ its own grants and loans for at least 10 years, through regional facilities, and the International Finance Corporation’s (IFC) Blended Finance Unit has blended its own investments with donor grants in climate, agribusiness and small and medium-sized enterprise sectors since around 2008. The focus of this paper, however, is on new initiatives that use public and philanthropic inputs (financial or non-financial) to attract investments from private actors into development. All concessional financing instruments, including grants, debt and equity, can be blended to subsidise private finance by providing either grant elements for loans or subordination in investment structures. The purpose is to reduce investor perceived risks or lower project costs. This public–private blending has been promoted by the World Economic Forum, the Organisation for Economic Co-operation and Development (OECD) and the World Bank.<sup>3</sup> It is increasingly considered part of the ‘innovative financing’

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toolbox donors use to mobilise resources, which also includes guarantees and risk insurance, and ‘payment for results’ approaches.<sup>4</sup>

## Blended finance in fragile contexts

While to date public–private blending has largely benefited middle-income countries, donors are starting to consider its use in fragile contexts. Donors such as Germany, the UK and the EU have launched new policy narratives that promote innovative use of official development assistance (ODA) to attract investments in poorer, ‘riskier’ countries, with an emphasis on private investment in tackling the ‘root causes’ of fragility.<sup>5</sup> Recent World Bank initiatives such as the Multilateral Investment Guarantee Agency’s (MIGA) Conflict-Affected and Fragile Economies Facility, which provides political risk insurance to foreign investors in fragile contexts, and the International Development Association’s IDA18 Private Sector Window blending facility, which uses IDA resources to support the IFC and MIGA to ‘grow the domestic private sector and create conditions for long-term responsible investment,’<sup>6</sup> have secured backing from donors. The OECD Development Assistance Committee (DAC) is reforming ODA guidelines to allow donors to score ODA credit for using private sector instruments (eg guarantees and equity





investments in private companies) in developing countries, which will incentivise their use in ODA-dependent fragile contexts. International financial institutions (IFIs) appear to increasingly view fragile contexts as targets for their activities, since they can easily evidence the financial and development additionality<sup>7</sup> of interventions because markets and institutions are weak and livelihood needs are significant.<sup>8</sup> This could further encourage donors keen to demonstrate impacts to scale up blending in these contexts, since the perceived lack of additionality of blended finance in middle-income countries, has caused blended finance to receive criticism.<sup>9</sup> To date, there is little evidence that blended finance is used in active crisis contexts; most case studies show implementation in prevention and risk and post-conflict and transition contexts.

## Benefits and opportunities

It is important to be cautious when discussing benefits of blending, particularly in fragile contexts. This is because initiatives are mostly new, evidence of impact is largely inconclusive (although the evidence from public–public blended finance experiences suggests that developmental impact has been mixed), and long-term ramifications for countries are unclear. Donors, however, are framing the potential advantages in fragile contexts as beneficial for the institution and the taxpayer in donor countries as it makes aid go further by ‘leveraging’ finance. They also consider the sustainable development impact to include the following:

- *Addressing the root causes of conflict and fragility* by leveraging private investment and creating jobs, particularly for excluded groups (eg ex-combatant youths in the case of the Virunga Energy project, see page 90). Support to local businesses may also forge trading relationships between communities across conflict divides, helping to build peace.
- *Creating markets* by financing ‘demonstration’ projects and providing support to create projects ready for investment (‘bankable’), particularly in infrastructure. This can strengthen investor confidence in fragile contexts with underdeveloped markets.
- *Economies of scale for transformative initiatives*, achieved through well-structured public–private partnerships which may involve blended finance, can be beneficial in fragile contexts where in-country expertise and resources are limited.
- *Decreasing reliance on ODA*. The World Bank, in particular, frames blending in public utilities (such as water) as a ‘stepping stone’ between grant funding and commercial financing.
- *Providing capital for rapid disaster response*. Grant funding may help leverage capital from local banks, mobilising extra capital for businesses serving populations affected by crisis. Both IFC and MIGA aim to increase their role in disaster response, according to the Private Sector Window proposals.

## Risks and challenges

Well-documented concerns around blended finance include: skewing of intended development impacts by commercial incentives; an increase in tied aid; a lack of transparency and accountability; and adverse market impacts (such as market distortions and inappropriate transferring of financial risks to the public sector). These risks could be exacerbated in fragile contexts where public oversight of private activities may be limited due to weak governance. Additional risks relevant in fragile contexts include the following:

- *Blended finance could cost countries ‘traditional’ ODA*. The higher the risk to investors, the greater are costs to public actors in ‘catalysing’ deals through subsidies. While security and financial risks can be mitigated, although this may be costly and complex, political risks (eg weak, corrupt or illegitimate governments) may be more problematic for investors. This may heighten opportunity costs for donors in fragile contexts using ODA for blending in contrast to other, more traditional uses—an important consideration as ODA levels worldwide are plateauing.<sup>10</sup> In fragile contexts it is critical that aid to the private sector does not take the place of aid to social sectors and for those in most need.
- *Diversion of donor efforts away from long-term efforts to strengthen the private sector*. In fragile contexts especially, a flexible, multi-faceted and long-term approach to strengthening the private sector is needed, including stable support for long-term policy reform initiatives. Efforts to catalyse individual deals will be effective in the long-term only if support is in place to strengthen the investment climate.
- *Exacerbation of existing unequal power and conflict dynamics (eg in the extractive industries)*. This can be caused by a lack of transparency and private actor mandates resulting in inappropriate investments that intensify rather than address poverty reduction. It is not always clear whether blended finance actors have the mandate, commitments or capacities needed to conduct conflict assessments or assess long-term risks.

## Conclusions and recommendations

In fragile contexts, the UN should consider supporting specific cases of blending that are considered transformative by providing support for pilot initiatives, with appropriate oversight and consideration of potential risks. Efforts could be made to coordinate humanitarian and development expertise to ensure blended finance interventions support collective outcomes in protracted crisis, risk and transition contexts. These initiatives should be aligned to long-term private sector development objectives and facilitate the participation of vulnerable populations in economic growth. The UN Capital Development Fund, the United Nations



**Table 11: Examples of public–private blending initiatives in fragile contexts**

| Project/date                                                                                                        | Where                                                                   | Partners and instruments                                                                                                                                                                                                                                                                       | Impact to date (developmental and financial)                                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| New Partnership for Africa's Development – Infrastructure Project Preparation Facility (NEPAD–IPPF)<br>2005–ongoing | Africa (all countries)                                                  | AfDB, Canada, Denmark, Germany, Norway, Spain, UK<br><br>Grant funding and technical support for project preparation                                                                                                                                                                           | Secured public and private financing of US\$ 7.88 billion for infrastructure projects<br><br>(Unclear % in fragile contexts)                                                                                                                        |
| IFC Global Financing Facility for SMEs<br>2012–2020                                                                 | Multiple countries including 'conflict areas of Africa and South Asia'  | DFID (UK)<br><br>Senior debt, subordinated debt<br><br>Risk-sharing facilities (first-loss guarantees)<br><br>Partial credit guarantees<br><br>Interest rate buy-downs                                                                                                                         | US\$ 36 million committed to investments (unclear where and from what sources)                                                                                                                                                                      |
| Beyond the Grid (Power Africa)<br>2014–ongoing                                                                      | African countries, including fragile contexts (eg Liberia)              | Multiple donors, US government agencies, host governments, 40+ private/foundation partners<br><br>Technical assistance and 'catalytic' grant funded instruments                                                                                                                                | Facilitated over US\$ 1 billion in new private sector investments in off-grid energy<br><br>(Unclear what proportion of total in fragile contexts)                                                                                                  |
| Virunga Energy<br>2016–ongoing<br><br>New hydroplant/electric grid development                                      | Virunga National Park in North Kivu, Eastern DRC                        | CDC's Impact Accelerator with previous grant funders including the Howard G Buffet Foundation, the EU, members of the Virunga Foundation and the Belgian Government<br><br>Investment finance: mezzanine loan and technical assistance provided by CDC blended with previously received grants | Support for a grant-receiving organisation to migrate to investment capital<br><br>Establish clean power infrastructure in a region of 4 million people that lack reliable supply of electricity.<br><br>Provision of jobs for youths/ex combatants |
| IDA18 Private Sector Window Blended Finance Facility<br>2017–2019                                                   | IDA countries with a particular focus on IDA-eligible fragile contexts. | IDA funds (to IFC and private sector), with IFC loans, subordinated debt, equity, guarantees and risk sharing (to private sector)                                                                                                                                                              | Funds for IDA18 committed by donors in December 2016                                                                                                                                                                                                |

**Abbreviations:**

AfDB: African Development Bank;  
 CDC Group Plc: DFID: UK's Department for International Development  
 DRC: Democratic Republic of the Congo  
 IDA: International Development Association  
 IFC: International Finance Corporation  
 SME: small and medium-sized enterprises



Conference on Trade and Development (UNCTAD) and the UN Development Programme could generate knowledge, country-based evidence and policy guidance on blended finance with a specific focus on fragile contexts. They could put pressure on donors and international financial institutions to provide better data and evidence to strengthen transparency and knowledge. The annual Financing for Development dialogue with Bretton Woods Institutions could promote policy dialogue and call for commitments from all actors on data, impact reporting, accountability and transparency.

Given the risks and scarcity of evidence to illustrate that it is delivering transformative developmental impacts, blended finance should be used selectively and with consideration of country context and long-term impact. In fragile contexts in particular it should not be

viewed as a 'silver bullet' to 'turn billions of dollars into trillions'. The high opportunity costs and long chain of causation when using ODA for blending to reduce poverty in fragile contexts should be examined carefully, and international public finance is still needed for the direct provision of support and basic services to vulnerable populations. 'Results-based' innovative financing mechanisms, such as social and humanitarian impact bonds under development in fragile contexts<sup>11</sup>, may offer further promise to donors, including in crisis and active conflict contexts. More research is needed to map the scale, financing instruments, actors and impact of existing innovative financing mechanisms in different fragility, crisis and conflict situations to provide better information for decision-makers involved in financing Agenda 2030.

## Footnotes

<sup>1</sup>Transforming our World: the 2030 Agenda for Sustainable Development', New York, United Nations, 2015; 'Addis Ababa Action Agenda Of The Third International Conference On Financing For Development'. New York: United Nations, 2017, paragraphs 48 and 54.

<sup>2</sup>World Bank Group, 'Financing for Development Post-2015', (report, World Bank Group, 2013).

<sup>3</sup>World Economic Forum and OECD, 'Blended Finance in the Private Sector Context', (report, World Economic Forum and OECD, 2015).

<sup>4</sup>Such as advanced market commitments, development impact bonds, vouchers, etc. Other 'innovative' uses of concessional finance include social impact investing and SME 'challenge funds'. At the World Humanitarian Summit in 2016, several of these innovative financing initiatives were announced, such as a humanitarian impact bond and a global Islamic endowment fund.

<sup>5</sup>European Commission, 'State of the Union 2016: EU External Investment Plan', (factsheet, European Commission, 2016).

<sup>6</sup>International Development Agency, 'Further Details on the Proposed IFC-MIGA Private Sector Window in IDA18', (report, IDA, 2016).

<sup>7</sup>Financial additionality is when the private investor would not have engaged without public sector involvement. Development

additionality is when the interventions increase the development impact and sustainability of a project with positive implications for growth and poverty reduction. See Anja-Nadine Koenig, 'Private Capital for Sustainable Development', (report, Ministry of Foreign Affairs of Denmark, 2016).

<sup>8</sup>International Finance Cooperation, 'International Finance Institutions and Development Through the Private Sector. A joint report of 31 multilateral and bilateral development finance institutions', (report, International Finance Cooperation, 2011), pp 28-30.

<sup>9</sup>UK Aid Network, 'Leveraging Aid: A literature review on the additionality of using ODA to leverage private investments' (report, UK Aid Network, 2015).

<sup>10</sup>See exploration of the 'opportunity costs' in Oxfam International, 'Private finance blending for development: risks and opportunities', (report, Oxfam International, 2017).

<sup>11</sup>Examples include a new impact bond in development through the Global Financing Facility for health provision in Cameroon in collaboration with Social Finance, the Ministry of Health Cameroon, Grand Challenges Canada and Kangaroo Mother Care, and a new humanitarian impact bond being developed by the International Committee of the Red Cross as an outcome of the World Humanitarian Summit.

# Reaching the last mile:

## The role of innovative finance in meeting the Sustainable Development Goals

By Judith Karl

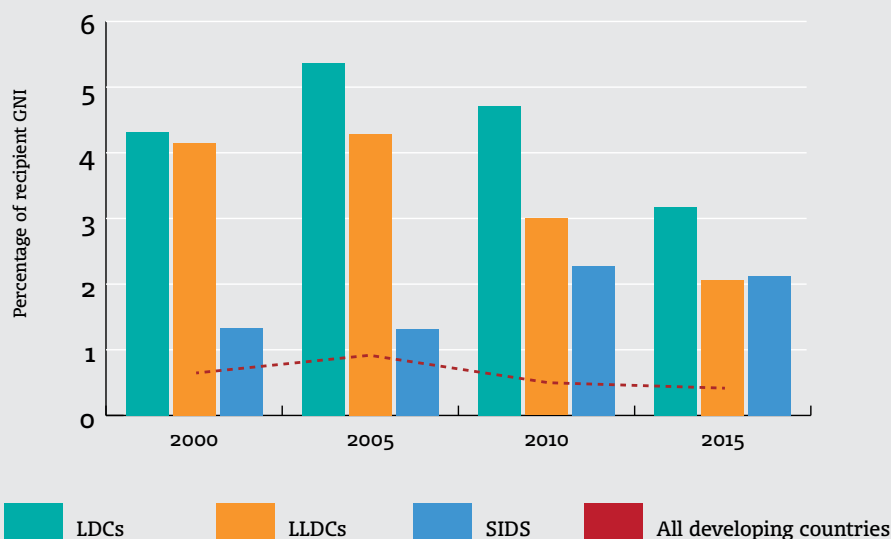
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*These are the personal views of the author and do not necessarily reflect the views of the United Nations.*

Moving from traditional resource transfer models to innovative financing solutions that shift the dynamics of where finance flows within a country is important for meeting the Sustainable Development Goals (SDGs). There is untapped potential for blended finance models to use international public finance, notably Official Development Assistance (ODA), to unlock additional resources and channel them to the families, local governments and Small- and Medium-sized Enterprises (SMEs) that are underserved and where resources are most scarce. This can be achieved by deploying ODA in the form of technical assistance as well as capital grants, concessional loans and guarantees in ways that de-risk and catalyse public and private, domestic and international, investments to support economic transformation at the local level and tackle entrenched inequities and exclusions.

This challenge is especially important in the world's 48 Least Developed Countries (LDCs). ODA is the largest source of external finance in many LDCs. Bilateral aid alone to LDCs stood at some US\$ 25 billion in 2015, an increase of more than 4% in real terms compared to 2014. ODA disbursements amounted to more than 3% of recipient Gross National Income (GNI) on average in LDCs in 2015, compared to 0.4% in all developing countries (see Figure 33).

Figure 33: ODA disbursements by Development Assistance Committee (DAC) donors to LDC



Source: United Nations Interagency Task Force on Financing for Development, based on OECD data, available from: [developmentfinance.un.org](http://developmentfinance.un.org)



**Table 12: Sample barriers and challenges for engaging private sector players**

| Sector                        | Sample barriers                                                                                                                                                                                                                                                                          |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Energy and environment</b> | <ul style="list-style-type: none"> <li>• Difficulty of measuring impact</li> <li>• Difficulty in scaling up</li> <li>• Uncertainty related to the political environment</li> </ul>                                                                                                       |
| <b>Infrastructure</b>         | <ul style="list-style-type: none"> <li>• Lack of understanding and capacity of structuring projects</li> <li>• Complex risk exposure (eg related to cross-border investments)</li> <li>• Lack of transparent regulatory frameworks and legal security</li> </ul>                         |
| <b>Agriculture</b>            | <ul style="list-style-type: none"> <li>• Lack of credit history and collateral implies a high risk for lenders</li> <li>• Complex risk profile due to agronomic and political risks</li> <li>• Low demand for financing among smallholder farmers due to high risk evaluation</li> </ul> |

Source: Innovate Finance for Development: Scalable business models that produce economic, social, and environmental outcomes, September 2014

### Mobilising resources for development

As far as domestic public resource mobilisation is concerned, the gap between LDCs and other developing countries has been narrowing since 2000. LDCs' median tax revenue collection has increased from around 10% of GDP in 2000 to almost 15% in 2014. In the SDG period, effective domestic resource mobilisation will be central to financing for sustainable development. On the other hand, ODA and domestic tax revenue are alone not enough. LDCs can also face major obstacles in mobilising other resources for development and in channelling them into social and economic infrastructure and productive investments, particularly at the local level. Reasons for this include perceptions of risk and concerns that returns will be too low; lack of market knowledge; the small size of some projects; and challenging regulatory frameworks and investment climates (see Table 12 above).

This means that investment flows to LDCs still concentrate on too few countries and sectors and, within LDCs, investments often flow towards extractive industries, real estate, or narrow infrastructure corridors. Important development projects and programmes in LDCs are therefore very often unfunded or under-funded.

Yet, there is money available that could potentially finance these projects. Global annual public and private savings are estimated at around US\$ 22 trillion, and international institutional investors hold an estimated US\$ 80 trillion to US\$ 90 trillion in assets.<sup>1</sup> Currently, only a small percentage of global investment assets of banks,

pension funds, insurers, foundations and endowments, and multinational corporations goes towards sectors and regions that accelerate sustainable development in developing countries.<sup>2</sup> LDCs themselves have accumulated reserves in banks and pension funds, through savings and revenue from commodity exports. Unlocking resources from these domestic finance institutions is especially important to promote growth that is inclusive and resilient.

### Public-private partnerships and financing innovations

So how can we ensure the money that is available is invested where it is needed most? One solution is to deploy ODA specifically to de-risk investments in local governments, SMEs and poor households; this can leverage greater amounts of resources from multiple sources. Such public-private partnerships can appeal to private companies that want to expand into new markets; international organisations and governments that want to achieve better results in a resource-constrained context; and investors who seek both social and financial returns, especially in the current low-return environment and as they search for better yields in new frontiers.<sup>3</sup>

Throughout, it is also important to understand and mitigate the risks associated with blended finance. This includes making sure that public resources achieve strong development results and are not used to crowd out private finance for a project that would attract commercial investors without the need for public funds. The risk, otherwise, is that public investments distort domestic

markets and the private sector development. Yet, well-designed and implemented, the potential of such partnerships and financing innovations can ensure finance flows to where it is most needed. This can be seen in the case of local governments in urban settings. Population growth and urbanisation will see 2.5 billion people added to the world's urban population by 2050, with some 90% of that increase in Asia and Africa. Many LDCs are seeing rapidly growing cities, especially so-called 'secondary cities' with populations up to one million inhabitants (see Figure 34).

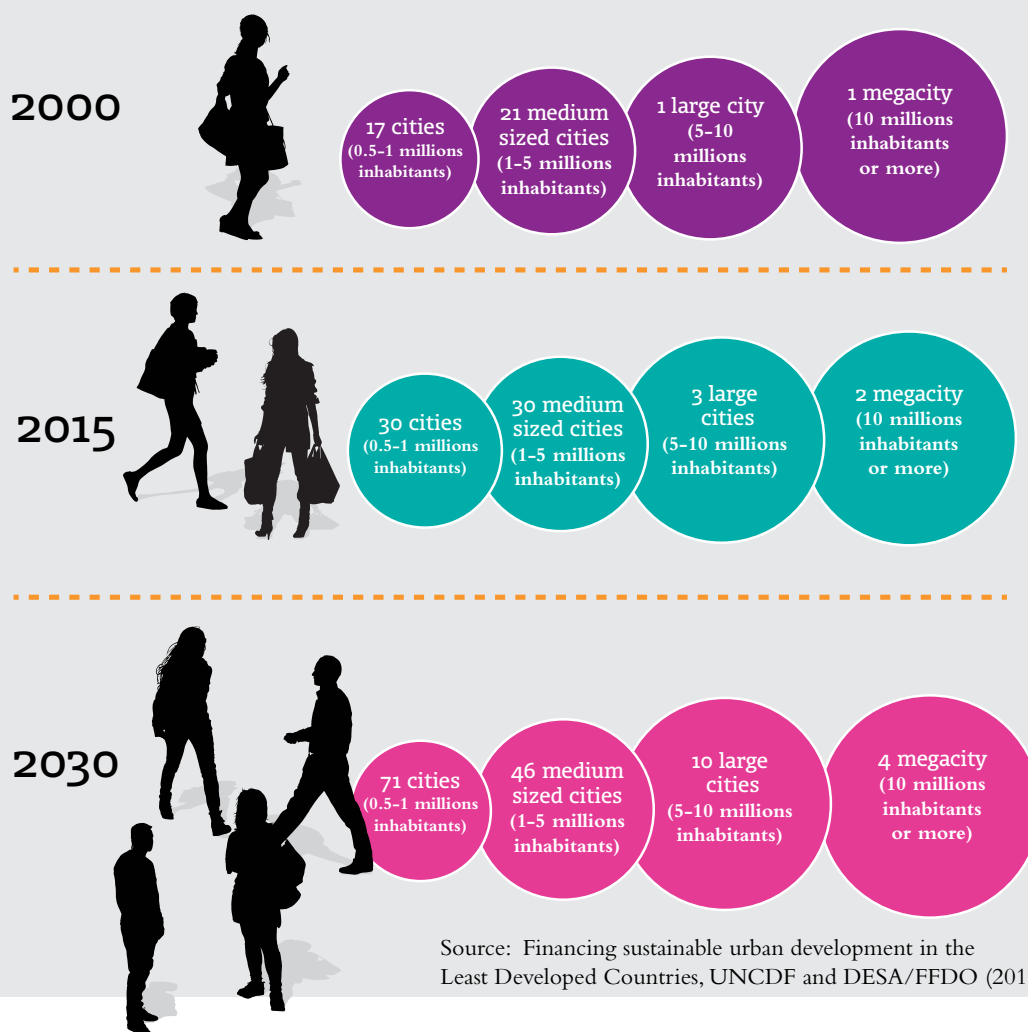
However, local governments, especially outside major cities, often lack the capacity, financial resources, public investments, and pipeline of bankable projects that would enable them provide urban infrastructure and services to all those who need them. It is a pressing challenge to get these cities the finance they need to lock in opportunities as they grow.

To this end, development actors can help improve local creditworthiness, including through supporting well-

sequenced public financial management reforms and revenue collection, as pathways for attracting additional private finance. This will help cities gain access to debt markets on better terms. Another option is to use ODA to build pipelines of bankable projects that can have both development impact and be financially viable. This can crowd in domestic banks and private investors to provide finance on commercial terms – enhancing local productivity and deepening the domestic financial sector. In Tanzania, for example, UNCDF has targeted around US\$ 2 million in seed capital that has unlocked over US\$ 50 million from the domestic private sector to fund a range of local infrastructure projects and small businesses.

ODA can also build confidence in local governments and support their capacity to mobilise public and private resources and plan, manage, and make resulting investments. For example, there is no public rating for a Least Developed Country (LDC) from any of the three major ratings agencies at the subnational level, except for the Municipality of Dakar.<sup>4</sup> Supporting municipalities to

Figure 34: Urbanisation: Number of cities in LDCs in 2000, 2015 and 2030





issue sub-sovereign bonds targeted either at local or international investors, or the diaspora, can help cities raise the finance they need. Bonds can be issued for specific purposes, such as municipal Green Bonds, that finance infrastructure projects with a positive environmental impact.

### Incentivising financial inclusion

Public-private partnerships can also crowd in resources to expand financial inclusion. Between 2011 and 2014, the unbanked population dropped by 20%, from 2.5 billion to 2 billion, over half of whom are women. Yet in developing countries, only 54% of the population has an account. More than 200 million formal and informal enterprises in developing and emerging markets lack adequate financing to grow their enterprises.<sup>5</sup> To tackle these challenges, ODA can incentivise financial service providers to reach poor people and businesses with appropriate formal financial services. Demonstrating the viability of banking poor men, women and young people can upend perceived conventions about offering formal financial services to underserved groups. One UNCDF financial inclusion programmes challenged financial service providers to reach into previously ‘unbankable’ populations: rural low-income women. By supporting the design of tailored products and delivery channels and understanding customers’ financial services needs and behaviours, the programme is breaking barriers of what were once considered unprofitable market segments. Since the programme’s inception in 2012, over 800,000 poor people, the majority rural women, have been linked to formal financial services via savings groups.

ODA can also be used to test and build the eco-systems supportive of alternative delivery channels, such as mobile money and agent networks. Digital finance

services are central to this work, helping financial service providers reach unbanked and remote populations as part of their business plans. In a number of countries, UNCDF is supporting ‘pay-as-you-go’ business models to get to market; these offer people and communities flexible ways to pay for solar power and clean cooking stoves in the same way they use prepaid mobile airtime. In one example, a UNCDF grant commitment of US\$ 250,000 contributed to an energy service company raising over US\$ 22.5 million in blended capital from investors, including US\$ 2.5 million in loans from a private debt provider, and an additional US\$ 20 million in grants and equity from a range of investors, including impact investors, to finance its pay-as-you-go business in Africa and Asia.

UN agencies and civil society can de-risk in other ways too. For example, there is ample scope for better collaboration and sharing of ideas and information among stakeholders to get financing flowing to the last mile. De-risking and unlocking investments in projects that specifically empower women is especially high on the United Nations Capital Development Fund’s (UNCDF) agenda, and a growing number of institutional investors too.

### Conclusion

Member States agreed, in the Addis Ababa Action Agenda and Agenda 2030, that there is a need for multiple sources of finance to meet the SDGs. If existing investment patterns continue over the next 15 years, the risk is that resources will continue to be allocated in ways that entrench exclusions and inequalities.

Reaching the last mile requires using ODA to mobilise much-needed additional resources, and then targeting those resources to improve the lives and livelihoods of those who will otherwise be left behind.

### Footnotes

<sup>1</sup> UNDP and UNRISD, ‘Global Trends: Challenges and Opportunities in the Implementation of the Sustainable Development Goals’, (report, UNDP and UNRISD, 2017).

<sup>2</sup> OECD, ‘Development Cooperation Report 2016’, (report, OECD, 2016).

<sup>3</sup> Innovative Financing Initiative, ‘Innovative Finance for Development: Scalable Business Models that Produce Economic, Social, and Environmental Outcomes’, (report, Innovative Financing Initiative, 2014).

<sup>4</sup> Note: Financing sustainable urban development in the Least Developed Countries, UNCDF and DESA/FFDO (2017)

<sup>5</sup> Peer Stein, Oya Pinar Ardic, and Martin Hommes, Closing the Credit Gap for Formal and Informal Micro, Small and Medium Enterprises, (Washington: International Finance Corporation, 2013).





# Financial protection: Planning today for the disasters of tomorrow

By Bianca Adam

More than one billion people have lifted themselves out of poverty in the past 15 years, but climate and disaster risks threaten these achievements. Global economic losses from disasters are now reaching an average of more than US\$ 300 billion a year. According to a recent World Bank report, when accounting for impacts on well-being, disasters actually cost the global economy 60% more than the economic losses usually reported (US\$ 520 billion) and force some 26 million people into poverty every year. Furthermore countries face increasingly complex threats that often compound the negative impacts of disaster and climate shocks – from migration caused by fragility and conflict situations, to the risk of pandemics. For instance, it is estimated that 93% of people facing extreme poverty today are living in countries that are politically fragile or environmentally vulnerable and, in many cases, both. The United Nation's (UN) humanitarian appeal for 2017 stands at a record US\$ 22.2 billion to help almost 93 million people affected by conflicts and natural disasters.

Climate change exacerbates some of these risks by increasing the frequency and intensity of extreme weather events. In addition, economic growth and rapid urbanisation increase exposure. Building resilience is therefore crucial to safeguard poverty reduction efforts and promote sustainable and inclusive development – particularly for the poor and vulnerable who are the least able to cope with and adapt to increasing risks.

## Proactive approach to financial planning

A growing number of governments and international organisations are moving towards a proactive (and more cost-effective) approach to financial planning to protect national budgets as well as the lives and livelihoods of vulnerable people against the impacts of disasters. This approach complements other elements of a comprehensive disaster risk management strategy – from investments in risk reduction, to improved preparedness and resilient reconstruction.

Bianca Adam is a Disaster Risk Financing & Insurance Specialist at the World Bank Group. The Disaster Risk Financing and Insurance Program supports countries to develop and implement tailored financial protection strategies that increase the ability of national and local governments, homeowners, businesses, agricultural producers, and low income populations to respond more quickly and resiliently to disasters.

Financial protection involves planning ahead to better manage the cost of disasters, ensure predictable and timely access to much needed resources, and ultimately mitigate long-term fiscal impacts. By combining various financial instruments – such as contingency funds, contingent loans and grants, and risk transfer solutions – financial protection allows governments to manage the full range of disaster impacts. Different instruments help address different risks (ranging from recurrent to more rare events), and different funding needs (ranging from short-term emergency relief, to recovery and reconstruction).

In the immediate aftermath of a disaster, being able to rapidly access financial resources is crucial to save lives and livelihoods. Quick-disbursing financial protection instruments can reduce humanitarian impacts and save money by enabling rapid crisis response and relief efforts. In Ethiopia for example, every US\$ 1 secured ahead of time for early drought response activities can save up to US\$ 5 in future costs.<sup>1</sup>

Going forward, climate change may affect a country's risk profile, potentially increasing the frequency and intensity of such hazards. The combination of financial instruments used to address disaster impacts should evolve to take into account the country's changing risk profile.



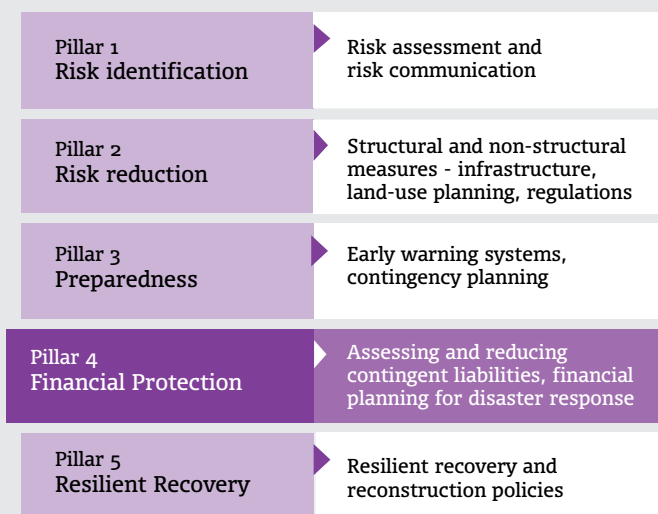
## Financial instruments to manage disaster impacts: a menu of options

In many countries, contingency/reserve funds are used to finance relief, rehabilitation, reconstruction and prevention activities for national emergencies. Sovereign funds specifically dedicated to disaster response exist in Colombia, Costa Rica, India, Indonesia, the Marshall Islands, Mexico, the Philippines, Lao PDR and Vietnam, among others. In the Philippines, the National Disaster Risk Reduction and Management Fund finances a range of disaster-related expenditures, but it is not able to disburse rapidly in response to a crisis. For that reason, the government created the Quick Response Fund, which focuses on an emergency response. In Mexico, FON-EN was created as a budgetary tool to rapidly allocate federal funds for emergency response and rehabilitation of public infrastructure affected by disasters.<sup>2</sup>

A number of other countries are working on the establishment of similar funds. In Kenya, for example, the government is in the final stages of operationalising a national contingency fund dedicated to drought emergencies.

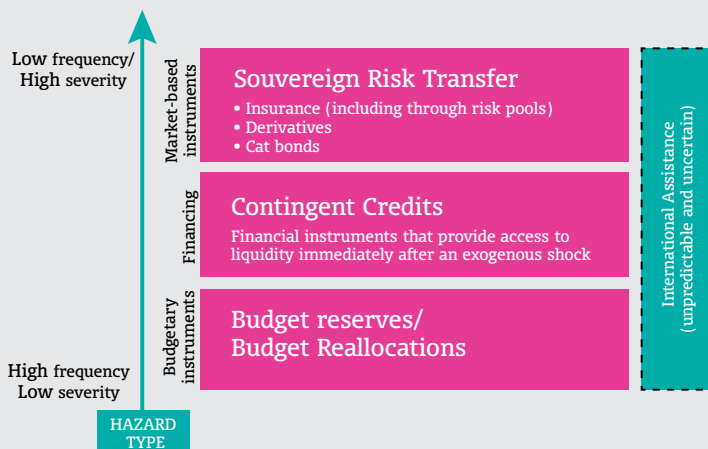
Contingent loans are financial instruments designed to give countries access to liquidity immediately following an exogenous shock, such as terms of trade shock, financial shock, or natural disaster. They are typically offered by multilateral development banks and international financial institutions (including the World Bank, the Asian Development Bank, and the Inter-American Development Bank and the International Monetary Fund (IMF)).

Figure 35: A comprehensive disaster risk management framework



Financial protection is an integral part of a comprehensive disaster risk management framework. To sustainably reduce the impact of disasters on people, livelihoods, and national budgets, governments should always consider ways to identify and reduce the underlying drivers of risk. Financial protection complements risk reduction by helping governments address risks that cannot be mitigated (residual risks). It helps shift the paradigm of risk management toward a more proactive approach focused on planning financial responses in advance, rather than relying on fund-raising efforts after disasters (with unpredictable and uncertain outcomes).

Figure 36: A layered approach to financial protection



Not all instruments serve the same purpose, and governments can take a layered approach to financial protection by combining instruments with different characteristics.

Such risk layering ensures that cheaper sources of money are used first, with the most expensive instruments used only in exceptional circumstances.

The World Bank's contingent instrument for natural disasters, the Development Policy Loan with Catastrophe Deferred Draw-Down Option (CAT-DDO) allows countries eligible to borrow from the International Bank for Reconstruction and Development (IBRD) to secure immediate access to budget support of up to US\$ 500 million, or 0.25% of GDP (whichever is lower) following declaration of a national emergency. Since the introduction of the instrument in 2008, CAT-DDOs have been used in 10 countries for an aggregate amount of US\$ 2.3 billion. These loans also provide a platform for policy reform, which has proven to be a key driver to strengthen national risk management capacity. The CAT-DDO is now being adapted to also address health emergencies and to be made available to low income countries eligible for International Development Association (IDA) financing.

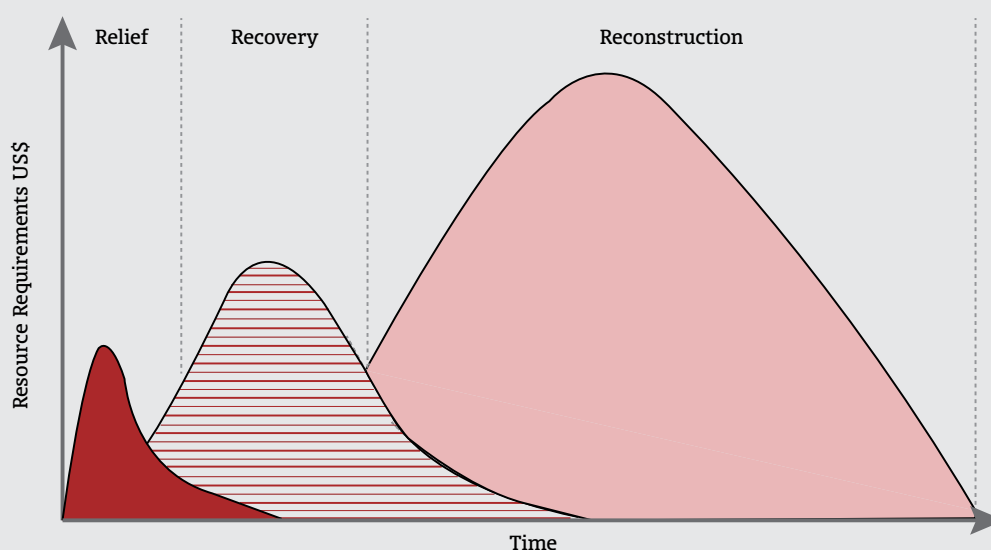
Market-based risk transfer solutions are used in every sector of the economy and have growing relevance in development due to increased exposure to risks that result in economic losses for vulnerable countries. A broad menu of underlying instruments – derivative contracts, insurance contracts or catastrophe bonds – can be used to transfer the risk of specific meteorological or geolog-

ical events (droughts, hurricanes, earthquakes and floods) to actors in the market (insurance companies, reinsurance companies, banks and investors) who are willing to accept them. These market-based risk transfer products use scientific information and actuarial modelling to estimate losses that would be sustained due to a specific event and 'price' the risk.

Disaster risk transfer solutions can rely on parametric triggers, where payments are triggered by the performance of a pre-specified index such as levels of rainfall, length and intensity of drought, tropical cyclone wind speeds, etc.

In Kenya for example, the government supports an innovative livestock insurance programme that uses satellite imagery to monitor drought, triggering payouts to vulnerable pastoralists when vegetation is reduced to critical levels. Designed as a partnership between the government and the private sector, the Kenya Livestock Insurance Programme (KLIP) currently provides insurance coverage to 14,000 farmers in six counties. In February 2017, drought conditions triggered a record payout of nearly US\$ 2.1 million to help pastoralists keep their animals alive until rains return. Catastrophe risk pools, in

**Figure 37: A timeline of post-disaster financing needs**



Different levels of post-disaster funds need to be available at the appropriate time following a disaster to cover relief, response, and reconstruction efforts. In the aftermath of a disaster, the government does not require money for the entire reconstruction programme at once, while immediate liquidity is crucial

to support relief and early recovery operations. Likewise, businesses and households need to have access to timely financing to ensure business continuity and avoid negative coping strategies. Risk pools, as vehicles for quick-disbursing risk transfer solutions, play an important role in enabling rapid response.

particular, are emerging as a promising vehicle to help countries access cost-effective risk transfer solutions by:

1. diversifying risk across multiple countries with different risk profiles;
2. establishing joint reserves to self-insure a part of the risk;
3. transferring excess risk to the reinsurance and capital markets;
4. sharing operational costs, such as programme development and day-to-day back office operations; and
5. building up a better foundation of risk information.

Over the past ten years, twenty-six countries in Africa, the Pacific and the Caribbean & Central America have joined sovereign catastrophe risk pools, and purchased parametric catastrophe risk insurance for an aggregate coverage of US\$ 870 million. Parametric insurance solutions allow for rapid payouts in the event of a disaster – providing liquidity within a couple of weeks and facilitating rapid response. As an example, after it purchased insurance through the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), the Government of Vanuatu received a payout of almost US\$ 2 million just seven days after Tropical Cyclone Pam made landfall in March 2015. This amount was eight times the government's emergency provision and was critical for funding a number of urgent priorities, including flying nurses to the most affected areas and providing lifesaving assistance.

### **Beyond disasters – a comprehensive approach to risk management and crisis response**

Financial protection against climate and disaster risks is increasingly seen as an example to learn from and adapt to manage the financial impacts of other shocks and crises, including pandemics and crises related to fragility and forced displacement.

The Pandemic Emergency Financing Facility (PEF) for example, is a global financing facility that will channel funds swiftly to governments, multilateral agencies, non-governmental organisations (NGOs) and others to finance efforts to respond to dangerous epidemic outbreaks before they turn into pandemics. Developed by the World Bank in partnership with the World Health Organization (WHO), the PEF will include both an insurance component and a cash component to provide more flexible funding.

Risk management and crisis response are becoming key elements of an approach to development focused on global public goods. Given the rapid expansion of the financial solutions available to governments it is necessary to package available instruments and mechanisms in a comprehensive and coherent offering that cuts across sectors and focuses on helping countries manage the full range of risks they face. In this spirit, the World Bank Group recently announced its Global Crisis Response Platform (GCRP), an umbrella to organise existing crisis management tools, so as to improve effectiveness, strengthen complementarity and fill gaps.

### **Conclusion**

Preventing losses and alleviating the impacts of disasters requires a comprehensive approach to disaster risk management—one based on reducing and managing conditions of hazard, exposure, and vulnerability, but also on coordinated and pre-agreed post-disaster plans backed by effective financial protection measures. Not all disasters and crises can be prevented, and governments must be ready to manage the impacts of any residual risk. To manage and mitigate the impacts of increasingly complex threats, governments must move away from reliance on traditional humanitarian support financed with funds raised after an event and toward a system that emphasises preparedness based on national response systems.

### **Footnotes**

<sup>1</sup>Ulrich Hess and William Wiseman, 'Reforming Humanitarian Finance in Ethiopia: A Model for Integrated Risk Financing' (working paper, United Nations World Food Programme, 2007).

<sup>2</sup>FONDEN is complemented by the FOPREDEN (Fondo para la Prevención de Desastres Naturales) to finance prevention activities (mainly studies) for subnational governments.

# UN pooled funds: A game-changer in financing Agenda 2030

By UN Multi-Partner Trust Fund Office

Achieving sustainable development results at the level of scale and ambition inherent in Agenda 2030 will require extensive mobilisation, joined-up systems and approaches, strong leadership and organisation. This is where UN multi-partner pooled funds offer a distinct advantage relative to project-based instruments and where the UN development system (UNDS) experience with such funds is key. The experience and performance of UN inter-agency and multi-partner pooled funds at the global, thematic and country levels have been widely documented and recognised. Since 2004, pooled financing instruments have been extensively applied and tested in advancing progress toward humanitarian, peace, development and climate goals in the UN, international financial institutions (IFIs), bilateral actors, private sector and beyond.

These investment vehicles deserve renewed focus and attention now in the context of the SDG Agenda as they represent a potential game-changer in the financing and delivery of SDG outcomes. For the change-of-game to happen, pooled funds will need to be positioned strategically where most needed, programmed at scale and designed intentionally to support transformative change.

## Advantages of pooled funds

The comparative advantage of pooled funds to deliver integrated outcomes is well researched and documented<sup>1</sup>, including most recently in a paper endorsed by UN Development Group Principals and CEB in 2016<sup>2</sup>. Briefly, the 13 key advantages of pooled funds for Agenda 2030 financing include:

- They promote flexibility in supporting outcomes – pooled funds are the most 'core-like' of earmarked funding as the resources are committed to broad, multi-agency pools rather than specific projects;
- They are transformative vehicles – pooled funds have a common theory of change per Fund for all partners, not just a transactional account;
- They leverage better – by definition pooled funds are multi-partner vehicles, as such with more

The Multi-Partner Trust Fund Office is a UN centre of expertise on pooled financing mechanisms. Hosted by UNDP, it provides fund design and fund administration services to the UN system, national governments and non-governmental partners. The UN MPTF Office operates in over 110 countries and has transferred over US\$ 9.5 billion from over 120 contributors to 67 participating organisations since its inception in 2004.

partners and scale a pooled fund leverages greater additional resources and partners both public and private;

- They promote stronger risk management – with pooled funds comes pooled risk, and collective outcomes;
- They are cost-effective – the division of labour inherent in the pooled fund design lowers transaction costs and reduces duplication;
- They function on the basis of strategic decision making and allocations – purpose-based and inclusive governing bodies lead strategic decisions and priorities;
- They promote predictability – multiyear commitments result in better planning and lower costs;
- They reduce competition for resources – by incentivising collaboration and providing greater transparency to resource mobilisation;
- They encourage innovation – design adapted to a shared outcome, allows for catalytic role and pivoting toward opportunity and change;
- They are inherently a partnership-based model-inclusion concept at root of the pooled fund model;
- They are strong on mobilisation and advocacy – multiple partners catalyse action in others, positive peer pressure;
- They professionalise financial administration and design – dedicated trustee function ensures specialised expertise, as well as fiduciary checks and balances;
- They are at the cutting edge on transparency – real time, public access data and portfolio management on UN MPTF Gateway, for example.

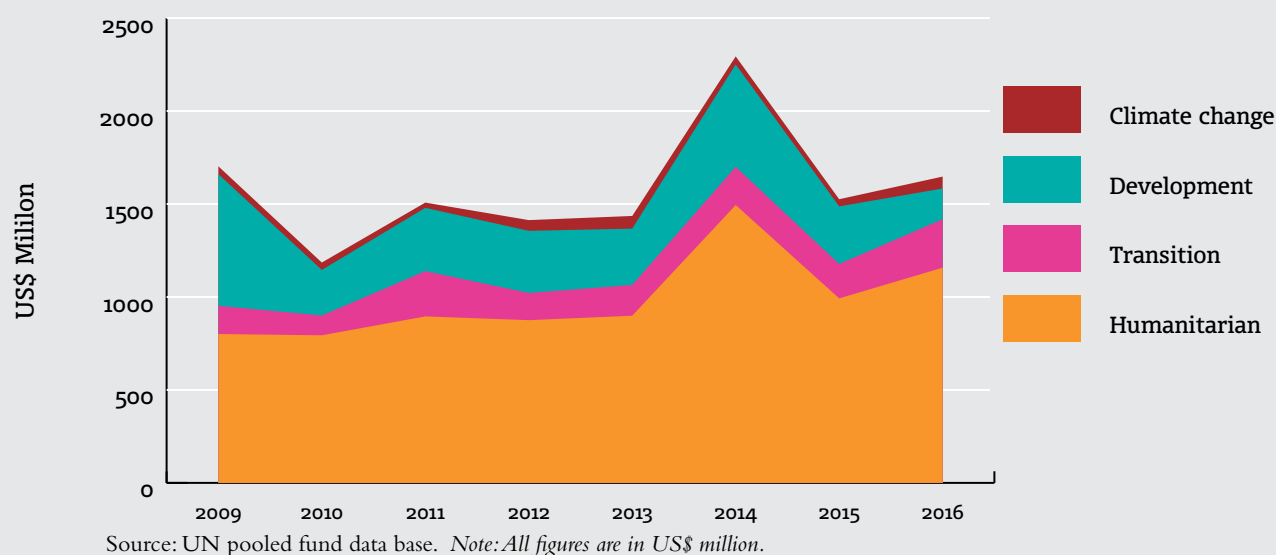


## Differentiated pooled financing: Where and when do pooled funds perform best?

The complexity of financing in the UNDS, coupled with the wider political economy of development finance brings to heart the question of combining and sequencing finance for an optimal SDG portfolio mix. Within this, where and when are pooled funds most impactful?

- When needs assessed are on a large-scale – thus maximising the added value and return from aggregation and mobilisation effect of pooled funds.
- When a diversity of actors is needed for success – the inclusive partnership model yields higher return.
- When the programme scope is broad and/or goal-based – the flexibility of the resourced pool and coalition based design emerges as especially fit-for-purpose.
- In contexts where risk is high or uncertain – pooled funds introduce risk-sharing and a stronger range of risk management tools.
- When harmonisation in financial architecture is needed – pools and collaborative planning work these issues out in the design process.
- When independent trusteeship is valuable in relation to implementing actors – removes conflict of interest, real or perceived, by separating the trustee function from implementing entity

Figure 17: Deposits to UN inter-agency pooled funds 2009-2016



## The current landscape of pooled financing

First, a quick look at the numbers. Figure 17 from Part One (also above) shows the overall trends in capitalisation of UN pooled funds.

### *The good news and the bad news*

The total level of pooled funds was slightly up in 2016 compared to 2015. This is great news for incentivising joined-up action and reducing silos. Nonetheless, it is important to note that this was mainly derived from humanitarian pooled funds and the overall portfolio of pooled funding (humanitarian and development) remains under-employed at only 6-8% of total earmarked funding to UNDS. While the overall pooled trend line is generally positive, when examining the composition

of the portfolio, there are relatively few SDG aligned pooled funds of scale (over US\$ 300 million) and rather dozens of small funds which range in size from US\$ 5-50 million. This landscape increases the risk of neo-fragmentation (fragmented small pools in the place of projects) rather than working at scale towards improved synergy and leverage.

### *Lessons learned*

Aside from the volume of flows to pooled funds, extensive performance and impact experience has been gained from a set of longstanding mature global pools operating in diverse contexts both inside and outside the UN system – The Global Fund, Gavi, and the UN Peacebuilding Fund are examples. Newer models (like



the Global Financing Facility for Maternal, Newborn and Child Health) are also beginning to provide lessons from experience to the next generation of multi-partner financing for the SDGs. Design and planning rigour, leadership, differentiated and context specific design, as well as blending and sequencing with other instruments have proven key to strong performance.

### *What's new*

There are interesting new linkages emerging between some of the vertical, global funds with pooled implementation and financing platforms at the national level. Recently, nationally-led and more horizontal pooled platforms have emerged and similarly show how integration for results can be smartly financed at the national and sub-national levels (Somalia, Colombia, Central African Forestry Initiative, Turkana County in Kenya). These are essential elements of new financing architecture for the SDGs in the spirit of the Addis Agenda for Action. These funds provide national, international private and public sources with a common coordinated decision making platform, creating synergetic financing and pools to drive a common investment and development agenda.

### *More inclusion and diversity in UN pooled fund partners*

In earlier generations of fund design, the UN administered pooled funds were exclusively coalitions of UN partners. Now, the actors and protagonists include governments, private sector, non-governmental organisations (NGOs), philanthropies, and individuals. This shift offers significant promise in strengthening and scaling up joined-up financing for SDGs and for the UNDS' role.

### **The case for larger (and fewer) norm-based pooled funds hosted by the UNDS**

The 'billions to trillions' paradigm for SDG investment is not principally about the size of the SDG price tag. It is about leverage – the smartest way of unlocking, combining and sequencing existing resources from a wide range of sources for investments which achieve common agreed outcomes. And it is about national and international actors and financial instruments playing to their respective strengths in support of the SDG agenda. The specific and optimal role of the UNDS in this ecosystem lies in building on its advantages and characteristics as a normative, policy and operational actor at the global, regional and country level, and in using the best financing instruments at its disposal for particular applications.

With extensive applied experience in pooled financing and with the adoption of a clear and shared global agenda, the time has come for the UNDS to have better and smarter alignment, less fragmentation, more leverage and synergy of financing. There are many well-designed, tested and existing partnerships and finance pools already

aligned with global goals (health in particular) that can function as a centre of gravity to attract new and larger investments for impact. In other areas such as food security, conflict prevention, gender equality this organising principle or platform for smart investment finance does not yet exist. The landscape remains fragmented and therefore is under-delivering impact. Building on and scaling-up the role of the UN-MPTFO as the main cross-pillar centre of expertise in pooled fund design and administration is a good place to start.

This could mean 5–10 broad-based coalition platforms for SDG goals, each supported by a strongly capitalised pooled-fund. Existing smaller funds could be streamlined into these larger pools. At the global level leadership could be exercised through a high-level, inclusive, strategic dialogue and partnership platform. Joined-up SDG platform structures could be mirrored at the country levels led by UN Resident Coordinators and governments to guide strategic financing decision of country-based pooled funds along with other flows. The central positioning and inclusion of normative and global public goods (GPG) dimensions of SDGs is also crucially important and needs to be well anchored in such a new generation of scalable pooled funds. This clearly is at the heart of the added value of the SDG framework and of the UN itself.

Finally, in order to translate the Secretary-General's vision for reform into practice system-wide, the UNDS will need enhanced strategic financing capability. This would provide the ability to analyse and position as a system (as distinct from agency/entity units) in the complex arena of financing and joined-up approaches, including the SG's top priority area of crisis prevention. A stronger financing capability could advise across pillars, as well as country teams and UNRC's on financing strategies, instruments and partnerships to leverage more strongly for the SDGs. It could guide the scale-up of pooled funds as part of the SDG strategic financing architecture and engage the UN system in more powerful global policy dialogues on finance and sustainable development investment. With all this in play, we could certainly see the game change.

### **Footnote**

<sup>1</sup> Financing Sustainable Development: Implementing the SDGs through Effective Investment Strategies and Partnerships, by Guido Schmidt-Traub and Jeffrey D. Sachs

<sup>2</sup> United Nations Development Group, 'The Role of UN Pooled Financing Mechanisms to deliver the 2030 Sustainable Development Agenda', (Discussion paper, UNDG, 2016).





# Financing prevention and sustaining peace

## Introduction

### Financing conflict prevention and efforts to sustain peace – an agenda for change

Today the world is facing a rise in conflict, violence and fragility that calls for stronger multi-lateral cooperation to address the resulting risks and instability and to reverse the trend. Yet countries affected by conflict and fragility receive only 24% of Official Development Assistance (ODA), of which only 16% is for peacebuilding activities.<sup>1</sup> Without adequate resources and a streamlined approach to financing that more strategically builds on strong partnerships, the renewed United Nations approach to sustaining peace cannot succeed. The Report of the Advisory Group of Experts on the 2015 Review for the UN Peacebuilding Architecture points out that, ‘financing for peacebuilding remains scarce, inconsistent and unpredictable’ and the sustaining peace resolutions, adopted in the General Assembly and in the Security Council in April 2016, call on the Secretary-General during the 72nd Session of the General Assembly to ‘provide options on increasing, restructuring and better prioritizing funding dedicated to UN peacebuilding activities.’

This chapter of the report explores some of the challenges and developments specifically related to financing efforts to prevent violent conflict and to sustain peace. The six contributions reflect the complex tapestry of financial realities, including needs, modalities and strategies, that actors engaged in prevention and peacebuilding grapple with. The papers offer diverse perspectives of researchers, practitioners and policymakers with different institutional affiliations, but many share similar observations, identify common concerns and present shared

conclusions. We can thus see patterns in these papers that form an agenda for change in how financing for prevention and sustaining peace could better be structured, and that can be summarised in seven points.

#### 1) *Shared vision for sustaining peace*

The UN and its member states should commit to a shared vision of a long-term, coherent and comprehensive approach to sustaining peace. Having a shared conceptual understanding of what constitutes conflict prevention and sustaining peace will allow member states and the UN system to better align themselves with agreed priorities and will lead to greater quality and effectiveness in the support that is provided to fragile and conflict affected states. The recognition of the primacy of politics in sustaining peace, as articulated in the resolutions, will need to translate into acknowledgement that support to legitimate politics must be prioritised along with enhanced strategies for understanding and mitigating risks.

In her paper *Financing sustainable peace: The right way*, Rachel Scott of the Organisation for Economic Co-operation and Development (OECD) underscores the imperative for donors and policymakers to understand peace as a long-term investment that requires a commitment to long-term financing but with realistic expectations and flexibility to adapt to rapidly evolving contexts. The Sustainable Development Goals (and other agreed frameworks) should be used to establish a transparent, realistic and measurable set of national priorities that create a shared vision and is backed with multi-year financial commitments. The use of compacts to support defined priorities, identify mutual accountability and commit to use of instruments should be further explored.

## 2) *Revamped financing mechanisms and approaches*

Existing and new financing streams for sustaining peace need to be more thoroughly explored and tested, with tools and instruments merged as needed, and strengthened through partnerships. Despite the acute shortfall of resources for prevention and peacebuilding, over 15 different central financing instruments currently exist in the UN for this purpose. The plethora of governance structures, administrative procedures, layers of decision making and guidelines for allocations and reporting that UN country teams and missions are faced with are case in point of the need for consolidation.

The UN has a unique role to play in identifying and mobilising alternative resources for efforts to sustain peace, including from philanthropic institutions and the private sector. Several of the papers in this chapter argue that the value of leveraging resources for peacebuilding needs to be more prominently recognised, rewarded and promoted, including ODA and non-ODA sources. The increase in volume of funds agreed during the recent replenishment of the World Bank's International Development Association (IDA 18) for countries facing fragility, conflict and violence to over US\$ 14 billion – a doubling of resources from IDA 17 – should be seen as a critical opportunity to leverage the UN's peacebuilding efforts.

The relationships between the UN and International Financial Institutions, including regional development banks and new donors, could be clarified and strengthened through dynamic arrangements, improved operational coordination and collaboration and joint results monitoring. Existing partnerships with regional and sub-regional organisations should be expanded, ensuring that these are institutionally grounded and demonstrate mutual respect. The paper by Stephan Massing of the World Bank in this chapter underscores that the challenges and complexity of meeting the financing needs in countries facing fragility, conflict and violence call for exploring the potential for increased financial resources through new partnerships with private investors and the use of blended financing. This idea is further elaborated in a paper that outlines possible innovations in financing for the UN's work on prevention and sustaining peace, including options for increasing voluntary contributions, from governments, citizens and businesses, as well as involuntary contributions through fees and taxes.

## 3) *Commitment to financing through joint and simplified instruments*

There is increased opportunity for member states to demonstrate renewed financial commitment to preventing armed conflict and building peace by utilising joint funding mechanisms at country level that ease the burden on local actors and help pool risk and resources. The multiplicity of parallel funds and processes for financing peacebuilding at country level both fragment the system and create unnecessary duplication and transaction costs, making a strong case for merging existing mechanisms. Allowing for, and expanding the use of, assessed contributions for peacekeeping to be used for programmatic peacebuilding activities also needs to be explored. To retain the ability to respond to shifting needs rapidly and effectively, member states must ensure that global financing mechanisms, such as the Peacebuilding Fund, are funded at an agreed level based on annual estimations.

Jordan Ryan's paper *Assuring that nothing happens - Reflections on financing conflict prevention* articulates the dilemma that the UN faces in securing adequate funding for conflict prevention. Therefore, he argues, it is imperative that greater efforts are made to gather and present data that can demonstrate the value of preventive action and facilitate the UN system to marshal the resources necessary for collective efforts to prevent violent conflict. The Institute for Economics and Peace (IEP) has been investigating the issue of how to demonstrate the cost effectiveness of peacebuilding for the past few years and has developed a global model for this purpose, as outlined in their contribution to this chapter. With the recognition that this approach does not address the insurmountable challenge of putting a price tag on the loss of human life, destruction of social fabric or trauma from rape and mutilation and some of the other terrible effects of war, this effort is an important step in generating an evidence base that can make the case for greater investment in prevention.

## 4) *Acceptance and pooling of risk to allow for rapid response and innovation*

Research and history demonstrate that a certain level of risk tolerance is a necessity to allow for adequate and timely responses to needs in fragile contexts. Traditional financing mechanisms are however often risk-averse. Member states must acknowledge risk as an unavoidable dimension of peacebuilding and apply frameworks for



risk management that include contextual risks in addition to programmatic risks (conflict sensitivity) and risks to aid providers. Pooling and sharing risks allows for a higher level of risk-tolerance. Khalid Koser's paper presents the example of the Global Community Engagement and Resilience Fund (GCERF), a multi-sectoral global fund that was established to be a resource mobilisation focal point bringing together funds from traditional and new donors that is able to spread risk in financing prevention of violent extremism (PVE) initiatives.

#### *5) Financial transparency and accountability enables increased funding*

Financial transparency and accountability between the international community and host governments as well as between governments and their citizens is a foundation for sustainable financing. Dedicated systems for tracking financing to peacebuilding and its alignment with agreed priorities could help in this regard. Several of the papers in this chapter highlight that an enabling factor for increasing financial resources is strengthening the capacity of national actors to lead, manage and monitor efforts to build peace including through reliable and transparent country systems that aggregate and analyse data at the national level to allow for global monitoring of resource flows for peacebuilding and conflict prevention.

#### *6) Financial strategies to include provisions for deepening inclusivity*

Exclusion is a primary driver of conflict and financing strategies need to support legitimate and inclusive national peacebuilding processes. Stronger measures are needed to implement Security Council Resolution 1325 on Women, Peace and Security and to realise the Secretary-General's commitment to ensuring that a minimum of 15% of global financing for peacebuilding is dedicated for initiatives that address the needs of women in peacebuilding, advance gender equality and empower women as a principal objective. Similarly, efforts to increase opportunities for youth in its full diversity to participate in peace processes needs be backed with dedicated and adequate financing. The role of civil society actors in sustaining peace, in strengthening social cohesion and in responding to the needs of the most marginalised groups of society should also not only be fully recognised but activated and supported with requisite funding.

#### *7) Strengthened national resource mobilisation and management*

Enhanced support to national governments is needed to ensure an effective and equitable domestic resource mobilisation reinforcing long-term national efforts to sustain peace. In countries where natural resources present a large percentage of the national income (or have the potential to do so), specific efforts are needed to ensure a conflict-sensitive exploitation and reinvestment of revenues with particular focus on addressing root causes of conflict. The UN and other parts of the international community should make greater efforts to assist conflict-affected countries to address tax evasion and avoidance by national and multi-national corporations and to ensure transparent and equitable contractual arrangements.

As pointed out in the opening of this chapter, the sustaining peace resolutions call on the Secretary-General to present options for restructuring and increasing funding dedicated to the UN's work on building and sustaining peace during the 72nd session of the General Assembly. In following up on this task the Secretary-General has decided to create a platform for prevention, which could go a long way in facilitating joint analysis, strategic decision-making and coordination, and bring a coherent plan together with the appropriate financial means for implementation. The format and governance structure of this platform remain to be determined but the movement in this direction presents a promising development that could break the unsustainable status quo of scarce, unpredictable and inadequate financing for peacebuilding and address many of the key concerns and challenges shared by the contributors to this chapter.

#### **Footnote**

<sup>1</sup> Measuring Peacebuilding Cost-effectiveness, Institute for Economics and Peace, 2017.



# Financing for peace

By Stephan Massing

Stephan Massing is Senior Strategy and Operations Officer at the World Bank.

*These are the personal views of the author and do not necessarily reflect the views of the World Bank.*

The world today faces increasing risks of fragility, conflict and violence that pose a serious challenge to economic development and stability, affecting developed and developing countries alike. Poverty is increasingly concentrated in fragile and conflict-affected countries with more than half of the global poor expected to live in just 35 countries by 2030.<sup>1</sup> Globally, trends such as climate change, demographic shifts, new technologies and transnational ideological movements are significantly shaping the fragility landscape at local, national and regional levels. Ongoing conflicts are at the origin of protracted crises situations and are intensifying the food insecurity of millions of people. They are also causing widespread displacement and other cross-border spillovers. Today, a reported 65 million people are forcibly displaced, of which 21 million with refugee status. These risks and challenges have underscored the need for the global community to take collective action, help manage volatility and invest in building peaceful and resilient societies and states.

In this context financing for peace is about providing financing at the right time, for the right purpose, in the right volumes and on the right terms. It is important to recognise that situations of fragility, conflict and violence are highly diverse, and exist not only in Low Income Countries (LICs) with weak capacity and poor governance but also in Middle Income Countries (MICs), both at national and sub-national level. Financing solutions will need to be tailored to each specific situation, including:

- Countries at risk of conflict, which may require investments for prevention and preparedness and more flexible financing to allow adjustments in volatile situations;
- Situations of active conflict and protracted crises, requiring financing to deliver results in the most insecure environments and at the intersection of conflict and large scale humanitarian crisis;

- Countries in conflict to peace transitions, requiring financing for reconstruction in the aftermath of war and sustained levels of support to transition towards more sustainable peace;
- Countries in ‘deep fragility’, with weak institutions and poor governance that need help to break out of fragility traps.

## The challenge:

### Not enough and often not the right funding

Comprehensive and detailed estimates of financing needs for development in situations of conflict and fragility do not exist. However, it is well established that trillions of additional dollars are needed to achieve the Sustainable Development Goals (SDGs) and substantive amounts will need to be channelled to the most fragile and least developed countries.

In situations of protracted humanitarian crisis, the financing shortfall is most apparent. The United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) estimates that financing requirements for humanitarian assistance have more than quadrupled between 2005 (US\$ 5 billion) and 2017 (US\$ 22.6 billion). At the same time the gap between requirements and contributions to UN-coordinated appeals grew to an unprecedented 45% or US\$ 8.9 billion in 2015.<sup>2</sup> Current crises such as the refugee crisis in the Middle East and the threat of famine in Africa and Yemen add to the already existing humanitarian funding needs. For example, Jordan estimated its financing needs for hosting refugees for 2016–2018 to be US\$ 8.25 billion.<sup>3</sup>



Transitions from conflict to peace, eg following a peace agreement, bring additional financing needs. The destruction caused by conflict are immense and financing post-conflict reconstruction can amount to billions of dollars. Restoring Libya's infrastructure, for example, will cost an estimated US\$ 200 billion over the next ten years. The damage to the capital stock in Syria as of mid-2014 is estimated between US\$ 70-80 billion.

Active conflict and deep fragility also undermine foreign direct investments and private sector activity which are important drivers for development.<sup>4</sup> Conflict zones or fragile situations, where basic government functions for doing business, including enforcement of property rights and contractual relationships, are not provided, create high political risks that many investors are unwilling to take. Also, sovereign borrowers in situations of fragility or conflict often do not have access to capital markets and other (largely) non-concessional sources of finance.

Beyond the availability of financing at the required scale there are other important questions such as the way financing is allocated, how various sources of financing are combined, what type of instruments are deployed and whether financing comes with the right level of concessionality.

While the international community is heavily invested in fragile situations, the allocation of Official Development Assistance (ODA) is uneven, both in terms of a high geographical concentration in a small number of countries, and a low level of ODA financing to sectors such as political reform, security and justice. A large amount of resources is also spent in responding to crises rather than preventing them. A major challenge therefore lies in mobilising and allocating resources more effectively to address and mitigate critical fragility and conflict risks, including in countries that have not been affected by conflict.

Investing in prevention, however, requires taking a long-term view which often contradicts the logic of public funding decisions. It may also require appropriate incentives to make tough allocation decisions. For example, middle-income countries with pockets of fragility and conflict may have limited appetite to borrow and/or channel resources to marginalised or conflict-affected sub-regions.

Financing solutions for fragile contexts most often come in the form of concessional loans and grants from public sources. While grants might be best suited in the context of poorer countries with unsustainable debt burdens, concessional finance (including by blending loans and grants), and using grant money to leverage private capital may go much further and provide financial solutions that

are tailored to the time horizon and the challenge for which funding is needed. Despite an increasing diversity of financing tools that could be applied to fragile contexts, countries still rely on a small range of instruments. Results-based financing instruments and risk management tools such as insurance and guarantees or contingency funds remain underutilised. Financing instruments are also generally based on a country-based model even though financing solutions are often required at regional or cross-country level.

Finally, challenges remain regarding the predictability, flexibility and effective delivery of financing. Donors are often limited by annual budget cycles and can rarely make commitments exceeding a few years. This means that planning is often limited to short-term time horizons. Too often funding remains fragmented and follows a variety of operational and reporting rules, often bypassing country systems. Furthermore funding often is earmarked for specific purposes and lacks the flexibility needed for situations where quick responses to an ever changing environments is needed.

## Financing solutions - frontier issues

In light of the challenges mentioned above and learning from ongoing initiatives a number of promising areas deserve closer examination and could provide potential paths for providing more and better financing for peace.

***Innovative approaches for financing results:*** Development Impact Bonds (DIBs) are an example of a financing solution that ties together various partners and creates incentives to focus on outcomes. While DIBs are still in their infancy, they may have potential for situations of fragility as they shift delivery risks to private investors, provide a strict results-focus to implementation, set incentives for investing in good data systems and provide opportunities for defining new relationships with implementers including social enterprises.

***Attracting private investments and supporting private sector development:*** Private sector activity plays a key role in overcoming fragility and conflict. Jobs generate income for conflict-affected communities and can reduce incentives for engaging in conflict. Fragility, conflict and violence increase investment risk including credit, contractual, political and systemic risk. Public investors can provide partial and full credit guarantees, political risk insurance, and currency swaps to help manage investment risks. At the World Bank, the International Development Association's (IDA) new Private Sector Window will explore blending of public and private finance. This will include providing loss guarantees and co-financing to help pull private investor money into risky environments and provide access to finance for local job creating industries and service providers.



*Attracting new types of investors:* Providing more funds for reconstruction or peacebuilding may require tapping into new and different types of investors. On the supply side of finance, there is increasing interest from private investors in providing socially responsible investments.<sup>5</sup> Thematic bonds could be targeted to socially responsible and impact investors, which are interested in providing capital in challenging situations. These could be issued, among others, by sovereign Middle Income Countries with access to the global capital markets, for example to finance reconstruction and peacebuilding at subnational level. Multilateral Development Banks (MDBs) could issue guarantees or insurance to improve the rating of such bonds. However, as investors require trust in the borrower, appropriate risk return profiles, and high-quality investment opportunities, financing might be limited to a few countries and intermediaries such as development banks.

*Concessional financing for peace and stability:* As grant money is limited, concessional finance strikes a balance between loans at market terms and grants. Given the same donor effort, a concessional (or soft) loan can provide more financing than a grant. Lessons from the Global Concessional Finance Facility (GCFF) illustrate the potential of using concessional financing in middle-income countries to help catalyse global public goods and reduce cross-border and/or regional challenges. We need to explore how to use this approach to create incentives to invest in prevention and focus on building resilience and supporting peace and stability.

*Preparing and responding to crises and their spillovers:* The current food security crisis illustrates the close inter-connection between man-made conflict and drought. Ensuring better preparedness and response for such crises in the future requires prearranged and flexible financing that is available fast. We need to learn from disaster risk

## The Global Concessional Finance Facility (GCFF)

The GCFF provides funding to Middle-Income Countries with large refugee populations that struggle to access finance at concessional interest rates, making it difficult to afford the costs associated with an influx of refugees. The GCFF provides grants alongside MDB loans thereby increasing the concessionality of the overall financing package.

management where not only insurance products are playing a role, but also insurance principles, which show us the value of risk assessment and the importance of being prepared in advance – financially and operationally – for multiple ‘what if’ scenarios. We need to explore the extent to which financial risk management solutions and techniques might also be applicable to man-made crises, such as outbreaks of conflict, and terrorism incidents.

## Conclusion

There has been important progress in providing better, more adequate financing for addressing fragility, conflict and violence, notably through the doubling of the World Bank’s IDA resources in IDA 18 to address these challenges (see Chapter One). However, in light of the immense risks the world faces today, there is a continued urgency to develop tailored financing solutions and to strengthen partnerships. The complexity of delivering results in the most challenging situations requires partnerships between public actors and private investors, between development and humanitarian agencies and with new types of implementing agencies such as social enterprises or non-state actors.

## Footnotes

<sup>1</sup>Number based on World Bank staff calculations.

<sup>2</sup>Charlotte Lattimer, ‘Global Humanitarian Assistance Report 2016’, (report, Global Humanitarian Assistance, 2016).

<sup>3</sup>‘Regional Refugee and Resilience Plan (3RP) 2017–2018’ (report, 3RP, 2017).

<sup>4</sup>While in IDA and IBRD countries Foreign Direct Investments (FDI) exceeded Official Development Assistance (ODA) by more than seven times in 2014, in countries affected by fragility and conflict, FDI was only 41% of ODA in 2014. Source: calculations based on WDI data.

<sup>5</sup>According to the Global Impact Investing Network’s member survey, US\$ 15.2 billion in impact investments were committed in 2015 and, in aggregate, impact investors plan to commit an additional 16% of funding in 2016. Estimates for market size for ‘social responsible investing’ are much higher and reach tens of trillions of dollars. Giving the risks investors face and potential risk/return profiles in fragile contexts, the narrower definition of impact investing seems to be a better estimate of potential funding available for situations of fragility, conflict and violence.



# Financing sustainable peace: The right way

By Rachel Scott

There can be no sustainable development without peace and no peace without sustainable development. So confirms the preamble to the Sustainable Development Goals – our collective mantra and roadmap for the years leading up to 2030.

Peace, however, comes with a price tag. And yet ensuring the right financing for peace has often been a bit of an afterthought. Development actors, including the United Nations system, invest heavily in strategic planning processes, both in terms of time and resources. There is often a price tag attached to these plans – but rarely a financing plan. What start-up would develop a business plan without any idea about where its initial finance could come from? What government would set out a budget without a view on how to finance that expenditure through tax revenue, debt and other sources of finance? And yet this is what happens in development assistance.

Time to change. Time to finance sustainable peace the right way: providing the right amount of financing, using the right financial tools, for the right length of time, in a way that delivers the right incentives for sustained peace. Doing this well means taking into account the new global reality. Agenda 2030, the Addis Ababa Action Agenda, the World Humanitarian Summit's 'New Way of Working', the Grand Bargain<sup>1</sup> and recent reforms of UN peace architecture provide significant opportunities for getting peace, and its financing, right. However, there are also significant risks to overcome. Today's increasingly populist world will have significant implications for the multilateral space, with states tending to favour national interest – often framed around countering migration and violent extremism – over building global public goods and international solidarity. An increasingly aggressive media sector, often with an aversion to foreign aid (ODA – Official Development Assistance), may lead to lower political tolerances for working in risky environments, and reduce support for the 'softer' peacebuilding programmes that do not lead to quick, easily measurable

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results – instead providing fuel for politicians who want to make major cuts to aid budgets. All this in a time of slowing economic growth, volatility in currency and commodity prices, reduced global trade and rising debt levels: limiting the scope and appetite for private sector investment in fragile contexts.

So how is it possible – in this new global reality – to get the financing for sustainable peace right?

## Necessary elements for financing sustainable peace

*To get things right there must first of all be the right amount of finance.* This means enough resources to respond to the root causes – of the next conflict, not the last one – and to respond at scale. It means maximising the potential of tools like ODA to stimulate other flows of finance into fragile contexts – for example by using ODA funded programmes to improve the regulatory environment and make doing business easier, thereby helping to leverage foreign investment capital, remittances, private finance and philanthropy; by enabling debt relief; or by building the capacity for fragile states to raise their own domestic tax revenues. Added to this, there needs to be enough finance for critical areas like social cohesion and building resilience to shocks, alongside the easier and more tangible areas such as hospitals, roads and schools. It also means protecting the increasingly scarce resource that is ODA – using it in the most effective way, and developing a coherent narrative about ODA that the entire peace community can recite to the press, politicians and the public in donor countries: that ODA is vital for building peace and tackling inequality. That



tackling inequality and building peace is vital for a safe and prosperous world. And that a safe and prosperous world is good for everyone.

*Second, there must be the right mix of financial tools and instruments.* There is now a broad range of new and shiny financial tools for responding to crises, building peace and investing in sustainable development. Some of these tools will prove effective, and some may not. As development actors, our job is to understand this confusing array of instruments better, and use them in the right way, to address the real problems facing fragile societies. Different contexts have different financing needs. Firstly, there is the care and maintenance of people affected by conflict and shocks. But this by itself is not enough. There must also be – in parallel – efforts to prevent conflict, and to help societies withstand shocks and recover, by strengthening the different assets and capacities needed for sustained peace.

This will require matching the right financial tools to the different needs of each context: learning when concessional finance works best, when to use pooled instruments or grants, when instead to push for debt relief, or private finance, and how to best help leverage the partner country's own contributions. It will require a better understanding of how and when to turn to crowdsourcing, mobile cash and other mechanisms that can enable direct private giving.

In addition, there will need to be the right tools to manage risk in fragile and volatile environments – including allowing for contingency funding for when risks materialise. In tandem, promises made under the humanitarian community's Grand Bargain<sup>1</sup> need to be realised – including delivering multiannual financing and reducing earmarking, thus allowing for a response that can adapt to rapidly evolving contexts. Related to this, it will require understanding the transformational power of cash programming – providing money, rather than traditional relief items, directly to people affected by crises – and not being afraid of making this the main means of responding to crises when circumstances permit. It will mean delivering on the promise we made to leave no one behind, by targeting development finance and programmes at the sectors of society most at risk. To really deliver Agenda 2030, we have to go beyond just reducing poverty.

And, as has long been pointed out, an effective financing portfolio will require the right tools for slow onset crises: including understanding, designing and using response triggers better. This should also be linked, where possible, to tools like contingent credit facilities and forecast based financing, to provide much-needed liquidity for the governments of crisis hit countries, so they can kick start the crisis response: saving lives and money.

*Third, financing needs to be timely, and we must understand that peace is a long-term investment.* The transformational change needed for sustained peace, and ending protracted crises, is not a short-term endeavour: programming and finance need to be strategically patient to deliver sustainable results. Donors will need to be committed for the long-term, and accept that results may take many years to deliver, and be challenging to measure. They will also need to be realistic: the road to peace is not always smooth – there will be setbacks on the way, and sustainable results may be elusive in the early years post-conflict.

Getting the timing right also needs finance that comes earlier. In practice, this means proper and early investments in prevention – and when this fails, commitments to respond early enough to save lives, limit the damage to peace and save money on expensive humanitarian responses.

*And fourth, the way finance is designed should help provide the right incentives for sustained peace.* Because money talks. Competition for resources between agencies on a project by project basis is inherently inefficient. Making a financing strategy an integral part of planning processes – developing a coherent plan with a funding strategy attached – has the potential to overcome at least some of that competition from the initial planning stages. The design of financial instruments can also be useful in incentivising better, more coherent, outcomes for peace. Pooled instruments, for example, and instruments that directly support the Peacebuilding and Statebuilding Goals of the New Deal for Engagement in Fragile States, can help bring coherence to planning structures in particular countries, and help build synergies towards peace. The way finance is structured, and targeted, can help ensure that a response moves beyond care and maintenance efforts to also deliver sustainable peace outcomes – for example by linking humanitarian cash transfers to state-managed social protection systems. Financial flows can also help bring sensitive topics to the table, and provide pressure for their resolution, for example if future fund flows are contingent on ensuring humanitarian access, or refugee rights, or stable political processes, or free and fair elections.

The way finance is delivered can also incentivise transformational change. For example, greater finance for local actors can change the way that societies are involved in their own future. More transparent finance can help create local demand for better outcomes. Diaspora bonds – raising low cost capital through patriotism – can provide a new source of pressure for better results. Facilitating the collection of domestic tax revenue, and its investment in basic services and good governance, can help support the state-society contract. Partnerships with the private sector can stimulate economic growth



in a responsible way that promotes peace. Financial flows direct to municipalities can help ensure that sustainable peace is also an objective in fast-growing fragile cities. The way finance is designed must also guard against disincentives. This means continuing to fund places that are showing a good track record towards peace – but perhaps changing the mix from ODA finance to greater reliance on domestic (tax) resources and the private sector. Either way, there needs to be commitment to continuing to find finance for the places, policies and programmes that are demonstrating results.

## Enablers for peace

Finally, the right financing for sustainable peace also requires the right enablers.

The first enabler is *greater investment in the front-end of the planning process*. Better programme design – combined with better design of an effective financing strategy that combines public, private and international financial flows – will likely lead to better results for sustainable peace; it is worth the up-front investment. Today, there are only a few financial instruments and donors that will invest in

better context and risk and capacity analyses, including better understanding of power dynamics and incentive structures. This needs to change.

The second enabler is *capacity building*. Getting financing right is a complex task. It will require people with the right skills to help develop effective financial portfolios, and to manage the myriad of financial instruments and flows required to deliver the right financial solution for each fragile situation. Investment in building financial skills capacity and in providing expert technical support will thus be critical for success.

The third enabler is *demonstrating results*. This means investment in showing the added value of better financing, in order to ensure that good practices are shared and new and innovative models of financing are scaled up and transferred to other contexts. Success breeds success. Only then will peace be financed the right way: the right amount of financing, using the right financial tools, for the right length of time, in a way that delivers the right incentives for peace and, by extension, sustainable development.

### Footnote

<sup>1</sup>The Grand Bargain is an agreement between more than 30 of the biggest donors and aid providers, which aims to get more means into the hands of people in need. The Grand Bargain includes a series of changes in the working practices of donors and aid organisations that would deliver an extra billion dollars over five years for people in need of humanitarian aid. These changes include gearing up cash programming, greater funding for national and local responders and cutting bureaucracy through harmonised reporting requirements.



# Is peacebuilding cost-effective?

By the Institute for Economics and Peace

There is much that collectively we do not know about peacebuilding, what works and what does not, let alone the activities that broadly define it. At a time when the international community's resources to international development and aid are under strain due to tightened national budgets and stress from humanitarian action, the need to understand and invest in building peace is more crucial than ever. While the world lost US\$ 742 billion to violent conflict in 2015, it spent only a corresponding 2% of that on building and keeping peace.<sup>1</sup>

Asserting the effectiveness and worth of a particular peacebuilding strategy is an important step to shifting expenditures. To do so, we must develop a better understanding of what works in peacebuilding, how to measure its impact and cost-effectiveness – all of which are essential to long-term efforts to prevent violence and build peace.

The Institute for Economics and Peace (IEP) has begun to investigate this issue by constructing a global model of peacebuilding cost-effectiveness. The model shows that increased funding for peacebuilding would be very beneficial – not only to peacebuilding outcomes but in terms of the potential economic returns to the global economy. Using 20 years of peacebuilding expenditure in Rwanda as a guide for establishing a unit cost, IEP estimates the cost-effectiveness ratio of peacebuilding at 1:16.<sup>2</sup> This means that for every US\$ 1 spent now on peacebuilding, the potential cost of future conflict would be reduced by US\$ 16. The total peace dividend that the international community would reap if it increased peacebuilding commitments over the next ten years (from 2016) is US\$ 2.94 trillion.<sup>3</sup> How was this figure generated?

## Defining peacebuilding

The first challenge in making these calculations was in defining peacebuilding for which there is no standard international definition. As a consequence, there

The Institute for Economics and Peace is a think tank dedicated to developing metrics to analyse peace and to quantify its economic value. It does this by developing global and national indices, calculating the economic cost of violence, analysing country level risk and understanding positive peace.

is no clear, comparable country-specific data on where resources are being committed at the nation-state or at the programmatic level. There is some consensus around certain types of activities related to violence prevention, however there are a number of areas in which there is considerable overlap between peacebuilding, state-building, and development and consequently no clear framework for making a clear distinction between the three. Similarly, the time frame for peacebuilding is not clearly defined. Traditionally, peacebuilding was only thought to take place in the immediate post-conflict environment. However, there is an emerging consensus that successful peacebuilding can take decades, and that activities undertaken prior to the onset of a conflict can build up levels of peacefulness.

IEP consulted with the United Nations Peacebuilding Contact Group, which was convened by the Peacebuilding Support Office and limited the definitional scope of peacebuilding to three priority areas defined by the 2009 Report of the Secretary-General on Peacebuilding in the Immediate Aftermath of Conflict: support to basic safety and security; support to political processes; and support to restoring core government functions.

## Analysing peacebuilding expenditure and the case of Rwanda

Once a definition was established, IEP systematically tallied and analysed both donor (Official Development Assistance/ODA) and domestic peacebuilding expenditures. The analysis focused on 31 conflict-affected countries<sup>4</sup>, finding that peacebuilding activities are unevenly distributed geographically and thematically and are



**Table 13: Categories of peacebuilding expenditures**

The distinction between 'core' and 'secondary' peacebuilding is an attempt to distinguish some of the immediate activities related to maintaining security and those longer-term activities that support the building of institutions.

|                         | DOMAIN                        | CATEGORY DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Core peacebuilding      | Basic safety & security       | <ol style="list-style-type: none"> <li>1. Security system management and reform</li> <li>2. Reintegration and SALW control</li> <li>3. Removal of land mines and explosive remnants of war</li> <li>4. Child soldiers (Prevention and demobilisation)</li> <li>5. Participation in international peacekeeping operations</li> </ol>                                                                                                                            |
|                         | Other                         | Other specific peace-related expenses                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Secondary peacebuilding | Inclusive political processes | <ol style="list-style-type: none"> <li>1. Legal and judicial development</li> <li>2. Legislature and political parties</li> <li>3. Anti-corruption organisations and institutions</li> <li>4. Democratic participation and civil society</li> <li>5. Media and free flow of information</li> <li>6. Human Rights</li> <li>7. Women's equality organisations and institutions</li> <li>8. Civilian peacebuilding, conflict prevention and resolution</li> </ol> |
|                         | Core Government functions     | <ol style="list-style-type: none"> <li>1. Public sector policy and administrative management</li> <li>2. Public finance management</li> <li>3. Decentralisation and support to subnational government</li> </ol>                                                                                                                                                                                                                                               |

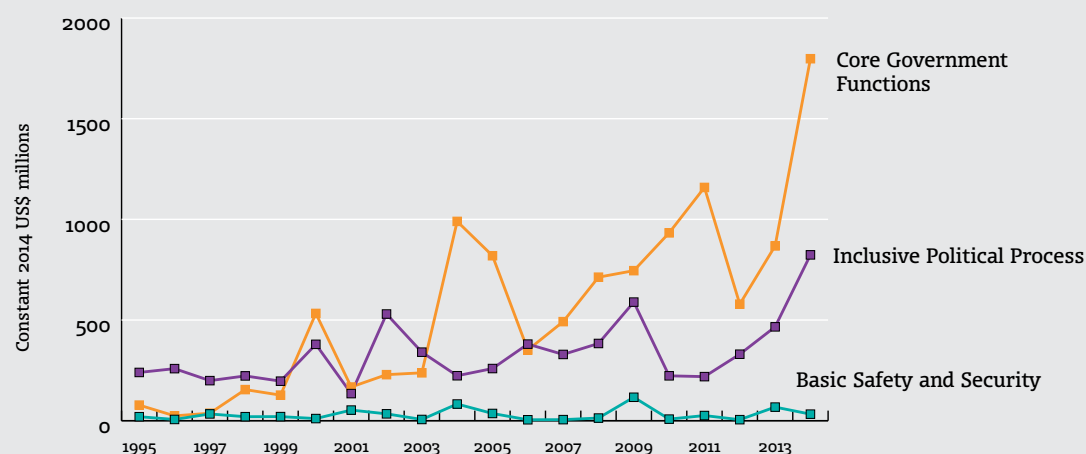
prioritised to differing extents by international donors. Further, conflict-affected countries do not represent the main beneficiaries of ODA. In 2013, they received only slightly more than 24% of total ODA, or US\$ 41 billion. Out of this sum, US\$ 6.8 billion was for peacebuilding activities, which represents only 16% of their total gross ODA allocation.

With the global cost of violence reaching a staggering US\$ 13.6 trillion in 2015, just US\$ 15 billion was spent on peacebuilding and peacekeeping activities.<sup>5</sup> This means that efforts to consolidate peace constituted a mere 0.12% of the total cost of violence.

IEP also undertook a case study of peacebuilding expenditures in Rwanda from the wake of the genocide to 2014. This analysis shows that US\$ 18.35 billion was committed to peacebuilding expenditures in Rwanda from 1995 to 2014. That means peacebuilding commitments in Rwanda from the international community were at least US\$ 27 per capita each year for the past 15 years. Of this, only a small percent of the assistance went to the basic safety and security domain with the majority of expenditure going towards the longer-term domains of building inclusive political processes and strengthening core government functions (see F figure 38 on next page).<sup>6</sup>

**Figure 38: Total peacebuilding ODA commitments, Rwanda, 1995-2014**

Only 3% of peacebuilding ODA went to the Basic Safety and Security Domain.



Source: OECD DAC, IEP calculations

### Model of peacebuilding cost-effectiveness

Finally, based on the case study findings and the data generated from them, combined with IEP's research on the global cost of conflict, a scenario analysis and model of peacebuilding cost-effectiveness was developed. If countries currently in conflict increased or received levels of peacebuilding funding to appropriate levels estimated by this model, then for every dollar invested now, the cost of conflict would be reduced by US\$ 16 over the long run. However, achieving this outcome would require doubling the financial resources currently directed towards peacebuilding for the 31 most fragile and conflict affected nations of the world. This does not preclude other important factors for peacebuilding success such as the external influence of other states or the role of political elites. It aims to establish a working framework for identifying the funding levels required for programmatic peacebuilding activities.

At the global level, this model sheds light on the fact that peacebuilding can be overwhelmingly cost-effective. However, this does not reveal anything about which

types of peacebuilding activities are most suited to accomplishing the end goal.

This research is just one early step in a wider and longer-term effort to build an evidence-base around peacebuilding cost-effectiveness. The data generated in this first phase of research provides an extensive set of further options to model the statistical link between peacebuilding and conflict onset or lack thereof. Moving forward, this work can be used to develop methodologies to calculate and estimate the future peacebuilding needs that exist in particular countries. The next steps are further and deeper investigation and production of data that paints a clear picture for the best possible practice.

Seeking cost-effective and impactful peacebuilding strategies is a key element to making sustainable progress in post-conflict and conflict-affected nations. The more that the international community invests in peacebuilding, the more we reap the rewards of its preventative and cost-saving effects.

### Footnotes

<sup>1</sup>Institute for Economics and Peace, 'Global Peace Index 2016', (report, IEP, 2016).

<sup>2</sup>Institute for Economics and Peace, 'Measuring Peacebuilding Cost-Effectiveness', (report, IEP, 2017).

<sup>3</sup>The estimated level of peacebuilding assistance necessary to achieve this peace dividend is US\$ 184 billion over ten years. See Institute for Economics and Peace, 'Measuring Peacebuilding Cost-Effectiveness'.

<sup>4</sup>To determine the list of countries most in need of peacebuilding interventions, 31 countries and territories were identified that meet at least one of the following criteria: a) have an active multidimensional 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; c) are eligible for funding by the Peacebuilding Fund (PBF).

<sup>5</sup>Institute for Economics and Peace, 'Global Peace Index 2016'.

<sup>6</sup>Rwanda was chosen for the case study as an example of successful peacebuilding, that is a post-conflict environment where there was no relapse into organised violence in the decade following the cessation of the conflict. Owing to the nature of the conflict in Rwanda, it should not be taken as a universally applicable template for optimal peacebuilding spending, but rather a general indication of the minimum amount of spending required to sustain peace.



# The potential of innovative financing to sustain peace

By Kevin Starace, Commissioned by the Dag Hammarskjöld Foundation and the UN Multi-Partner Trust Fund Office

The parallel ‘sustaining peace resolutions’ asked the United Nations Secretary-General to ‘provide 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’.<sup>1</sup> An ad-hoc working group, established by the former Deputy Secretary-General in June 2016, consisting of experts from across the UN system, have since worked to develop these financing options across different tracks. One of these tracks includes exploring the existence and potential of innovative financing mechanisms and approaches for sustaining peace.

While the Secretary-General’s report on this issue is not due until early 2018, and thus work on developing the financing options will continue and be refined throughout 2017, this paper draws from ongoing work, specifically in the area of innovative financing and aims to provide a first snapshot of a number of mechanisms and their feasibility.

## Understanding innovation in financing

Innovation, as it relates to development financing, is about applying untraditional financial instruments, tapping into both private and public sources, in order to mobilise additional resources. Innovative financing options are not necessarily new ideas, but they are different to the current ones being deployed. Financing innovation can take many forms. It may be nothing more than a new perspective on an old problem and will always only be as innovative and bold as the UN system and its member states are willing to accept.

## What’s stopping us?

The UN development system has developed a range of new instruments, for example in the education and health sectors, highlighting their impact and capacity to mobilise additional resources. However, despite potential benefits, the UN has very little experience in accessing

The Dag Hammarskjöld Foundation is a non-governmental organisation established in memory of Dag Hammarskjöld, the second Secretary-General of the United Nations. The foundation spurs dialogue and action on global development and multilateral cooperation.

The Multi-Partner Trust Fund Office is a UN centre of expertise on pooled financing mechanisms. Hosted by UNDP, it provides fund design and fund administration services to the UN system, national governments and non-governmental partners. The UN MPTF Office operates in over 110 countries and has transferred over US\$ 9.5 billion from over 120 contributors to 67 participating organisations since its inception in 2004.

innovative financing for prevention and peacebuilding activities in fragile contexts. Impediments are broad and include: lack of systems to manage non-traditional financing sources and approaches; scepticism of the private sector; no lending or borrowing capacity; short term financing and year-to-year variation; shifting political and financial member priorities; multiple reporting mechanisms and a general lack of agreement on indicators. An additional challenge is a slowness in changing mindsets with regards to how the UN is and should be financed. Furthermore, investing in fragile countries necessitates a certain level of risk-tolerance.

## Low hanging fruits: Short-term options

Within the broad scope of implementing the changes called for by the sustaining peace resolutions, the UN could consider the following actions to diversify the use of financing mechanisms and to increase levels and predictability of funding:

- **Develop a pivot fund:** Full-scale blended finance is difficult in some conflict settings, given high levels of risk.<sup>2</sup> As an alternative, a fund that can drive performance could be useful. Such a fund would test innovative financing options within a larger portfolio and across a wide range of risk levels. Potentially a highly efficient vehicle, with a simple governance structure and a success-begets-success theory of change, a pivot fund should integrate well



with international financial institutions, regional banks and outside investors and allow for adaptive solutions for targeted countries.

- *A hub for sustaining peace innovation:* In order to generate positive change, trial and error must be allowed and encouraged for innovation to happen. The UN today has no central point for incubating, accelerating, testing, launching and then successfully maintaining and growing new instruments of financing. A system-wide hub for innovation and finance, aimed at working across silos to drive new revenues for sustaining peace could fill that void. The hub would apply best-of-UN approaches, harness specialised agency powers for branding, finance, mobilisation, communications, marketing, networking and risk management.
- *Renewed private sector engagement:* The sustaining peace resolutions provide room for the UN to reassess and redefine its parameters in terms of relationships with non-traditional partners, including the private sector. Financing strategies can be designed with different incentive structures and leverage points mapped to the various actors. Actors and areas to tap into include those with a footprint in affected markets, or vested in neighbouring markets, sectors impacted by crisis, or incentivised by opportunities within reconstruction. This could potentially be explored as a component of the hub outlined above.

## The fruit higher up: Medium- to longer-term options

### *Voluntary options for innovative financing*

Innovative partnerships and resource mobilisation initiatives as they relate to voluntary contributions in international development are vast. Their large scale potential is more limited within the constraints of the UN system. However, there are some options that may warrant deeper exploration, including:

- *Develop product derived partnerships:*  
This option engages the consumer marketplace. The arguably most successful example to-date is the Global Fund to fight AIDS, Tuberculosis and Malaria's Product(RED) campaign, a brand that develops products with major corporations and for which a percentage of the profit is donated to the Global Fund. In the past ten years, Product(RED) has mobilised over US\$ 350 million for the Global Fund. Another model is organised around the strategy of 'Buy One, Give One' where the customer is charged market rate inclusive of a donation. An example of this model is TOMS shoes, which has given away more than 10 million pairs of shoes to developing

countries. Other product partnerships such as American Express and Share Our Strength Anti-Hunger Fight, a 20-year alliance, prove that such partnerships serve many purposes and evolve over time through stamina and gradual implementation. These partnerships are innovative because stakeholders do not feel obligated to commit resources unless they believe in the mission and vision. Efforts to brand 'Peace' could generate this awareness and visibility creating the willingness to engage and contribute.

- *Strengthen public private partnerships:* The UN should prioritise expanding private sector partnerships, as businesses that seek the UN out for partnerships are vested and thereby have already identified and managed risks. One mechanism for doing so is an advanced market commitment, (such as Unitaids) which directly encourages private companies to invest in development of a new product or sector through legally binding agreements that guarantee a viable market. An obvious UN partner for such partnerships is the Global Compact's Business for Peace platform with over 150 leading companies and business associations from 36 countries dedicated to catalysing collaborative action to advance peace, using locally driven approaches.
- *Leverage solidarities:* Exploring individuals or peer-to-peer financial mechanisms, harnessing the power of diaspora, and tapping into faith-based action are all ways to leverage peoples' solidarity to increase financing for sustaining peace:

– Crowd funding as a potential strategy to explore an emergent possibility, will be part of the future of financing and should be pursued as a serious current wave of diversified funding. Through person-to-person, over time, the UN could find a multitude of ways to access more investors with low administrative burden. Here, having a longer-term horizon and investing in having the right capacity in place for working with these tools, are key since it could take years for noticeable volumes to materialise.

– The Diaspora as a target group, and remittances as a channel, should be considered as ways to leverage funds for sustaining peace. While engaging diaspora and harnessing remittances for development has been challenging, here the UN has a number of potential entry points, such as tapping into the mobile money market evolution, better identifying and mitigating risks, matching funds to attract impact investors, and channel partners to improve access to finance conditions, pooled mechanisms, diversified loans.





- Ethnic- or faith-based contributions could be an effective vehicle for peace, with religious and ethnic solidarity donations considered a different proposition than tapping into remittances. The UN could examine ways to raise funds while engaging religious affiliates in countering conflict and/or fragility.

### *Involuntary options for innovative financing*

The potential impact and feasibility of implementing obligatory financial mechanisms, such as taxes and levies, needs to be further explored. While taxes and levies could generate revenue at scale, establishing such mechanisms requires significant effort and successful introduction can be challenging.

Strategic PR can play an important role here. Campaigns can put pressure on the end user to offset the capital needs. Although its level of success can be debated, Unitaids' experience with an airline ticket tax (airline solidarity contribution) to generate resources for global health, is well-documented. Led by France, over 38 countries now impose a small tax on air passengers, whereby the passenger automatically is assessed the tax when purchasing the ticket. Total revenue from this tax is around € 160 million per year.

Other alternatives include currency taxes, event taxes, rates and payments, import tax and arms taxes, all with the potential of significant revenue but all requiring ambition and longer-term commitments. The recently established African Union (AU) Peace Fund that aims to cover the cost of the AU's peace operations and work with revenue generated through a 0.2% levy on imports from outside the continent is an example of this type of approach.

### **Underlying enablers for innovative financing**

Aside from the indicative list of options and ideas presented above, there are a number of additional considerations worth noting that could facilitate the development and implementation of concrete mechanisms:

*Define appropriate taxes and levies:* Taxes and levies for development have been widely researched, numerous efforts have been undertaken to implement them and a predictable source of new resources could be generated.<sup>4</sup> Relevant and appropriate uses of this approach should be further pursued. However, establishing appropriate mechanisms for how revenue will be managed, and what governance and reporting mechanisms are necessary will be critical.

*Go deeper:* There is potential room for more fee-based products and service support systems in a broad range of areas such as insurance, procurement, banking, pay for performance, solar energy, and roads. Determining a

narrower set of options, specifically relevant to sustaining peace, and going deeper to formulate a strategic plan to pursue those options is recommended.

- *Increase transparency:* The lack of data and transparency is holding back investment. Looking to the future, shifting from a reactive aid model to a proactive risk management investment model will be important. With the goal to increase the volume of predictable, sustainable funds, one of the first operational steps would be to generate a plan of co-ordinated action to harness and enhance capabilities in monitoring, verification and reporting on activities related to sustaining peace, with agreed key performance indicators and risk management strategy.
- *Cooperation with International Financial Institutions, regional and sub-regional organisations:* Time horizons for peace demand long-term financing commitments, a focus on core strengths, balancing risk and partnerships aimed at driving increased investment for prevention. This will not be possible without a close and efficient UN- World Bank collaboration along with regional actors. The UN's strengths in politics, peacekeeping, logistics and presence complement the Bank's strengths. The United Nations Capital Development Fund (UNCDF), a ready-to-scale platform for leveraging semi-commercial financing, and the International Development Association (IDA) 18 represent game-changing resources. New agreements, new collaborations such as Peace Bond structures, strategies focused on first loss, front loading and added flexibility, as well as targeting root cause and regional integration are avenues worth further exploration.
- *Demystify the sustaining peace conceptual framework and scope:* Currently there is no widely agreed definition for what constitutes peacebuilding. The UN entities working on peacebuilding and prevention efforts can do better to identify strengths and weaknesses, value and the underlying economic logic of selected activities and initiatives and pinpoint more specifically how they address the needs and expectations of countries.

## Conclusion

Traditional forms of financing are insufficient to deliver on the 2030 Agenda for Sustainable Development and for ensuring acutely required resources are applied towards prevention and peacebuilding in fragile countries. Finding new ways towards sustainable development financing is becoming increasingly important and will need to be prioritised as a matter of urgency. While innovative financing has indeed gathered some steam in development contexts in recent years, with interesting experiences and initiatives being launched, suitable mechanisms for fragile countries need more work, given the often high-risk environments.

This paper has merely dipped its toes into the many opportunities that exist, but it shows that there are a number of promising ideas to learn from, build on and explore further, also in more volatile contexts. There is great potential for finding increased resources over and above what is available from official aid channels. Some initiatives are easier to explore and start, while others require more in-depth analysis in terms of feasibility, political support and impact. Critical ingredients toward a successful toolbox of innovative financing mechanisms are up-front investments and space for innovation and trial-and-error as these ideas are further developed, tested and implemented.

## Footnotes

<sup>1</sup>United Nations, 'Security Council resolution 2282 (2016)' (resolution, UN, 2016) and General Assembly resolution 701262

<sup>2</sup>More on blended financing in fragile contexts in chapter 2 (paper from Development Initiatives)

<sup>3</sup>Further details and analysis of the AU Peace Fund can be found at: <http://www.accord.org.za/conflict-trends/african-funds-african-peace/>

<sup>4</sup>Begins in the 1970s with James Tobins' proposal for taxing international currency transactions. A currency transaction tax is placed on a specific type of currency transaction for a specific purpose. Rediscovered in the 1990s it was pitched as innovative and promising at the UN Commission on Sustainable Development and the Economic and Social Council and again in the 2000 special session of the United Nations General Assembly in Geneva, which considered a currency transaction tax.



# Financing the prevention of violent extremism

By Khalid Koser

Over the last couple of years there have been a few important milestones that have integrated prevention as part of a comprehensive response to violent extremism and terrorism. The United Nations Secretary-General's 2016 Plan of Action to Prevent Violent Extremism is the most notable, along with a series of global and regional summits on preventing violent extremism (PVE). Also noteworthy is the recognition by the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) of PVE as eligible to be counted as Official Development Assistance (ODA). The relevance of peace and security more widely to the global development agenda had already been framed in the Sustainable Development Agenda, especially SDG 16.

Since the launch of the Plan of Action, however, the PVE agenda has lost momentum at the UN. In February 2016, the General Assembly adopted a resolution that went no further than 'welcoming' and 'taking note' of the Secretary-General's Plan of Action. In July 2016, the United Nations General Assembly adopted resolution (A/RES/70/291) on the Fifth Review of Global Counter-Terrorism Strategy, recognising the importance of preventing violent extremism only '...as and when conducive to terrorism' and recommending that Member States 'consider' the implementation of relevant recommendations of the Secretary-General's Plan of Action to Prevent Violent Extremism, as applicable to the national context.

The April 2017 report of the new Secretary-General on the 'Capability of the United Nations system to assist Member States in implementing the United Nations Global Counter-Terrorism Strategy' has been criticised for failing comprehensively to engage with prevention. While various UN agencies (UN Development Programme (UNDP), UN Women, UNESCO) are starting to programme on PVE, coordination across the UN system remains a problem, as well as a chronic lack of funding.

Khalid Koser is the Executive Director for the Global Community Engagement and Resilience Fund, which is a public-private partnership. The Fund was established to serve as the first global effort to support local, community-level initiatives aimed at strengthening resilience against violent extremist agendas.

## Concepts behind the establishment of GCERF

To a significant extent the establishment of the Global Community Engagement and Resilience Fund (GCERF) by the Global Counter Terrorism Forum (GCTF) in 2014 predicted and pre-empted the difficulty the UN now faces in galvanising the PVE agenda, particularly on financing. A public-private partnership, GCERF was founded to address the local drivers of violent extremism and three main concepts underpinned its establishment.

The first was that the local community level is where violent extremism is nurtured, where its consequences are most significant, and also where potential solutions lie. The second was that there was a lack of funding for local solutions to violent extremism, whether because local communities lack the capacity to access funding sources, do not trust funding on security-related issues from certain bilateral donors, or more prosaically because there is a shortage of available funding for PVE generally. A third concept was that the best way to fill the local funding gap for PVE was through a multi-sectoral global fund that is issue-based, multi-stakeholder and independent.

Over the last three years GCERF has begun to prove its concept. Extensive baseline studies conducted among communities currently supported by GCERF grants in Bangladesh, Kenya, Kosovo, Mali and Nigeria demonstrate that violent extremism is localised and context-specific, and that responses similarly need to be. There is indeed a significant funding gap, and a key reason is a lack of confidence in bilateral funding.

And in at least five ways, GCERF has begun to demonstrate how a multi-sectoral global fund can add value to existing initiatives to fund PVE.

### **Focal point for political and resource mobilisation**

To begin with, *GCERF provides a focal point for political mobilisation around the PVE agenda*; its independence helping to overcome some of the political obstacles currently being experienced at the UN. GCERF's Governing Board is multi-stakeholder, combining representatives of donor and beneficiary countries, the private sector, foundations, civil society and academia. Some donors are represented by security (counter-terrorism) agencies and some by development agencies, two quite separate parts of national governments, between which there is still often mutual mistrust. In beneficiary countries, GCERF has also established multi-stakeholder Country Support Mechanisms (CSMs), informing GCERF programming but also providing a national focal point for the development of national action plans on preventing violent extremism.

Second, *GCERF is intended as a resource mobilisation focal point*. It has attracted funding from both counter-terrorism and development budgets, in some cases from both in single donor countries. It is currently supported by 13 governments, plus the European Union. Its donors combine the traditional and the new (Morocco, Qatar). We have also developed a strong business case on preventing violent extremism, and are receiving growing support – both direct and in-kind – from the private sector. Still GCERF is confronted by the paradox that it has been established as the global funding mechanism for preventing violent extremism, but national budgets for PVE are still limited and divided: there is no 'natural' source of funding for the global fund. Part of the answer lies in continuing to make the case that prevention is a sound upfront investment for counter-terrorism budgets; and part in building confidence that PVE is a development priority.

### **Expanding reach and dividing risk**

A third way that *GCERF has begun to realise its potential as a multi-stakeholder global fund*, is by expanding

reach. After three years, GCERF is already grant-making in five countries, with a strategic plan to expand to at least ten countries over the next three years. It is worth re-emphasising both how quickly grants have been issued by this new global fund, and that it is already funding PVE activities while the UN continues to tackle politics and bureaucracy. GCERF will soon be funding PVE initiatives in more countries than any single bilateral donor; its choice of beneficiary countries is based on needs and threat rather than national interest; and its reach will generate unique comparative data on the causes of and solutions for violent extremism. Another way that GCERF adds value to national efforts to prevent violent extremism is to reach deep into local communities that are often out of reach to national authorities, and where the implementation of national policies is critical.

A fourth purpose of a multi-sectoral global fund like GCERF is to *spread risk*. In a whole variety of ways GCERF is a risky enterprise: It is working on a contested issue where there is a lack of empirical evidence on what works; it is steering a difficult line between development and security while always trying to adhere to guiding principles of do no harm, gender equality and human rights; it is hard to demonstrate impact at least in the short term; it is supporting small-scale local initiatives some of which are bound to fail. These and other risks are likely too great for any single donor or beneficiary country to bear, but where the risk is shared they become more palatable.

A final reason that multi-sectoral global funds have been established previously is to *generate economies of scale and a pool of expertise*. GCERF's funding levels have not yet reached the critical mass required truly to realise economies of scale, but certainly one of its attractions for donors is its capacity to manage small grants at the local level, with limited operating costs. GCERF has also established an international Independent Review Panel (IRP), which combined with the political span of the Governing Board, the technical expertise of the Geneva-based Secretariat, the national expertise of CSMs, and most importantly the indigenous knowledge of GCERF grantees, comprises an unrivalled pool of expertise on funding for preventing violent extremism.



# Assuring that nothing happens

## - Reflections on financing conflict prevention

By Jordan Ryan

Jordan Ryan serves as the Vice President for Peace Programs at The Carter Center. The Carter Center is guided by a fundamental commitment to human rights and the alleviation of human suffering. The Center seeks to prevent and resolve conflicts, enhance freedom and democracy, and improve health.

Jordan Ryan retired in 2014 as UNDP Assistant Administrator/UN Assistant Secretary-General.

The United Nations Secretary-General recently began his term with renewed focus on the role the United Nations needs to play in preventing conflict. He announced in an early speech that conflict prevention is the priority for the UN. The direction of the Secretary-General is both welcome and necessary. Hopefully the reformed UN that he envisions will be capable of working decisively in this area. A 'systems' approach will be needed to more effectively integrate the political, development and humanitarian sides of the UN.

The UN will face a dilemma in securing adequate and sustainable finance for conflict prevention work. Making the case to invest funding upfront before a crisis can be hard. Those who control funds are faced with current crises that demand immediate attention. They find it difficult to justify using scarce funding for something that might not happen.

### The nature of the problem

Students of Margaret Mead, the anthropologist, used to tell of her opening classes where she would ask: what separates humans from other animals? Despite many attempts, few students gave the answer she wanted: 'pockets'. Her explanation: humans are the only species which anticipates or prepares for the future by carrying its artefacts (tools and food). Prevention is anticipatory; it recognises that difficulties will arise and there is value in averting crises or, if that is not possible, reducing the impacts of whatever calamity may unfold.

This point is almost universally recognised. Politicians, however, often find it convenient to argue that the risks are over-stated or that when catastrophes occur, the resources then available will be sufficient to repair or reduce the damage. The most cynical types simply believe that when a calamity does arise, their fecklessness and lack of preparation will be blamed on someone else. This pattern of behaviour is generic; it is not confined to prevention activities related to potential civil disruption (or even natural disasters). Every budget on the planet

involves the division between recurrent costs (ie expenditure on operations and maintenance) and investment (ie the construction of and or expansion of physical and other capacities). Anyone who owns an asset recognises this balancing act, since all assets (such as a car, house, computer, winter coat) requires maintenance. Skimp on maintenance and the asset's performance declines or, worse, the asset deteriorates and breaks down and needs to be replaced or rebuilt at great expense.

Parenthetically, concepts such as trust and credibility are assets as well which need to be maintained through the expenditure of current effort/resources or else they break down. This latter consideration is relevant when the United Nations is thinking about its role in preventing conflict. The United Nations cannot be seen as wringing its hands too often without at least attempting to prevent conflict. Otherwise, its institutional asset (ie credibility) will break down. Preventing conflict involves the same set of considerations, although the consequences of failure are just not destroyed assets (houses, villages, infrastructure) but people killed, families displaced, communities disrupted and economies undermined.

### Proving the negative

Just like politicians find it easy to skim on recurrent cost expenditure (with unrepaired roads, poor quality social services and so on) as they push the more 'visible' investment projects such as new airports, expanded irrigation works and large public buildings, it has been all-too-easy to fudge on providing resources for preventing conflict. The conventional rationale is that it is too difficult to 'prove the negative'. The crisis or conflict that did not happen is too easily explained as errors in prediction or initial overstatement of risks.



Thus, while humans may have pockets because they have learned the value of anticipating the future, not all risks are equally anticipated and not all humans are equally motivated to anticipate them, even if there is plenty of experience suggesting that they should.

***Preventing conflict is a collective action problem.***

It requires a high degree of cooperation to:

- a) recognise that there is a potential for conflict;
- b) to understand that preventive action has value;
- c) to agree on what the preventive action should be; and
- d) to marshal the resources to take that action.

As a collective action problem, there is always slippage – everyone will not view the risks in the same way, or see the same degree of urgency, and be as diligent or dedicated in acting to relieve or remedy the situation.

Furthermore, because it is a collective action problem, strategic behaviour by those who free-ride and even those who profit from conflict is likely. Some circumstances even doom prevention efforts – Darfur for decades, Ireland for 30 years, Lebanon for 15 years and others such as Israel, Palestine and Syria. Some groups are simply too intransigent to want a negotiated solution or to see an end to the upheaval. Moreover, as the United States proved with its Civil War, some schisms in society will only be ‘settled’ with conflict.

In reality, it has never been easy to make the case that resources need to be provided to prevent conflict. More important, it is naïve to believe it will ever be easy. It is only disasters which gain attention and raise questions about who or what was not foreseen. Peace and tranquillity never elicit such questions except by historians centuries later. This is the ‘nature of the problem’. It is something that all of us whose jobs involve overcoming fragility, or crisis prevention, or even recovery, must work with.

How do we work with it? We do it with ‘alternative facts’. Not the dissembling, mendacity, and blatant lies that dominate current political discourse. We need to assemble the evidence which highlights what was and was not done and combine them with estimates of the costs of inaction (such as the billions of dollars the world spent stabilising Liberia since 2003).

**Assembling the evidence on financing prevention**

Two issues immediately come to mind: Institutional arrangements for providing funds for preventing conflict and whether the actual funds (Trust or otherwise) which already exist will continue to be supported. There needs to be some solid fact/hardcore information generated on what is working and what is not and how what is working is being expanded upon and what is not working

is being identified and modified. That leads back to the first point. What analysis has there been of all the various funds that have been used and their impacts?

Of course, attribution is a problem but, part of the information that can be unearthed or pinned down is a set of metrics which help identify the key features of what ‘preventing conflict’ looks like in practice. UNDP has dozens of indicators for development; maybe it needs to more specifically focus on data that are indicators of non-development. There is already an indicator of fragility. But, it seems that something a little broader which characterises conflict situations would be useful, especially as an ‘early warning’ tool. Imagine a ‘dashboard’ that clusters together inflammatory factors: extreme income inequality, years of authoritarian rule, ‘ethnic fragmentation’, rural-urban income gap, share of budget spent on agriculture, share of population in rural areas, aid dependence, natural resource dependence, conflict history, democratic transitions, share of population under 24 years. This way, the idea of ‘preventing conflict’ could become something to which some harder numbers could be attached.

The basic issue for donors is whether preventing conflict is seen from a bureaucratic point of view as a ‘good’ or ‘defensible’ investment. (The economic definition of investment is the use of current resources in the expectation of a future return. The operative word is ‘expectation’, not ‘guarantee’.) This is a bureaucrat’s nightmare because funds might be spent and nothing happens... although in the ‘preventing conflict’ arena, nothing happening is a good thing. This is why appropriate data that record the ‘nothing happening’ as a positive outcome are needed just like new roads, or dozens more buildings are currently counted as positive outcomes. It seems that this is the case that needs to be made repeatedly as each circumstance arises where the expenditure of international effort and resources would have a decent probability of preventing conflict.

**Conclusion**

By assembling the ‘nothing happening’ data, we can begin to make a case that preventing conflict actually has a high pay-off, especially in terms of lives saved and families left intact and communities preserved, as well as in terms of the physical and institutional damage avoided. Looking ahead, it is perhaps only data of these sort which might lead to a headline in some future newspaper (hopefully not too far in the future) reporting: ‘The World was at peace yesterday’. And when we look for the ‘back story’ behind the headline, it will reveal the work of dedicated individuals and agencies wisely using funds that some far-sighted donors provided to prevent conflict.







# Building norms, providing global public goods and meeting the challenge of migration

## Introduction

### Strengthening the normative agenda

With respect to the future positioning and role of the United Nations Development System (UNDS), there seems to be a very clear consensus that one of the UN's most vital tasks relates to its normative agenda. In a rapidly changing world, the web of normative frameworks that lie at the foundation of so many of the processes required for an inclusive globalisation needs 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.

Strengthening the UN's normative agenda requires action to be taken with respect to how the UN is organised and how it captures normative work, how it accounts for and measures the normative agenda and how this agenda is financed.

The first relates to the iron wall that separates normative and operational activities in the functioning of the system. The governance of the system is split along these lines, the most senior management committees are split along these lines, and financial reporting supposedly differentiates between these two types of expenditure. Agenda 2030 is a powerful call for abandoning this artificial divide. Normative frameworks should be providing the foundations for a unified response by the UN system. This is further complicated by the criteria used by the Development Assistance Committee (DAC) to determine Official Development Assistance (ODA) eligibility.

The second relates to how normative activities are accounted for and reported on. The fact that it is impossible to credibly determine the level and nature of expenditures that go to normative activities in the system, is telling for how marginal norms activities are treated in the UN's core narratives. Lack of progress in development measurement indicators to capture normative outcomes acts as a disincentive in the financing available for these purposes. The Chief Executives Board for Coordination (CEB) secretariat is attempting to address this issue, but it remains a work in progress.

A third issue that needs to be addressed is how normative agendas should be financed. The UN's activities in norms has been estimated at around US\$ 5-6 billion (although the credibility of this figure is contested). Today this is financed from a combination of assessed, core voluntary and non-core. The ratio of non-core to assessed/core has risen dramatically. This raises a larger question that needs to be addressed. Is it possible to conceive of an evolving and adaptive framework of international norms which reflects the forces of change in today's world while increasingly financing that framework from a select group of donors who pick and choose the norms they want to support?

Two papers explore further the future of the UN's role in and financing of normative work. One paper is from Stephan Klingebiel and Li Xiayou at the German Development Institute (DIE) which analyses the potential of two platforms: The UN Development Cooperation Forum and the Global Partnership for Effective Development Cooperation. The other paper is a shortened version of a paper published by the Dag Hammarskjöld Foundation entitled Global Norms: Building an Inclusive Multilateralism.



## Financing global public goods

One of the transformational impacts that the acceleration of globalisation has had is that it has brought to the fore a class of development challenges characterised by the fact that they require collective action to have any chance of success. It is this characteristic, the need for a collective response, that means that the concept of global public goods (GPGs) has a key contribution to make to current debates about the future positioning of the UN development system.

This has been widely recognised outside the UN system. Most recently, Joseph Nye has pointed to the relationship between the survival of the liberal world order and the willingness and ability of that order to provide global public goods. The importance of being able to take collective action is embedded in Agenda 2030.

We have included two papers reflecting on the current state of the dialogue around GPGs in this chapter. The first is a paper by Scott Morris and Priscilla Agyapong from the Center for Global Development (CGD) which summarises the proposals made by CGD's High Level Panel on the future of Multilateral Development Banking, in particular relating to the establishment of a GPG window at the World Bank. The second paper, written by Manfred Konukiewicz from the German Federal Ministry for Economic Cooperation and Development, brings us up to date with the current state of the Green Climate Fund (GCF), one of the most important current initiatives relating to global public goods provision.

The global public goods agenda is having a hard time in UN corridors. Low-income countries think it will divert resources from them. Middle-income countries also think it will divert resources, in their case depriving them of

official development assistance (ODA) and giving rise to new responsibilities. How should these and other concerns be tackled to ensure that the UN constructively could revitalise a discussion on GPGs? We explore this further in a paper produced by the Dag Hammarskjöld Foundation which delves into the question why the UN should embrace the concept of global public goods.

We focus here in particular on the implications for financing the pursuit of a GPG agenda. An examination of the financial aspects sheds some light on the nature of some of the scepticism around this concept. Pursuing a GPG agenda impacts on three dimensions of finance: the choice of financial instrument, the source of finance within governments, and the allocation principle to be used, all of which is expanded upon in the accompanying paper.

## Meeting the challenge of migration

Migration financing represents a major challenge. It encompasses issues that require both a collective response as well as the development of practical normative frameworks. Included in this chapter is a paper commissioned by the Dag Hammarskjöld Foundation and the UN Multi-Partner Trust Fund Office (MPTFO) that makes the point that we lack an overall picture of the size and distribution of migration financing. It is further complicated by the fact migration related financing straddles the worlds of public and private, domestic and external, as well as development, humanitarian and security cooperation. Lack of knowledge and transparency hinders the execution of informed policy. The paper concludes with an interesting set of proposals relating to the establishment of some form of hybrid international facility that could generate the types of collective response needed.

# A global platform for support of norms, standards and monitoring in development cooperation

By Stephan Klingebiel  
and Li Xiaoyun

International development cooperation has become much more complex over the last two decades.<sup>1</sup> First of all, current practices provide recipients with more choice when it comes to providers. Namely, the Organisation for Economic Co-operation and Development (OECD) countries remain an important foreign aid provider, despite the changing pattern of cooperation, but South-South Cooperation (SSC) providers are now an additional pillar in the new development cooperation architecture, together with other actors such as philanthropic organisations and the private sector.

Secondly, recent conflicting trends challenging the global consensus on Agenda 2030, and the rise of nationalist and populist governments have changed the development cooperation landscape dramatically. For instance, the recent shift away from globalism towards national interest has led to the promotion of a 'self-interest aid free' agenda (the relevance of the aid effectiveness agenda is decreasing and donors' strategic interests are becoming more predominant, for instance, United Kingdom's move to a 'national interest' approach; the prioritisation of the 'American interests' with the Trump administration). This all begs the question: what role and potential impact can international development cooperation have in today's changing global landscape?

We argue here that

- a) traditional development cooperation continues to play a significant but more modest role in many developing regions; and
- b) it changes its profile significantly (competition with other development finance resources, etc.);
- c) SSC has broadened options and enlarged resources for developing regions; therefore
- d) there is an urgent need to call for a global platform for support of norms, standards and monitoring of development cooperation. The United Nations has a key role to play for such a platform.

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## Role of development cooperation for development

Although developing countries have increasingly shifted towards a domestic finance-based approach in their development, external support can still play an important role for low-income countries and those experiencing violent conflict. Still, the role of development cooperation should not be overestimated. Even in poor countries, domestic resources typically outnumber development cooperation resources, and their volume alone cannot address structural deficits such as poor governance. In situations where the ruling elite in a country is mainly interested in personal benefits, development cooperation might even do harm. However, if a responsible government is in place the impact of development cooperation on economic development can be significant. Therefore, the developmental orientation of the ruling elite in a country is the decisive factor.

The case of China is a good illustration in this regard. China had been the largest country to receive both bilateral and multilateral development cooperation finance since 1990. Its great achievement in development indicates that development cooperation can work effectively if a responsible government is in place and domestic resources are tied to a long-term development strategy, together with stable political and social conditions. Vietnam and Rwanda provide other examples of how development cooperation can help economic development.



## Dynamics on the side of 'traditional donor'

Official Development Assistance (ODA) has changed considerably in two key respects over the past decade. First, partner countries themselves are dynamically changing: on average, developing countries are becoming less and less dependent on ODA funds. The dependency ratio remains high for the poorest countries, in which 70% of all external funding continues to come from ODA. Yet, the situation in more advanced developing countries (ie middle-income countries) is quite different. In those countries ODA comprises only 18% of their external funding, equating to 5% of their internal revenue. As a result of economic progress, the number of countries recognised by the OECD as being eligible to claim ODA benefits is also set to a further decrease. By 2030, as many as 28 countries (eg China, Turkey and Peru) might be removed from the list.

Secondly, the objectives of development cooperation are changing dramatically. Agenda 2030 has provided an umbrella vision that has refocused ODA, but there are other factors involved as well. One example is the ongoing refugee crisis in Europe since 2014–15, which has lead European donors to use ODA funds to manage this challenge in their own countries (eg spending ODA for sheltering refugees). Another factor is political change, at least in the US and the UK. The Trump administration is implementing a significant budget cut for diplomacy and development activities, as the British prime minister Theresa May is pushing for a strategy of using ODA more directly for 'national interests'.

In sum, the way in which ODA is provided and partner countries are selected by OECD donors is quite different nowadays from that of a decade ago. As a result, many aspects of the 'aid effectiveness agenda' (spelled out in the agreed Paris Declaration in 2005) have also become less relevant.

## Rising powers: South-South cooperation & global public goods

SSC, on the other hand, has broadened options and enlarged resources for developing regions. However, it is important to look at SSC from a larger perspective. Rising powers already contribute in many ways to the provision of regional and global public goods. This is true with regard to 'global commons' (natural resources like water) and 'common goods' (such as peace and stability, health/diseases, international law, etc) and different types of provision challenges (underuse or under-provision). Those contributions in terms of global public goods are only partly related to SSC approaches and are much more important than SSC in a narrow sense.

SSC providers often claim that this approach is significantly different and more important than ODA. They argue that SSC support is much more based on

principles of solidarity and not attached to 'conditions'. Furthermore, SSC may be based on experiences of the providers, which are often more similar to the situations in developing countries (eg in the field of poverty reduction).

So far, SSC providers do not have a specific set of norms, principles and rules but there are signs that this is changing. Just recently at the BRICS (Brazil, Russia, India, China and South Africa) summit in India in 2016, there was a new meeting of heads of development agencies where they started to collaborate on a joint understanding of SSC. Furthermore, several Southern think tanks (especially the Network of Southern Think Tanks / NeST) are working on definitions and standards (eg standards on the Monitoring and Evaluation (M&E) of SSC projects).

Expectations of the role of SSC are quite often high, sometimes ignored or differently understood. Accountability and M&E frameworks are now emerging in development cooperation systems of rising powers, and are likely to become the starting point that can convert different Southern players and reach consensus over SSC's unique features.

## Need for a global platform

Given the challenges above, there is a strong need for a global monitoring and norm-setting platform for international development cooperation. On the one hand, governments want effective implementation of Agenda 2030 and its 17 Sustainable Development Goals (SDGs); on the other hand, there is, as of yet, no functioning global platform which might provide all actors (including partner countries, SSC providers, ODA providers and non-governmental organisations (NGOs)) with agreed norms and standards, as well as monitoring tasks. Ideally, such a platform should support the UN High Level Political Forum (HLPF), as the main monitoring body for Agenda 2030.

Currently, we can talk about two main platforms: The UN Development Cooperation Forum (DCF) and the Global Partnership for Effective Development Cooperation (GPEDC – jointly managed by UNDP and OECD). Both platforms have some advantages and drawbacks. Most importantly, neither of them has a mandate to play an overarching role on behalf of all actors because of a lack of effectiveness (in the case of DCF) and legitimacy (in the case of GPEDC). Nor can the Development Assistance Committee (DAC) of OECD serve as a global platform, since it constitutes a club governance approach for the traditional group of rich countries. DAC's origins are strongly related to OECD's history of Western industrialised countries and therefore not a platform which can serve in the interest of the whole international community.

To illustrate the difficulties, several governments preferred not to attend – or just to be present as observers – at the High-Level Meetings (HLM) that were held first in Mexico City in 2014, and then in Nairobi in 2016. At the first HLM, Brazil, China and India did not show up, and South Africa stayed away from the second HLM on its own continent. As in 2014, the absence was only discussed in side-events where thinktank representatives from all the above countries helped to foster a better understanding of their respective reasons for not attending. The absence of four of the five BRICS (only Russia attended) is a clear signal and has had a big impact on the ‘global nature’ of the partnership.

So why did a number of emerging powers decide to stay away? Two main interpretations prevail. One is that the GPEDC is still considered as OECD-driven; therefore, several emerging powers do not recognise the GPEDC as a legitimate platform for debate. In a second reading, the fact that the GPEDC is facilitated jointly by UNDP and OECD means that there is actually a basis for a widely accepted platform, and the problem might rather be an unwillingness to bring in more transparency and accountability for SSC.

## Conclusion

In our view, the case needs to be made for a global platform in charge of standards for development cooperation, including SSC and the OECD’s ODA. We do not assume that all countries can agree on standards and norms in all areas; however, the need to have a joint

dialogue platform is striking. Especially from the perspective of recipient countries for which it would be a step forward to have one set of guiding principles. For this to become a reality, certain preparation is required:

- The GPEDC’s narrative needs to be more specific; it is a main contributor to the HLPF work on development cooperation (especially SDG 17). In general terms, the platform has a potential to perform as an international regime (including binding rules).
- The GPEDC needs to be more closely linked and managed by the United Nations.
- An open, serious dialogue with emerging powers about their perceptions and positions is long overdue. Development cooperation has a number of political implications. This is also why the search for a global platform is not a technical task but a highly political challenge. At the same time all main actors – main partner countries in need of development cooperation, rising powers, OECD donors and non-state actors (civil society organisations, private sector, etc ) – would benefit if a global platform could serve as the hub for joint definitions, standards, and monitoring requirements.

## Footnote

<sup>1</sup>Development cooperation (as one of the main types of external development finance) is understood in our contribution as one of the approaches to international support that includes Official Development Assistance (ODA) of the OECD countries and, in a narrow sense, South-South Cooperation (SSC) of the rising powers.



# Global norms: Building an inclusive multilateralism

By the Dag Hammarskjöld Foundation

The Dag Hammarskjöld Foundation is a non-governmental organisation established in memory of Dag Hammarskjöld, the second Secretary-General of the United Nations. The foundation spurs dialogue and action on global development and multilateral cooperation.

In the history of the United Nations, there have been turning points when the UN has had the vision to see an opportunity emerge and to seize that opportunity, thereby reaffirming its relevance and vitality.

In a rapidly changing world, where the world as we know it is changing before our eyes, the web of values and normative frameworks that lie at the foundation of so many of the processes required for an inclusive globalisation need to be nurtured, perhaps adapted and certainly strengthened. In his oath of office speech, the new UN Secretary-General, António Guterres, noted that *'Today's paradox is that, despite greater connectivity, societies are becoming more fragmented... In the end, it comes down to values. We want the world our children inherit to be defined by the values enshrined in the United Nations Charter: peace, justice, respect, human rights, tolerance and solidarity.'*<sup>1</sup>

Repeatedly, in many different fora, the international community has stressed the unique role the UN has to play in this sphere; for example, with respect to the future role of the UN development system, there seems to be a very clear consensus that one of the UN's most vital tasks relates to its normative agenda.

There is nothing new in recognising the importance of the normative agendas pursued by the UN system. What is striking is the importance and profile being given to this function today. Reaffirming and asserting the UN system's unique role in securing agreement and implementation on normative frameworks represents an enormous opportunity. The obvious question though is, why now?

Four elements stand out:

- There has been a major reconfiguration of power among states, in particular in terms of economic power. Historically major changes in the distribution of power always present a fundamental challenge to the existing rules by which the international system plays. This is very much evident today.

- Secondly, there has also been a transformation in the relationship between states and markets, fueled in large part by the extraordinary growth in the global economy, which has altered the balance between public and private as well as between international and domestic. The influence of markets has been paralleled by the emergence of multiple stakeholders (multilateral, bilateral, non-state, civil society etc) in different issue areas. By the same token the importance of the public sector providing normative and value-based frameworks becomes increasingly evident.
- Thirdly, the last decade has seen the emergence of a class of development challenges, that require a collective response if there is to be any chance of a successful resolution. Generating a collective response requires in turn reaching agreement on the allocation of responsibility for providing the solution. Agreement on the allocation of responsibility for the provision of global public goods in turn requires an underlying agreement on norms and values.
- Fourthly, the rapid pace of technological innovation has brought to the fore many issues relating to the application of standards, and the need for norms, not least with reference to governance practices.

So again, why now? Because changes in the distribution of power between states and between states and markets, the emergence of a new class of development challenges that require a collective response, and the challenges presented by powerful new technologies all require major adjustments to today's rules of the game. And the foundation for these adjustments lies in the sphere of norms, values and standards.





## The UN and norms today

There are two dimensions to any discussion of where the UN is today on the issue of strengthening norms. The first is to consider the spectrum that norm creation covers which runs from legally binding conventions to voluntary association with a certain regulatory framework. The second is to consider the way normative activities are captured, defined and financed.

### *a) A new trajectory in the development of international Norms?*

Norms can lie anywhere along a spectrum that extends from voluntary compliance to clear legal enforcement measures, with any array of reporting mechanisms in place along the way. Historically it has been rare for global enforcement regimes to buttress international norms, or at least rare for them to be able to do so successfully. In this respect, the evolution in the norms governing the international response to climate change from Kyoto to Paris is quite instructive.

The Kyoto Protocol represents the classical treaty-based instrument to set global emissions standards through legally binding targets. Under the right conditions this type of approach retains its value. This is reflected by the successful formation of two very recent agreements: the Kigali agreement on the reduction of climate-warming hydrofluorocarbons (HFCs) and the agreement on curbing emissions in the aviation industry.

The Paris Climate Change Agreement by contrast embodies a somewhat different approach. What we are seeing is not the 'classical' norms which are buttressed through enforcement powers but a norm as a lever which exercises influence through the use of empirical evidence and data and the power of monitoring. Norm leveraging takes place at the intersection of the public and the private. The force of the Paris Agreement is not the boldness of the public sector commitments being made but rather the hope that the public stance will be influential in signaling to markets that the time for betting on fossil fuels is behind us. The mechanism is not so much ambitious targets as the power of evidence and data to impact on investment decisions. The trajectory from Kyoto through the Paris Agreement has important implications for the UN's approach to strengthening the norms agenda.

### *b) Partial Matters: Capturing, defining and financing*

A number of housekeeping matters need to be addressed if the UN is to commit itself to a credible strengthening of its normative agenda.

The first relates to the iron wall that separates normative and operational activities within the system. The gover-

nance of the system is split along these lines, the most senior management committees are split along these lines, and financial reporting supposedly differentiates between these two types of expenditure. Agenda 2030 is a powerful call for abandoning this artificial divide. Normative frameworks should be providing the foundations for a unified response by the UN system. But in practice the critical work on norms often proceeds in the shadow of the reality that income gravitates towards operational activities. The huge gaps that exist between normative frameworks and operational realities represents a huge liability for the UN system and a threat to its credibility. The cases of the 2013 collapse of the garment factory in Bangladesh and the 2014-15 Ebola crisis in western Africa are very high profile cases in point. A starting point for strengthening the UN's normative agenda must start with the way the UN system organises itself.

A second housekeeping matter relates to how normative activities are accounted for and reported on. There is no indicator more telling about marginal norms activities in the UN's core narrative than the fact that it is impossible to credibly determine the level and nature of expenditures in the system that go into normative activities.<sup>2</sup>

A third issue that needs to be addressed is how normative agendas should be financed.<sup>3</sup> Over the last two decades, a transformation in the financing of the UN development system from un-earmarked funding (core) to mainly earmarked (non-core) has taken place. The un-earmarked funding takes the form of assessed contributions (legally binding) and voluntary 'core' contributions. The UN's activities in norms has been estimated at around US\$ 5-6 billion (although the credibility of this figure is contested). Today this is financed with a combination of assessed, core voluntary and non-core with the ratio of non-core to assessed/core having risen dramatically in the last decade. This raises a larger question that needs to be addressed. Is it possible to conceive of an evolving and adaptive framework of international norms which reflects the forces of change in today's world while increasingly financing that framework from a select group of donors who pick and choose the norms they want to support?

## Identifying current normative gaps

Where are the major normative gaps today?

### *A leadership gap on the norms narrative:*

Perhaps most critical today is the need for UN leadership to embrace a powerful norms narrative. This paper has argued that there are powerful forces converging that have propelled a norms agenda to the core of any multi-lateral agenda. Globalisation is currently seeing a significant backlash with populist movements exploiting the





idea of elites benefiting at the expense of the population at large. The role of a powerful norms agenda as the foundation for an inclusive, managed form of globalisation is today's missing narrative. Multilateral instruments have an integral role in bringing this missing narrative to life.

#### *A norms gap?*

A basic question is whether there are major gaps in the norms architecture? Are there international norms that need to be defined and articulated that currently do not exist. For example, in the area of migration and refugees, does the existing norms framework need to be expanded? In the roll out of Agenda 2030, which areas require further work on the norms framework?

#### *A financing gap*

A further set of questions relate to the financing of the norms agenda. The first question relates to the issue of the type of financing that is appropriate to the financing of international norms. This is discussed above. A second question relates to how you account for normative activities. As discussed above, there is no credible data on what the UN development system (UNDS) spends on its normative agenda. And finally, the measurement of norms faces difficult methodological challenges. And if you cannot measure it, then that normally serves as a major disincentive to prioritising it.

#### *A mainstreaming gap*

There is a progression that flows from the adoption of a norm, to its integration into legal and policy frameworks and then to implementation. This process we are referring to as a process of mainstreaming, where normative

institutional, policy, capacity and implementation aspects should come together.

This process is currently flawed. There is a need for a system-wide strategic capacity to identify critical norms to be addressed by the UN system. There is a need for a coherent policy capacity to support the integration of norms into policy development. There is a need for integrated structures that do not divide the normative from the operational. There is a need for a mechanism to bring together the development of a norm, its integration into policy and its implementation at the country level. There needs to be clarity with respect to where responsibility lies during each stage of the process.

Additional disconnect exists between the expected central role of the UN's normative function and the way the UN system is organised to deliver on that function, in terms of formulating, advocating and implementing norms.

### **Conclusion**

A revitalised multilateral agenda must be built on the back of a strong, inclusive normative framework. Against the background of the current populist backlash to globalisation, this will be politically very challenging. The President of the Council on Foreign Relations Richard Haass has recently made a compelling case for embracing the concept of sovereign obligation, defined as what countries owe to other countries.<sup>4</sup> He argues that the international order of the future will require an expanded set of norms and arrangements for a highly inter-connected world. A compelling norms narrative is urgently needed. This cries out for strong multilateral leadership.

### **Footnotes**

<sup>1</sup>António Guterres, 'Secretary-General-designate António Guterres' remarks to the General Assembly on taking the oath of office,' un.org, 12 December 2016, accessed 2 June 2017, <https://www.un.org/sg/en/content/sg/speeches/2016-12-12/secretary-general-designate-antonio-guterres-oath-of-office-speech>.

<sup>2</sup>The CEB statistics include a column on normative activities but there is no clear definition and many different types of expenditures are included in this column. If somebody asks the question how much does the UN spend on normative agendas it is currently not possible to give a credible response.

<sup>3</sup>Jenks/Toppings et al, Financing the United Nations Development System: Current Trends and New Directions (Uppsala: Dag Hammarskjöld Foundation and the UN MPTF Office, 2016).

<sup>4</sup>Richard Haass, 'The Case for Sovereign Obligation' Foreign Affairs, Jan/Feb 2017.

# Multilateral development banking for 21st century challenges: Addressing global public goods

By Scott Morris and  
Priscilla Atansah

Currently, we are confronting daunting global challenges such as forced migration, climate change, pandemic risks and infrastructure gaps that are cross-border in nature and demand global action. Seeing the potential for multilateral institutions to respond more effectively in the face of these challenges, the Center for Global Development's High Level Panel on the Future of Multilateral Development Banking was set up. The globally-representative panel worked to identify what is essential, what is adaptable and what no longer serves a useful purpose across the multilateral development banks (MDBs).

Focusing on the 'legacy' MDBs—the World Bank Group, African Development Bank, Asian Development Bank, Inter-American Development Bank—as well as for new players like the Asian Infrastructure Investment Bank and New Development Bank, the panel arrived at a set of recommendations aimed at treating the MDBs collectively as a system, with differentiated roles. The five recommendations are contained in the panel's October 2016 report, *Multilateral Development Banking for This Century's Development Challenges*.<sup>1</sup> At the core of the MDB system approach is a clear reorientation of the World Bank from that of country-level project lender to a leading provider of global public goods (GPGs). Defining the need for this reorientation of the World Bank and its building blocks comprises the balance of this paper.

## Why development relevant global public goods (DR-GPGs)?

While the MDBs no longer have a monopoly over development finance in any of their client countries, they continue to offer a platform for coordinated international policy response, as well as technical/country expertise. As such they are uniquely positioned to address contemporary global development challenges – none more so than the World Bank, as the one truly global institution in the MDB system.

As the global nature of many of today's challenges require action that no single country is willing to under-

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take, the World Bank stands as a leading option for the international community to deal with global risks and needs, be it antimicrobial resistance, data collection, food security or climate change. And while these risks affect everyone, they are most consequential and potentially catastrophic for the poorest people in the most fragile countries, so much so that the World Bank can continue to be true to its mission of 'a world free of poverty', while shifting decisively toward global challenges and development-relevant global public goods (DR-GPGs).

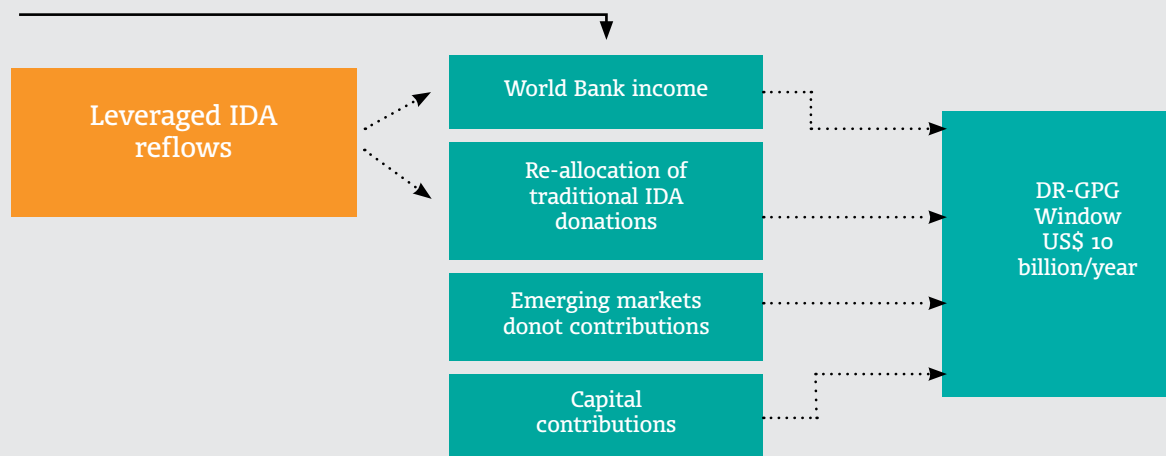
Unfortunately, the current funding of such development-relevant global public goods is grossly inadequate, both globally and at the World Bank. To support climate change mitigation alone in developing countries, the OECD has called for US\$100 billion a year by 2020.<sup>2</sup> Compare this to an estimated US\$14 billion in total GPG-related transfers (grants and loans, both concessional and non-concessional) to developing countries in 2015, half of which was for contributions to UN peacekeeping, with additional amounts for International Monetary Fund (IMF) surveillance (IMF's regular monitoring of economics) and selected World Health Organization (WHO) activities.<sup>3</sup>

For decades, the World Bank has partnered with bilateral donors and global philanthropies as a vehicle for provid-

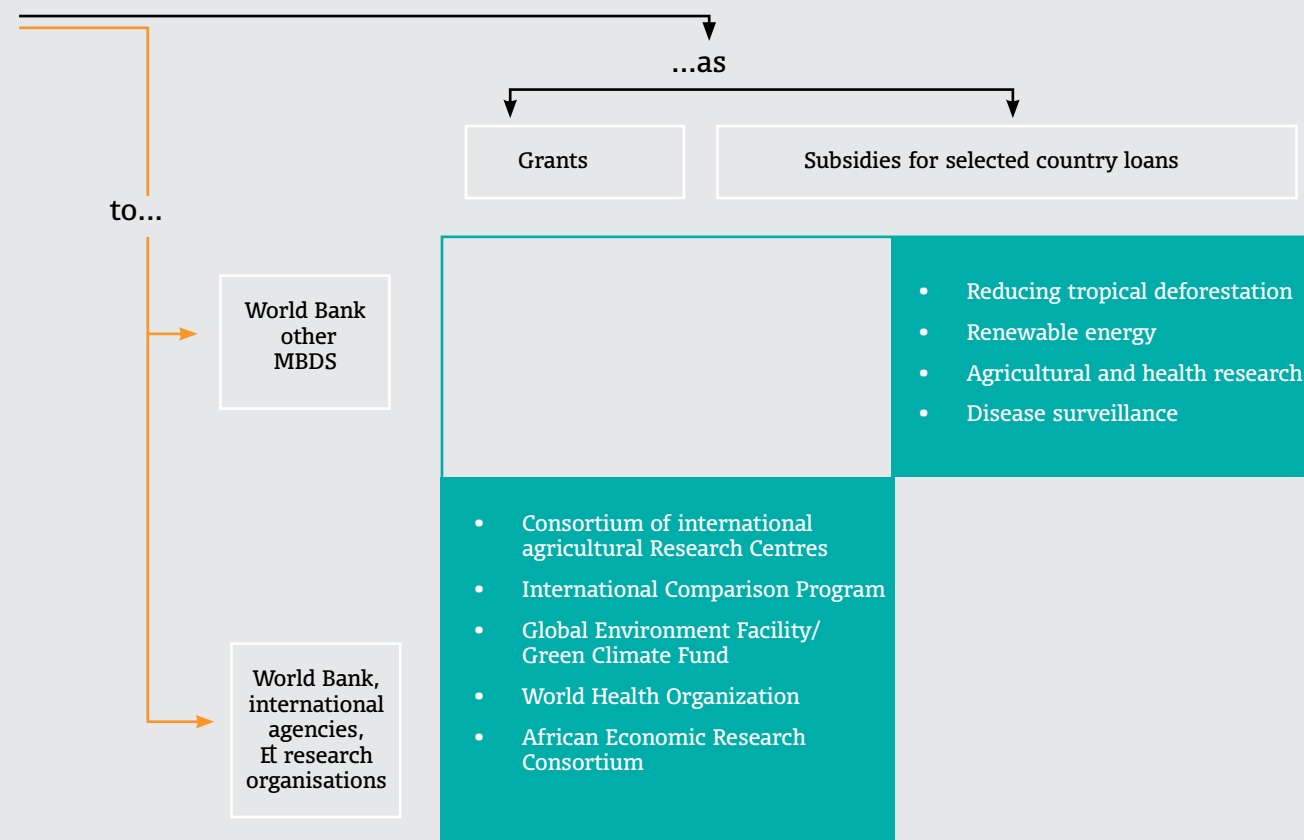


Figure 39: A new Development-Relevant Global Public Goods window:  
Financing and deploying US\$ 10 billion a year

### Financing US\$ 10 billion a year



### Deploying US\$ 10 billion a year



ing and financing GPG programmes. These have ranged from agricultural and health research and development to supporting, developing and curating consistent global benchmark data on issues such as children's learning and gender-disaggregated data on financial inclusion. Yet, the Center for Global Development's high level panel concluded that the absence of a clear mandate from the Bank's shareholders to raise and deploy grant resources

in support of GPGs has ensured that the World Bank's contributions are limited to piecemeal and ad hoc grant-making facilities and donor-funded trust funds, with too little overall ambition. For example, a small amount has been set aside over the years from the Bank's core budget for grants to GPG-related programmes it manages through the Grant Making Facility. Yet, with the Bank's administrative budget under pressure, allocations

to the facility will be phased out over the next three years. As a result, contributions to GPG-oriented entities like the Consultative Group on International Agricultural Research (CGIAR), an agriculture-focused research organisation, are expected to be eliminated entirely.

Beyond funding challenges, the predominant reliance on trust fund arrangements creates additional barriers to effective support for GPGs. A 2008 report by the Bank's Independent Evaluation Group noted that 'heavy reliance on trust funds for financing global public goods work may itself increase the difficulties of mainstreaming such activity alongside long-standing work financed by the Bank's own budget.' Other problems with trust funds include uncertain revenue streams and a lack of continuity, fragmentation of effort and unclear lines of accountability in allocations of management and staff time.

### A new mandate and business model for the World Bank

In response to this set of challenges, the Center for Global Development's high level panel called for a new GPG mandate at the World Bank, bringing GPG financing into the core of the Bank's operations. The panel called on the Bank's shareholders to commit US\$10 billion a year by 2020 in support of this new mandate. A new DR-GPG financing window with a separate governance structure would be tasked with the management of raising and deploying these funds toward four areas where global spillovers are substantial and can affect countries' development prospects: energy/climate mitigation, health, agriculture and data for development.

The new GPG mandate will require dedicated, grant-based financing, additional to current highly dispersed and unpredictable trust fund support. Finding additional resources in an era of tight donor budgets will require a new approach to key aspects of the World Bank's business model. One key area of support will come from a new financial model for the Bank's International Development Association (IDA). As the Bank's low income country lending arm, IDA has long relied on triennial donor replenishments of its grant resources, which subsidise IDA lending. Today, IDA's financial model is defined both by sustained donor support and by a stable stream of IDA country repayments on a stock of long-tenor loans.

IDA's outstanding loans (about US\$ 146 billion) will generate highly predictable reflows for the World Bank in the coming years and represent a stable source of resources. As indicated by key financial reforms during the eighteenth IDA replenishment, concluded in 2016, IDA's total equity of US\$ 175 billion can be borrowed against, leveraging significantly more funds to support current IDA operations. This, combined with expected IDA country 'graduations', could free up significant amounts

of traditional donor grant money to support the new GPG mandate. Combined with other sources, the panel estimates this would achieve the required annual financing stream of US\$10 billion for the new GPG 'window'.

The panel envisions two deployment streams from the new window. One is direct support to third parties, including public-private coalitions, the regional development banks, and other international institutions. The other is subsidies toward World Bank and other MDB loans to offset the additional cost countries would otherwise assume by generating both domestic and global benefits as a result of their investments and programmes. A leading example comes from the Climate Investment Funds, which provide the subsidy element to lower the cost of cleaner technologies, making them more attractive investments for the World Bank's client countries.

CGD's panel expects that the World Bank's large, emerging market client countries could play a significant donor role in sustaining the new window as well. But incentivising their participation will require a new, autonomous governance model for the window. New governance arrangements that put these countries on stronger footing relative to the World Bank's largest shareholding countries would alleviate some of the tensions that currently arise between 'borrower' and 'non-borrower' countries over the allocation of Bank resources.

### Conclusion

Many of today's development challenges are cross-border in nature. And while traditional country-level project finance will continue to meet many pressing needs in MDB client countries, there is a growing imperative for these institutions, and the World Bank in particular, to respond with greater ambition and effectiveness to those issues that cannot be addressed through the traditional model. Whether seeking to avert future pandemics by making sustained and patient investments in health research and development, or to promote climate resilience by investing in cleaner technologies, the provision of global public goods in these and other areas should define the World Bank of the future and should anchor the strategy of the MDB system for the 21st century.

### Footnotes

<sup>1</sup>Nancy Birdsall et al., *Multilateral Development Banking for This Century's Development Challenges*, (Washington DC: Center for Global Development, 2016).

<sup>2</sup>OECD, *Climate Finance in 2013-14 and the USD 100 billion Goal: A Report by the OECD in Collaboration with Climate Policy Initiative* (Paris: OECD Publishing, 2015).

<sup>3</sup>Birdsall and Diofasi, *Global Public Goods for Development: How Much and What For* (Washington DC: Center for Global Development, 2015).



# The Green Climate Fund

## – The ‘new kid on the block’

By Manfred Konukiewicz

Manfred Konukiewicz is Deputy Director General, Global and Sectoral Policies and Commissioner for Climate Policy at the German Federal Ministry for Economic Cooperation and Development (BMZ). As Commissioner for Climate Policy, he advises on climate related issues in development policy, in particular international climate finance.

The Green Climate Fund (GCF) was launched in 2010 by a landmark decision of the Conference of Parties for the United Nations Framework Convention on Climate Change (CoP 16 in Cancun, Mexico). After intense, yet challenging negotiations in a ‘Transitional Committee’ appointed by the CoP, the GCF opened its door for business in 2014, located in Songdo, Korea. In its initial resource mobilisation drive at the end of 2014, the GCF collected US\$ 10.3 billion from contributors, almost exclusively in grant quality. Initial disbursements of funds to developing countries were made in 2015. Total financial commitments from the GCF are at US\$ 2.2 billion, as per April 2017. A breakdown is provided on the GCF website.<sup>1</sup>

The GCF was an obvious key building block for the political architecture of the Paris Climate Agreement of 2015, providing financial support for developing countries embarking on adaptation and mitigation investments in their countries.

It is less well known among the UN development community, because – in the past – development finance and ‘climate finance’ have often been seen as separate, both in objectives and in institutional architecture. A rigid separation was argued for by many developing countries and by non-governmental organisations. They were looking at it from an accounting perspective: with a 0.7% goal for development assistance from developed countries still unfulfilled, it was thought advantageous to negotiate for a separate ‘entitlement’, legally based on Art. 4 of the Framework Climate Convention. Once the GCF was launched, however, the argument pivoted towards a stronger development orientation. Driven by concerns that the GCF should not focus purely on a global public good, developing countries now pushed for a broader spectrum of strategic development objectives. In the governing instrument for the Green Climate Fund, the new balance was captured in Art. 3 which stipulated that the GCF will fund adaptation and mitigation ‘while promoting environmental, social, economic and development co-benefits’.

### Funding entity of the UN?

There is now broad consensus that climate action in developing countries should be part and parcel of a sustainable development strategy, both in the adaptation and mitigation spaces. The 2030 Agenda for Sustainable Development put the issue to rest by including a climate goal (SDG 13), underscoring the relevance of climate action for development.

So nobody doubts today that the GCF is funding a segment of sustainable development in developing countries. But is it an entity under the UN?

In legal terms, the answer is a clear ‘Yes’. The GCF is an ‘operating entity’ of the financial mechanism<sup>2</sup> of the UN Framework Convention on Climate Change and was created by decision of the CoP.

In practical terms, the answer is a bit more intricate. In the ‘Transitional Committee’ which negotiated the governing instrument, the traditional donors which were also seen as prospective contributors to the GCF preferred a set-up under the auspices of the World Bank (which – by the way – is in legal terms an independent specialised UN agency), whereas developing countries preferred a UN institution. Obviously, the divergences between the corresponding models for governance and country representation in the Boards played a role, but the higher comfort level which the World Bank offered with regard to capacity for dealing with large funds and loans also mattered. In the end, a compromise was struck: neither of the two models was chosen, but instead they were to be amalgamated into a new hybrid. The World Bank was chosen as interim trustee.



## How much financial ‘fire-power’ is available?

The initial resource mobilisation in December 2014 produced an aggregated pledge of US\$ 10.3 billion. The contributions came almost exclusively from traditional donor countries, with some notable exceptions where developing countries also pledged contributions, albeit of minor size.

A powerful group of countries was conspicuously absent: the emerging economies, as well as the newly rich Gulf states which have extremely high per capita greenhouse gas emissions and a powerful ‘ability to pay’. It can safely be assumed that it was not because of a lack of funds nor a lack of commitment to the goals of the convention, but rather a political motivation to dissociate themselves with the ‘industrialised’ countries which, in the legal architecture of the Framework Climate Convention, have obligations to cut emissions and to fund ‘incremental costs’ in developing countries.

## How much can be expected in the future?

There is no fixed financial target for GCF, but an agreed ambition that the GCF ‘will play a key role in channeling new, additional, adequate and predictable financial resources to developing countries’.<sup>3</sup> It was agreed that the first replenishment would be initiated when 60% of pledged incoming resources have been committed for outgoing grants and loans. When this will happen depends on the speed with which the GCF can move the money. In a very young organisation, this is an issue of building adequate capacity as well as developing a reliable structure for quality control and risk management. A three-year replenishment cycle is customary for the major global funds.

Expectations must be considered in the context of the funding goal of US\$ 100 billion annually which developed countries pledged to mobilise for climate action in developing countries by 2020.<sup>4</sup> This target clearly denotes a significant growth in available funding, and is based on a ‘wide variety of sources, public and private, bilateral and multilateral, including alternative sources’.<sup>5</sup> A cautious estimate could arrive at the conclusion that the GCF could channel about 5% of that volume, provided it can meet the expectations for effectiveness and efficiency.

## What lessons are there for better finance in the UNDS?

The emergence of the GCF has been considered a success, and rightly so. A success both for developing countries in their quest to access funding to combat climate change, and for the UN system as such, because of the remarkable speed in negotiating and building a new financial mechanism ‘from scratch’. While it is probably much too early to make the ultimate judgement on the

effectiveness of the GCF, its success so far can provide leads for how to make resource mobilisation more effective in other areas too.

One overarching success factor stands out: high priority on the global political agenda for combating climate change. Concluding a wide agreement for a collective approach to climate change was what relevant world leaders really wanted at the time, and the crucial role of an operational and well-resourced financial mechanism was clearly understood. Once the arduous process for building the institutional and legal architecture of the GCF had reached a point where major players had enough confidence in its success, it was actually easy to get those billions rolling.

This rare, yet powerful commodity ‘political will’ is crucial, and cannot be manufactured by clever operatives. However, there are some additional success factors on a more structural level which could be relevant for other branches of UN development finance.

### *Earmarked is not per se ‘bad’*

A lot of financing discussions focus on the ‘quality’ of funds. Obviously, untied funds have a higher quality than earmarked funds. On the other hand, in the political world it is much easier to mobilise funds if they are linked to high-profile concerns. In that broad sense, the resources in the GCF are ‘earmarked’, ie for climate action in developing countries, but this designation is in line with strategic priorities of contributors and client countries alike. Thus, strategic earmarking with issue-linked windows can produce high quality funding.

### *Negotiated pledges as modality for resource mobilisation can work well*

The modality applied by the GCF was negotiated pledges, and it worked well. Other options, like assessed contributions were considered very early in the process but they were not politically feasible, and they would not have produced a better outcome. The problems with a scale of assessments, or with any other fixed burden-sharing formula, are that (a) it effectively neutralises the budget authority of national parliaments, and (b) it encourages a race to the bottom, as treasuries in contributing governments happily apply the formula and adjust their own contributions downwards if a major player is unwilling or unable to mobilise funds at the appropriate level. Thus, the ‘miser’ tends to set the bar.

For the GCF, the negotiations among the ‘interested contributors’, (as they were called; note the absence of the term ‘donor’) focused on policies for contributions, interestingly not on the volume(s) of financial contributions. There was no transparency among major contributors regarding the respective intended con-



tributions, because most contributors were working with their national government institutions to secure funding, pending the outcome of negotiations on policies for contributions. Only the German Chancellor Angela Merkel exposed herself early on, in July 2014, by announcing a German contribution of US\$ 1 billion. That set a bar; it was higher than many players had anticipated, and indeed caused some contributors to go back to their national budget authorities and push for higher commitments. Thus, a virtuous ‘race to the top’ developed, and when pledging time came in December 2014, even the US surprised with their contribution of US\$ 3 billion.

#### *Board membership and representation matter*

The governance model of the GCF is a political innovation: it is based on parity in the Board between developed and developing countries.<sup>6</sup> The Board has 24 members, 12 for developed countries and 12 for developing countries. This model is neither the classic UN model, as applied in the Executive Board of UNDP and other UN entities, with a clear majority for developing countries (‘one country – one vote’); nor is it the ‘Bretton Woods model’ which has the strongest influence with the contributors (‘one dollar – one vote’), as in the Executive Board of the World Bank.

The other key to power distribution in the governance architecture are the voting rules. There was broad agreement that decisions of the Board would be taken by consensus, but interested contributors were pushing for voting rules in the event that consensus could not be achieved. And it was clear, though never publicly mentioned, that these rules should favour those with contributions to the GCF. This matter has as yet not been concluded by the Board, thus consensus remains the only modality for reaching a decision.

#### **Conclusion**

In summary, this governance model has worked remarkably well for the GCF, especially considering the low expectations derived from past experiences with UN governance. It gave contributors enough confidence that their taxpayers’ money would be spent well, allowing them to mobilise ‘big money’. Meanwhile, it gave developing countries enough confidence that the business model of the GCF would be country-driven, allowing them to give up their initial ambition for a UN formula for representation, which would have provided potential recipients with a clear majority. For future considerations regarding UNDS governance, it could be well worth including a ‘parity’ model, designed specifically for financial and budgetary issues.

#### **Footnotes**

<sup>1</sup><http://www.greenclimate.fund>

<sup>2</sup>The other operating entity is the Global Environment Facility.

<sup>3</sup>Green Climate Fund, Governing Instrument for the Green Climate Fund (GI) (Incheon: Green Climate Fund, 2011), Art. 3.

<sup>4</sup>Conference of the Parties, ‘Framework Convention on Climate Change: FCCC/CP/2010/7/Add.1 of CoP 16’ (decisions adopted by the Conference of Parties held in Cancun 29 November– 10 December 2010). Paras 98–100.

<sup>5</sup>Conference of the Parties, ‘Framework Convention on Climate Change: FCC/CP/2010/7/Add.1 of CoP 16’. Para 99

<sup>6</sup>There is no generic formula for assigning the Board seats to specific countries or constituencies. Developed countries found a pragmatic solution between themselves, applicable for the initial Board term. Finding consensus among developing countries proved much more difficult; a solution was reached in a CoP decision which provides a formula based on UN regions.



# Why the United Nations should embrace the concept of global public goods

By the Dag Hammarskjöld Foundation

The Dag Hammarskjöld Foundation is a non-governmental organisation established in memory of Dag Hammarskjöld, the second Secretary-General of the United Nations. The foundation spurs dialogue and action on global development and multilateral cooperation.

One of the transformational impacts that the acceleration of globalisation has had is that it has brought to the fore a class of development challenges that require collective action to have any chance of success. It is this characteristic, the need for a collective response, that means that the concept of global public goods (GPGs) has a key contribution to make to current debates about the future positioning of the United Nations Development System. This has been widely recognised outside the UN system.

The economist Martin Wolf, in an article in the *Financial Times*, entitled ‘The World’s Hunger for Public Goods’, argues that, ‘[t]he history of civilisation is a history of public goods... The institutions that have historically provided public goods are states.’ He goes on to argue that increasingly these goods are becoming global in nature and cannot be supplied by states on their own. ‘Unless there is a global economic collapse, an increasing number of the public goods demanded by our civilisation will be global or have global aspects.’ He ends by arguing that it will require extraordinary creativity to manage these challenges.

It is interesting to note that the Organisation for Economic Co-operation and Development (OECD)/Development Assistance Committee (DAC) in its reflection exercise (2009), which focused on the future of development cooperation, came to the conclusion that one area of focus for its future programme of work should be the global public goods agenda. In this exhaustive process, which included the participation of many senior development officials from many OECD/DAC countries, sharply different views were expressed on the future of Official Development Assistance (ODA), but it is noteworthy that the concept of global public goods found easy support.

The World Bank for its part has been engaged in an ongoing extensive discussion of the best way for it to incorporate a global public goods agenda in its programme of work. The Center for Global Development’s High Level

Panel on the future of Multilateral Development Banking (MDB) addressed forcefully the role of the MDBs in the future as a leading provider of GPGs. This has been touched on earlier in this chapter. Most recently, Joseph Nye in Foreign Affairs has identified the provision of GPGs as a core legacy of the old liberal order.

## The financing of GPGs

Three points need to be highlighted. The first is that financing the provision of a GPG has a distinctive rationale. The rationale is that there is an objective you are pursuing for reasons of national interest and you can only achieve it through collective effort. If you do not finance support for climate adaptation in a particular country, you are not supporting that country’s national development needs. This decision may indirectly impact on you, but it is difficult to make a compelling argument in the political arena that it would have been in your direct national interest to do so. Such expenditure belongs in the aid budget, not in national sector budgets. However, when you finance mitigation efforts in another country, you are directly impacting on the global climate of which you are an integral part. Financing mitigation represents a contribution to meeting a challenge for which you have assumed a direct portion of responsibility. The full amount contributed through collective agreement on burden-sharing should be reflected as the contribution leveraged by any one country paying its agreed share.

Sometimes taking action has a dual purpose. Strengthening the capacity of Liberia to implement the World Health Regulations is a contribution to Liberia’s development but is also a precondition for global health security. This type of expenditure could be assigned to foreign aid or to a donor’s national health budget, which has a direct interest in minimising the danger of the transmission of disease from abroad.



Much of the discussion around development financing continues to assume that foreign assistance is a single pot of resources that gets allocated to the portion of a country's budget dedicated to foreign affairs. The concept of global public goods suggests a very different approach. What is needed is horizontal internalisation of financing the international dimensions of producing public goods. In a globalised world national line ministries have to cope with both national and international dimensions in their areas of responsibility as a matter of effective national policy-making. In that sense every line ministry needs to have an internally as well as an externally oriented part of their budget. The challenge is no longer funding external relations or providing aid in the traditional sense but the international dimension of dealing effectively with a national issue.

A second point relates to the type of financing that is particular to GPGs. The establishment of GPGs requires an agreement on the allocation of responsibility. In short, GPG provision implies negotiated pledges. Each negotiation will be specific to the public good in question.

A third issue relates to the identification of GPGs with the idea of a global allocation process which is seen as being detrimental to country-based allocation processes. This is discussed further below.

### **Free riders (and a future with free drivers)**

Free riders are the biggest obstacle to a credible political narrative around the reality of new emerging challenges that require collective responsibility. Free riders pose a challenge to the basic design of collective response mechanisms. For the UN, they raise questions as to the best ways to create the political space that will bring key parties together. A core vocation of multilateralism is to provide the mechanisms for an effective collective response. A key measure of the relevance of multilateralism as an instrument is its capacity to provide this function. This should not necessarily be equated with principles of universality.

The narrative may require that challenges are issue-based and an effective collective response needs to be solution-oriented. The mechanism may sometimes need to have the characteristics of club membership rather than being wide open. Clubs have membership fees.

In *Climate Shock* (2015) by Wagner and Weitzman, the converse challenge of free drivers is also raised. In this case, rather than a country being able to get away with letting others pay the costs, the costs of finding a solution are so manageable that countries will unilaterally impose solutions that work for them but have negative externalities for others, without any broad framework of agreement regarding estimated costs and benefits.

Free riders and free drivers pose a core challenge for the future of multilateralism and the role of the UN.

### **The SDGs, the MDGs and GPGs**

How do the Sustainable Development Goals (SDGs) articulated in the 2030 Agenda for Sustainable Development relate both to the Millennium Development Goals (MDGs) and the GPGs? The concept of SDGs relates to a range of goals that cover a spectrum that runs from MDG-like goals to GPG-type interventions. For example, the first five SDGs, related to poverty, hunger, health, education and gender, all clearly build on the MDG legacy. On the other hand, the goals on sustainable energy, sustainable consumption and production patterns, climate change, biodiversity loss and preservation of the oceans relate clearly to challenges that require the provision of GPGs.

Within the SDG framework, it is possible to identify a number of challenges that require a collective response and others that do not. They may all require international support, but they may not require, strictly speaking, a collective response. Moving forward, it will be important to establish conceptual clarity regarding the relationship between SDGs and GPGs.

One of the hallmarks of the SDG framework compared to the MDG framework is its universal character. The concept of universality in this context does not diminish the need for the UN to exercise differentiation with respect to its own role. The UN continues to have a major role to play in MDG-type interventions in the least developed countries (LDCs). That is, the UN continues to be a significant source of finance and expertise to support national priorities in LDCs. Also, the UN has an increasingly important role to play in GPG-type interventions globally, including in middle-income countries (MICs). Building norms and generating common standards, broadly contributing to a rules-based international system, is a function that provides a vital global public good. It is widely thought that UN has a very important role to play in performing this function. This has a universal compass whose locus lies primarily in the process of apportioning responsibility for the collective response required. No group of countries has a greater interest in the effective discharge of this function than the MICs trying to ensure full access and enjoyment of the benefits of a rules-based global order.

### **The politics of GPGs**

The concept of GPGs has drawn heavy political fire in the corridors of the UN in New York. Given its broad acceptance elsewhere, it is important to consider why this is the case. For many middle-income countries GPGs are seen as a lose-lose proposition. The MICs are being asked to give up their rights to most grant aid and at the same time to take on new responsibilities relating to GPG allocations.

There is an irony in this stalemate. Historically, there has always been a tension between UN action at the level of the obligations of states to the international system and the responsibilities of member states to their people. Invariably, the declarations of global conferences over the last three decades have reflected this tension by delineating very clearly between the international and national commitments being entered into. Historically, the South has tended to favour a focus on the responsibilities of the international system and has resisted a focus on national responsibilities on the grounds that this interferes in their internal affairs and undermines sovereignty. Today, arguably, elements in the Global South (given that it is a less homogeneous bloc) are more comfortable with a focus on national priorities because it secures funding for countries, while they tend to be suspicious of emphasising international obligations because they see resources going to global issues (GPGs) and they have yet to make a cost/benefit calculation of the implications.

The contention of this paper, which needs to be demonstrated empirically, is that the historic position of the South, which was to believe that fairness in the international system was the issue that commanded their highest priority, was well founded, and a strong case can be made that it should continue to be so. Middle-income countries will be winners in an allocation system that is based on principles of mutual accountability for the provision of GPGs requiring a collective response.

## Conclusion

A new political narrative is required. We have argued that a class of development challenges has emerged over the last decades which is characterised by the fact that it requires a collective response to have any chance of being successfully addressed. The UN has to organise itself to ensure it is an effective instrument in facilitating solutions to these challenges.

GPGs provide a conceptual framework within which to analyse paths to collective response. This should be seen as both complementary to and supportive of the 2030 Agenda for Sustainable Development. What is critical is that the UN continues to explore and widen the paths to effective collective response and that this is seen as an integral part of the new Agenda for Sustainable Development.



# Who will pay for safe, orderly and regular migration?

By Sarah Rosengaertner, Commissioned by UN Multi-Partner Trust Fund Office

Despite the large sums of money spent by states, businesses, migrants and their families annually on migration, the international community lacks a comprehensive delineation of the size and distribution of what could be dubbed ‘migration finance.’ Beyond disparate data points for specific flows, countries, regions or migration corridors, there is, as of yet, no definition of what constitutes such financing and no methodology for aggregating different migration-related financial flows to account for them as a discrete area of finance.

This paper looks broadly at the financial resources that migrants and states spend in the context of the migration process – in order to migrate, to govern the process of migration and to help other states do so – while also acknowledging the dividends that result from such spending, eg in the form of economic growth and remittances.

Part of the accounting challenge is that migration-related financing straddles public and private resources, domestic and external spending, and development, humanitarian and security cooperation among states. It is not easy to isolate it within the budgets of national governments or international organisations, even if there is a specific outcome or budget line on migration or refugees. Owing to the fact that migration is a cross-cutting portfolio, expenditures in areas such as education, health, housing and so forth, may in fact be migration-related without necessarily being labelled as such.

*The lack of data and transparency in this area is problematic for at least three reasons:*

1. Data availability on migration-related finance can influence policy and political discussions. Remittances, for example, show how greater scrutiny of a financing source stoked interest in the links between migration and development. Remittances have now become an established element of policy-making and cooperation, and in some cases a political tool. However, by documenting some flows, but not others, policymakers risk a piecemeal or even one-sided approach to policy development.

Sarah Rosengaertner was commissioned by the UN Multi-Partner Trust Fund Office and Dag Hammarskjöld Foundation to write this paper.

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2. Costing of migration policy implementation: Without evidence on what it costs governments to set up and properly manage distinct components of migration policy – such as consular services, labour migration or resettlement programmes, to name but a few – it is more difficult to promote the development of such policies by other governments. Another challenge is realistically assessing what getting to ‘orderly, safe, and regular’ migration – as called for in Sustainable Development Goal (SDG) 10 – will require in terms of financial commitments at the local, national, regional and global levels.
3. A fragmented financing landscape leaves much discretion for migration-related investments to be guided by the priorities and decisions of donor states. The result is thematically and geographically imbalanced finance that is unsustainable and often conducted with little evaluation of and accountability for results.<sup>1</sup>

Based on a preliminary mapping<sup>2</sup> of the current migration financing landscape, several features can be observed:

## From financing migration to financing development: the contribution of migrants

Migrants account for a large part of migration finance: They pay upfront to migrate; contribute to the countries they join; and often send funds back to family and friends in the form of remittances. Available data suggest that the associated streams of finance are substantial.

Labour recruitment costs borne by migrants and their families<sup>3</sup> vary widely within and across migration corridors, but in the upper echelons, can reach as much as 14 times

the monthly earnings that, for example a Pakistani migrant going to Saudi Arabia, can expect.<sup>4</sup> As demand for migration exceeds the legal channels for its provision, illicit brokers and human traffickers make a fortune off migrants – estimated to be in the billions of dollars for passage to Europe alone.<sup>5</sup> Foreign students are not generally counted as international migrants, yet their numbers are on the increase<sup>6</sup> and they account for substantive resource inflows, especially for top destination countries.<sup>7</sup>

Although international migrants make up only about 3% of the world population, according to a 2016 study by the McKinsey Global Institute they contributed almost 10% of global gross domestic product (GDP), or roughly US\$ 6.7 trillion, in 2015 – about US\$ 3 trillion more than they would have added in their own countries. As much as 90% of those gains accrued to developed countries. The study also suggests that narrowing the existing wage gap between immigrants and native-born workers could boost world economic output by up to a trillion dollars annually.<sup>8</sup> Meanwhile, a comparative review of the fiscal impacts of migration in Organisation of Economic Co-operation and Development (OECD) countries suggests that, while much depends on the age and profile of the migrants and the scope of the welfare state, overall impacts tend to be small.<sup>9</sup> In the United States, first generation migrants tend to cost more than they contribute, but this balance shifts with the second generation and those following, who tend to be net contributors.<sup>10</sup>

Global remittances accounted for a total of US\$ 575 billion in 2016, of which US\$ 429 billion went to developing countries.<sup>11</sup> Remittance receipts in small islands states and Sub-Saharan African countries, in particular, could be even larger if money transfer costs were reduced, an issue that has been on the agenda of the G7 and G20 for years, but has made slow progress. The 2030 Agenda for Sustainable Development aims to reduce transfer costs to 3%. However, the global average cost of sending US\$ 200 stood at 7.5% in the first quarter of 2017 and was 9.8% for transfers among countries in Sub-Saharan Africa, the highest cost region.<sup>12</sup>

### **From 'home affair' to external relations: a rise in migration spending by states**

Migration is a polarising topic in many countries. Institutional responsibilities, policy priorities and spending on the subject can shift considerably with changes in government. State spending on migration encompasses both domestic expenditures linked to dealing with various forms of migration (immigration, emigration, transit) and attendant concerns such as migrant integration and diaspora relations; as well as external financing, often channelled through international organisations, meant to enable other states or concerned stakeholders to better address particular migration aspects.

Global figures on states' domestic spending on migration are not available, yet indications are that spending has increased over the past decade or so. For instance, the membership of the International Organization for Migration (IOM) has grown rapidly, from 67 states in 1998 to 166 in 2016, suggesting that migration is becoming an important issue for more countries. A number of countries of origin, recognising the contributions of migrants and diaspora, have made policy changes and investments in their institutional capacities – for instance, allowing for dual citizenship; establishing a diaspora ministry or policy; installing labour attachés in their embassies and consulates; or incorporating migration into their national development strategies. Major destination states have become more selective in their admissions<sup>13</sup> and have spent heavily on fortifying their borders.<sup>14</sup> At the same time, the circle of countries offering refugee resettlement has expanded<sup>15</sup>, as have government efforts to integrate newcomers into their societies.

In terms of external financing, crises and associated movements have been major drivers of increasing costs, as reflected in rising budgets for the UN High Commissioner for Refugees (UNHCR). UNHCR's annual budget amounted to US\$ 7.2 billion in 2015, with actual expenditures reaching US\$ 3.3 billion.<sup>16</sup> In contrast, its budget requirements in 2010 were US\$ 3.3 billion. The number of persons of concern to the organisation almost doubled during that period, from 34 million in 2010 to 64 million in 2016. The IOM expects its expenditures to surpass US\$ 2 billion for the first time in 2017, a 70% increase over the last four years. More than half of its operational budget for 2017 is devoted to crisis and emergency related movements.<sup>17</sup> In comparison, the International Labour Organization's (ILO) budget and extra-budgetary resources have remained relatively stable since 2011 at around US\$ 1.2 billion. However, the share of its regular budget devoted to labour migration, while remaining small in comparison to the resources allocated to other outcomes, has more than doubled from 2014–15 to 2016–17 – from US\$ 15.8 to US\$ 34.4 million. Extra-budgetary funding towards ILO's labour migration outcome increased only slightly over the same period (from US\$ 28.5 to US\$ 29.9 million), but was comparatively larger than that attracted by many of ILO's other strategic outcomes.<sup>18</sup>

Migration's growing role in development cooperation is particularly apparent in Europe. A major player in this field, the European Union, has drawn on a variety of funding instruments to support migration-related cooperation with, and capacity development in, third countries.<sup>19</sup> Yet, the merger of migration and development has introduced tensions between the pursuit of migration policy objectives dominated by domestic priorities and established development objectives and cooperation





principles.<sup>20</sup> As spontaneous arrivals and deaths at sea continue in the Mediterranean, Europe has shown increased urgency in pursuing bilateral partnerships with countries of origin and transit and in mobilising resources for addressing the ‘root causes’ of migration. The Overseas Development Institute calculated that total expenditures outside Europe, including targeted trust funds, amounted to EUR 15.3 billion since the end of 2014.<sup>21</sup> The European Commission has also proposed an ambitious External Investment Plan for Africa and the European Neighbourhood that could lend up to EUR 32.3 billion with an EU guarantee between 2014 and 2020.<sup>22</sup> Yet, at the same time, calls for making development finance conditional on migration cooperation have been resurgent and states are spending larger shares of their overseas development assistance (ODA) on refugees within their own borders.<sup>23</sup>

### Future directions: Laying the groundwork for the global compacts on refugees and migration

States have formulated broad objectives and set themselves a number of migration-related targets in the 2030 Agenda for Sustainable Development. The New York Declaration for Refugees and Migrants, adopted in September 2016, contains additional commitments, not least to negotiate, by 2018, global compacts on refugees, and on safe, orderly, and regular migration. Although targeted at different groups, the two global compacts grapple with a set of cross-cutting policy challenges: on the one hand, fostering the successful reception and inclusion of newcomers, enabling them to contribute to society; and on the other, enabling people to move in a manner that is safe, regular and orderly, no matter the reasons for their movement.

The current outlines of the refugee compact focus heavily on the first policy conundrum, proposing a new model of refugee response, the Comprehensive Refugee Response Framework (CRRF), to overcome the limits of short-term humanitarian assistance in dealing with what often become long-term displacement situations. Underpinning this model is the mobilisation of development and private sector resources in support of refugee populations and hosting nations. ‘Trial’ compacts between donors and individual states, such as Jordan and Lebanon, give the latter easier access to concessional development finance and, in some cases, overseas markets for their products, while in return asking that investments in job creation and public service delivery benefit not only the local population, but also refugees, so they can achieve self-reliance.<sup>24</sup> The World Bank has created new mechanisms, including a Global Concessional Financing Facility (GCCF), to address the financing needs of middle and low-income countries experiencing a large influx of refugees.

Challenges remain, both, related to the actual mobilisation of financial pledges made – of a fundraising target of US\$ 1.5 billion the GCCF had received US\$ 278 million by mid-June 2017<sup>25</sup> – and in terms of transforming more finance into better policy and results for refugees. While high hopes are pinned on the private sector and technological solutions, often missing is an infrastructure that would link potential investors with local entrepreneurs or enable refugees to navigate bureaucratic hurdles that prevent them from seizing available opportunities.

The global migration compact picks up from SDG target 10.7, which commits states to ‘Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies’. There have been several propositions over the years as to what this might entail: from the 2005 report of the Global Commission on International Migration calling for ‘coherence, capacity and cooperation’ as the cornerstones of migration governance<sup>27</sup> to IOM proposing a set of ‘core capacities for international migration’, in its 2010 World Migration Report<sup>28</sup> and endorsing the Migration Governance Framework – which spells out key principles and objectives for well-governed migration – in 2015.<sup>29</sup> In early 2017, the report of the former Special Representative of the Secretary General (SRSG) on Migration, Peter Sutherland, made the case that, as they approach the negotiations on a global compact, states must not only agree on shared principles and priorities, but also make a concerted investment to ensure that all states have the capacities needed to live up to their commitments. To this end, the SRSG called for the establishment of a global financing facility for migration.<sup>30</sup>

Global financing facilities have seen success in other fields, including the environment (Global Environment Facility, GEF), health (Global Fund, GAVI, Every Woman Every Child) and trade (Enhanced Integrated Framework, EIF). Yet, the existing financing landscape for migration provides few examples, outside the EU, of governments – let alone private donors – pooling funds for migration purposes.<sup>31</sup> Most prominently, this has happened for the Global Forum on Migration and Development (GFMD), an annual policy dialogue, but efforts to broker operational partnerships (through the GFMD’s ‘Platform for Partnerships’) have largely remained a matter of information sharing. So, while States and others already spend large amounts on migration, the global compacts face the challenge of channelling some of these funds for common purposes. How might the UN System, under the leadership of the SRSG and IOM, make the case for a global financing facility? A number of suggestions for next steps:

1. Develop and propose a set of key ‘ingredients’, or core capacities, for good migration governance that each state needs to have in place in order to fulfil SDG target 10.7 (such as having a comprehensive national migration policy). Try to cost it.
2. Clearly identify those areas of migration governance that require routine cross-border cooperation, where national institutions need to interface and where the need for international agreements, harmonised definitions, standard operating procedures and the like arises. (Areas such as asylum, best interests of the child determination, return, and the transferability of qualifications, skills and social security come to mind). Show the cost of non-cooperation.
3. Make the case for economies of scale through the pooling of resources (for example when states provide consular services for each other’s citizens or IOM undertakes health assessments of migrants for a number of countries). Map existing capacities for providing key services to the global migration system, such as data collection, research and training.
4. Undertake a more thorough mapping of existing financing for migration, and engage in efforts to develop a new international statistical standard, Total Official Support for Sustainable Development (TOSSD) that seeks to track resources invested to achieve the SDGs, including those related to ‘development enablers’ such as safe international migration.<sup>32</sup>
5. Examine innovative partnership models and financing mechanisms, such as consumer levies, debt-swaps and social impact bonds, that have been used in other fields and explore their transferability to the migration field.

Not all of these steps may be possible prior to the negotiation and adoption of the global compact, but the earlier a discussion about financing can be initiated, and the more evidence can be brought to the discussion, the stronger the case for funding collectively what is in the collective interest.





## Footnotes

<sup>14</sup>IOM World Migration Report', (report, ICMPD/ECDPM, 2010); ICMPD and ECDPM, 'Migration and Development Policies and Practices. A mapping study of eleven European countries and the European Commission', (report, ICMPD and ECDPM, May 2013).

<sup>2</sup>This paper presents preliminary insights from an ongoing effort to map the migration finance landscape for a longer research paper.

<sup>3</sup>The World Bank's Global Knowledge Partnership on Migration and Development (KNOMAD) and the International Labour Organization (ILO) are currently developing a Recruitment Cost Indicator (RCI), as part of SDG indicator 10.7.1. For this purpose, recruitment costs include recruitment service fees paid to recruitment agents, document costs (for example, passport, visa, medical certificate, security clearance, and language test), and transportation cost. Source: World Bank, Migration and Development Brief no. 27, April 2017.

<sup>4</sup>World Bank, 'Migration and Remittances: Recent Developments and Outlook', World Bank, Migration & Development Brief no. 27, April 2017.

<sup>5</sup>Europol, 'Migrant Smuggling in the EU', (report, Europol, 2016).

<sup>6</sup>International Labor Organization (ILO), OECD, and World Bank, 'The Contribution of Labour Mobility to Economic Growth' (joint paper for G20 Labour and Employment Ministers meeting, Ankara, Turkey, September 3–4, 2015); Asian Development Bank Institute (ADBI), ILO, and OECD, Building Human Capital through Labor Migration in Asia (Tokyo: ADBI, 2015).

<sup>7</sup>In the US alone, international students contributed more than US\$ 35 billion to the economy in 2015, according to the U.S. Department of Commerce – up from a total of US\$ 31 billion the previous year. <https://www.iie.org/Why-IIE/Announcements/2016-11-14-Open-Doors-Executive-Summary>.

<sup>8</sup>Jonathan Woetzel et al, 'People on the move: Global migration's impact and opportunity', (report, McKinsey Global Institute, 2016).

<sup>9</sup>OECD, 'The Fiscal and Economic Impact of Migration', (Policy Brief, OECD, May 2014).

<sup>10</sup>National Academies of Sciences, Engineering, and Medicine, 'The Economic and Fiscal Consequences of Immigration' (report, NASEM, 2017).

<sup>11</sup>World Bank, 'Migration and Remittances'.

<sup>12</sup>World Bank, 'Migration and Remittances'.

<sup>13</sup>Matthias Czaika and Hein de Haas, The Globalization of Migration: Has the World Become More Migratory?, International Migration Review, Volume 48 (2), p. 283–323, July 2014.

<sup>14</sup>Doris Meissner, Donald M. Kerwin, Muzaffar Chishti and Claire Bergeron, 'Immigration Enforcement in the United States. The rise of a formidable machinery', (report, Migration Policy Institute, January 2013); Save the Children Australia & UNICEF Australia, 'At What Cost? The Human, Economic and Strategic Cost of Australia's Asylum Seeker Policies and the Alternatives', (report, Save the Children Australia & UNICEF, 2016).

<sup>15</sup>Hanne Beirens and Susan Fratzke, 'Taking Stock of Refugee Resettlement: Policy Objectives, Practical Tradeoffs, and the Evidence Base', (report, Migration Policy Institute, May 2017).

<sup>16</sup><http://undocs.org/A/71/12>

<sup>17</sup>Report of the United Nations High Commissioner for Refugees', (official records, UN, 2015–2016) and International Organization for Migration, 'Programme and Budget for 2017', (Council 107th Session, IOM, 2016).

<sup>18</sup>ILO, 'The Director-General's Programme and Budget Proposals for 2016–17: (GB.323/PFA/1)', (ILO, 2 February 2015).

<sup>19</sup>Leonhard Den Hertog, Money Talks. Mapping the funding for EU external migration policy, CEPS paper no. 95, November 2016.

<sup>20</sup>ICMPD and ECDPM, 'Migration and Development Policies and Practices'.

<sup>21</sup>ODI, 'Europe's Refugees and Migrants: hidden flows, tightened borders and spiralling costs', (report, ODI, September 2016).

<sup>22</sup>[http://europa.eu/rapid/press-release\\_MEMO-16-3006\\_en.htm](http://europa.eu/rapid/press-release_MEMO-16-3006_en.htm)

<sup>23</sup>Anna Knoll and Andrew Sheriff, 'Making Waves: Implications of the irregular migration and refugee situation on Official Development Assistance spending and practices in Europe' (report, EBA, 2017); see also: <http://www.oecd.org/dac/financing-sustainable-development/In-donor-refugee-costs-in-ODA.pdf>

<sup>24</sup>European Council, 'EU and Jordan adopted partnership priorities and compact', (press release, 20 December 2016).

<sup>25</sup><http://fiftrustee.worldbank.org/Pages/cff.aspx>

<sup>26</sup>As one example, it took the founding of a small NGO 'Talent Beyond Boundaries' (<https://www.talentbeyondboundaries.org>) to start mapping the professional skills of Syrian refugees in Lebanon and Jordan to connect them with interested employers in third countries.

<sup>27</sup>Global Commission on International Migration, 'Migration in an interconnected world: New Directions for Action', (report, GCIM, 2005).

<sup>28</sup>[https://publications.iom.int/system/files/pdf/wmr\\_2010\\_english.pdf](https://publications.iom.int/system/files/pdf/wmr_2010_english.pdf)

<sup>29</sup>[https://www.iom.int/sites/default/files/about-iom/migof\\_brochure\\_a4\\_en.pdf](https://www.iom.int/sites/default/files/about-iom/migof_brochure_a4_en.pdf)

<sup>30</sup>A/71/728

<sup>31</sup>IOM's Development Fund, which supports migration management capacities in developing countries, is dependent on the small share of unearmarked contributions the organisation receives, and remains tiny (at US\$ 8 million), given IOM's growing membership and overall operational budget of about US\$ 1 billion. The Spanish Millennium Development Goal Fund supported a series of Joint UN-IOM Programmes on youth employment and migration. In 2013, the World Bank established a multi-donor trust fund underpinning its Global Knowledge Partnership on Migration and Development (KNOMAD), a research network. And, in 2016 the World Bank's Concessional Facility for Jordan and Lebanon was transformed into a Global Concessional Financing Facility (GCFF).

<sup>32</sup><http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/Updated%20TOSSD%20Flyer%20with%20TOSSD%20Task%20Force%20inserted%2011%20May%202017.pdf>

## Chapter Five:

# Financial transparency and accountability: Low hanging fruit?

### Introduction

Open access to public finance information has profoundly and rapidly transformed governance, accountability and citizen engagement at all levels. Aided by technology, rising education levels and growing youth populations, we have seen that public officials and finance systems across the world are increasingly providing full and open access to public financial information to its citizens, even in the most remote and local settings. In 2015, the Addis Ababa Action Agenda (AAAA) and Sustainable Development Goal (SDG) 16 both enshrined the notion of open financial data into their outcomes, giving transparency and accountability further normative weight and character, and also recognising their inherent value-add for sustainable development.

At the international level, in addition to AAAA and Goal 16, tremendous mobilisation and results have emerged in this domain. For example, engagement with the International Aid Transparency Initiative (IATI) has grown from less than 100 organisations publishing to IATI standards in 2012 to over 545 organisations today, and with a 40% increase in 2016 alone. Clearly, this represents a powerfully promising advance in empowering countries and people to achieve the SDGs by helping them to develop and apply the right tools to ensure that SDG resources and investments are directed to top priorities and with highest standards of effectiveness and integrity in the public services and organisations which are entrusted with them.

This chapter explores two major dimensions of transparency and accountability in relation to financing and the role of the United Nations Development System (UNDS)

in Agenda 2030. Firstly, it examines illicit financial flows – a critical issue at the heart of transparency and accountability in Agenda 2030 finance, and arguably one of the lowest of the ‘low-hanging fruit’ in SDG financing. This contribution from Tom Cardamone of Global Financial Integrity highlights that the value of illicit flows to/from developing countries was approximately US\$ 3 trillion in 2014. Interestingly, this number is roughly equal to the annual SDG investment gap figure estimated by United Nations Conference on Trade and Development (UNCTAD). The paper powerfully summarises the opportunity costs of illicit financial flows for SDG achievement, as well as the impact of a lack of transparency and accountability in outflow-inflow data discrepancies. It specifically presents to the new UN Secretary-General an agenda for easy and early action by the UN system that can help unlock the trillions of dollars as needed investment capital for the achievement of the SDGs.

In the second part of the chapter, the issue of open budgeting and monitoring for the SDGs is examined in a joint paper by John Hendra and Claire Schouten. Drawing from examples in Nepal, Colombia and Brazil, the paper looks at lessons from experience with enhanced transparency, participation and accountability measures, which began initially under the Million Development Goal framework and have been further enhanced, legitimised and deepened within the framework of Agenda 2030. The paper makes a strong case for i) open financial books as a key to better fiscal performance, lower borrowing costs and lower corruption, ii) enhanced citizen participation in budget preparation and monitoring, and for iii) redoubled attention to strengthening oversight institutions responsible for public finance and budget, and ultimately SDG achievement.



# Illicit financial flows and domestic resource mobilisation: Drivers of change in financing Agenda 2030

By Tom Cardamone

With the adoption of the Addis Ababa Action Agenda and the Sustainable Development Goals the international community has made fantastic strides toward the holy grail of development: the elimination of poverty. While derided by some as unfocused and overly ambitious, the 17 Goals and 169 targets demonstrate a willingness not only to think big, but to consider the multifaceted nature of development and its interlocking components. Indeed, even critics would be hard-pressed to decide which of the goals should be eliminated to narrow the agenda's focus. Would it be Goal 11 – Make resilient cities? Or, perhaps, Goal 5 – Achieve equality for women and girls? Any attempt at deconstructing the SDGs would be pure folly.

In addition to the people-first focus of Agenda 2030, a critically important component of the plan is the convergence and promotion of two related issues. The first, domestic resource mobilisation (DRM), while not a new idea (it has been included in development thinking since the Monterey conference in 2002) has gained prominence with the adoption of the tenet that the onus for economic progress will reside with developing countries themselves. In the Addis Agenda governments acceded to the notion that ***'significant additional domestic public resources . . . will be critical to realising sustainable development...'*** (emphasis added)<sup>1</sup>. Simply put, the bulk of the funds needed to achieve the SDGs will come from domestic sources.

The second, and intimately connected, task calls for curbing the scourge of illicit financial flows (IFFs). With the adoption of Agenda 2030 IFFs became part of development orthodoxy. This is seen most clearly in the Addis Agenda in which governments pledged to *'redouble efforts to substantially reduce illicit financial flows . . . with a view to eventually eliminating them...'* This was followed with a plea from the Agenda's framers that 'appropriate international institutions' should provide estimates of illicit flows. This theme was picked up in SDG16 which calls for governments to *'significantly reduce illicit financial...*

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*flows...'*<sup>2</sup> In the drive to go *'from billions to trillions'* – the mantra of Agenda 2030 – boosting DRM and reducing IFFs is essential.

With good reason. Data on the magnitude of illicit flows produced by Global Financial Integrity shows that in 2014 total IFFs (inflows and outflows) are estimated from US\$ 2 trillion to US\$ 3.5 trillion.<sup>3</sup> To put this in perspective, these volumes are equivalent to between 14% and 24% of total developing country trade – a stunning figure. In addition to the extremely large total, the growth of illicit flows has been constant over the past 10 years at an average annual rate of between 8.5% and 10.1%. The combination of the magnitude of the flows, their percentage of total trade, and their unfettered growth indicates that the malady of illicit flows is severe and chronic. Without a clearly articulated and focused plan to address IFFs the effort to boost DRM will fall far short of the mark.

## Opportunity cost of not acting

Unfortunately, optimism generated by the SDG process and the severity of illicit flows has not been sufficient to maintain momentum toward the Global Goals. The growing impression of a waning development agenda is supported by a recent survey of 500 sustainability experts. The study by GlobeScan/SustainAbility reveals that a staggering 91% of respondents believe insufficient progress has been made toward the SDGs.<sup>4</sup> Only 4% believe progress on Goal 16 (where the illicit flows target



**Table 14: Estimated illicit financial flows, all developing countries, 2005-2014**  
% of total developing country trade except where noted

|                                             | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Average<br>2005-2014 | 2014                |                                                |
|---------------------------------------------|------|------|------|------|------|------|------|------|------|------|----------------------|---------------------|------------------------------------------------|
|                                             |      |      |      |      |      |      |      |      |      |      |                      | Billions of<br>US\$ | Average<br>annual %<br>change<br>since<br>2005 |
| <b>A. Total<br/>(outflows plus inflows)</b> |      |      |      |      |      |      |      |      |      |      |                      |                     |                                                |
| Low estimate                                | 15.7 | 15.1 | 14.4 | 14.3 | 15.3 | 14.6 | 13.0 | 13.3 | 13.9 | 13.8 | 14.1                 | 2,010               | 8.5                                            |
| High estimate                               | 23.5 | 24.0 | 23.7 | 23.4 | 25.7 | 24.8 | 23.8 | 23.3 | 24.5 | 24.0 | 24.0                 | 3,507               | 10.4                                           |
| Midpoint                                    | 19.6 | 19.6 | 19.0 | 18.9 | 20.5 | 19.7 | 18.4 | 18.3 | 19.2 | 18.9 | 19.1                 | 2,759               | 9.7                                            |
| <b>B. Outflows</b>                          |      |      |      |      |      |      |      |      |      |      |                      |                     |                                                |
| Low estimate                                | 5.4  | 4.9  | 4.8  | 4.8  | 5.8  | 5.1  | 3.9  | 4.3  | 4.2  | 4.2  | 4.6                  | 620                 | 7.2                                            |
| High estimate                               | 7.8  | 7.4  | 7.5  | 7.5  | 8.9  | 7.6  | 6.6  | 6.7  | 6.7  | 6.6  | 7.2                  | 970                 | 8.1                                            |
| Midpoint                                    | 6.6  | 6.1  | 6.1  | 6.1  | 7.4  | 6.4  | 5.3  | 5.5  | 5.4  | 5.4  | 5.9                  | 795                 | 7.7                                            |
| <b>B. Inflows</b>                           |      |      |      |      |      |      |      |      |      |      |                      |                     |                                                |
| Low estimate                                | 10.3 | 10.3 | 9.6  | 9.5  | 9.5  | 9.5  | 9.2  | 9.0  | 9.7  | 9.5  | 9.5                  | 1,391               | 9.2                                            |
| High estimate                               | 15.6 | 16.6 | 16.2 | 15.9 | 16.8 | 17.2 | 17.2 | 16.6 | 17.8 | 17.4 | 16.8                 | 2,537               | 11.4                                           |
| Midpoint                                    | 12.9 | 13.4 | 12.9 | 12.7 | 13.1 | 13.3 | 13.2 | 12.8 | 13.7 | 13.4 | 13.2                 | 1,964               | 10.6                                           |

GFI notes:

Source: GFI staff estimates using data from the International Monetary Fund.

Note: Total trade is defined as the total exports plus imports for developing countries as reported by their advanced country trade partners to the compilers of the IMF's Direction of Trade Statistics. The low estimates are based on bilateral trade data between developing countries and advanced countries only (details are provided in Appendix II). The high estimates scale up the low estimates country by country to account for misinvoicing between developing countries. The midpoint is the simple average of the low and high estimates.

Source: Global Financial Integrity

resides) has been 'good' even though those polled rank it as tied third-most important goal. Just 24% believe the UN's contribution to the SDGs since adoption has been 'good'. Given that a 2014 United Nations Conference on Trade and Development (UNCTAD) study estimates that 'developing countries face US\$ 2.5 trillion annual investment gap in key sustainable development sectors,'<sup>5</sup> the lack of progress on Agenda 2030 is deeply troubling. While addressing IFFs in a focused and aggressive way will not ensure widespread attainment of the SDGs, neglecting to act on this corrosive phenomenon will almost surely doom the SDGs to failure.

What must be considered is the opportunity cost of not acting. In its most recent Development Report, United Nations Development Programme (UNDP) framed the current challenges succinctly:

*Even with all the impressive progress in reducing poverty over the past 25 years, 766 million people, 385 million of them children, lived on less than US\$ 1.90 a day in 2013. Poor nutrition causes 45% of the deaths among children under age 5. Children*

*born in developing countries in 2016 will lose nearly US\$ 177 billion in potential lifetime earnings because of stunting and other delays in physical development.*<sup>6</sup>

Progress on these issues will not occur without sufficient domestic resources to do the job. Addressing the flow of illicit funds is the low-hanging fruit that can provide the most immediate and substantial boon to DRM levels. The lack of progress on the SDGs as a whole, and on the IFF/DRM problem in particular, provides an opportunity for UN Secretary-General Guterres as he sets the agenda for his term. In deciding his long-term priorities Mr. Guterres should give illicit flows and domestic resources high priority. The IFF/DRM issue must be addressed with the same vigour and focus as if it were a pandemic given that no country is immune to illicit flows and all are already 'infected'. The Secretary-General has the benefit of these concepts being embedded in the SDGs, but to be successful he will need to use his bully pulpit and be both cheerleader and sage advisor in order to move governments and institutions.



## Vital role of the United Nations

The Secretary-General's first task is to secure an agreement on a definition of illicit flows. Notwithstanding IFFs being an integral part of the SDGs, there is still no globally-recognised definition despite the fact that the UN, World Bank, Organisation for Economic Co-operation and Development (OECD) and European Parliament use strikingly similar working definitions. Competing camps fret over their own narrowly defined requirements for a definition while precious time is wasted. Without a definition no SDG target indicator can be determined; without an indicator to measure country-level progress the urgency to address IFFs dissipates. Given this stalemate, the Secretary General should use the art of influence to hammer through a definition which closely adheres to the current working language. This could include a proviso that the matter can be revisited if new, more accurate data sources become available. The global poor cannot afford to wait for bureaucrats, however well intentioned, to reach consensus.

Next, the cheerleader: developing country governments should be encouraged, and supported with training and technology, to engage with global efforts to enhance transparency in the international financial system. Countries can help themselves by creating public beneficial ownership registries so the identity of company owners is transparent. Further, governments can require that financial information produced by multinationals as part of the country-by-country reporting obligation – instituted by the OECD in its Base Erosion and Profit Shifting (BEPS) plan – be provided as part of negotiations of investment contracts. Moreover, developing countries should take advantage of the Automatic Exchange of Financial Information standard to help track funds hidden in foreign country accounts.

Additionally, the UN can play the role of engaged advisor by helping governments create a multi-agency team focused on curtailing illicit financial flows. This would include personnel from a wide array of ministries (eg Financial Intelligence Unit, Customs, Central Bank, Tax Authority etc) who would meet frequently to create a plan to attack illicit flows. Information silos must be eliminated and an all-hands-on-deck mindset must be instilled in the culture in order to have a chance of stopping the pandemic of illicit flows.

Part of this effort should include the implementation of commercially available trade-risk software that can be used by various government departments, but especially Customs, to detect when the misinvoicing of goods transactions occurs. The Global Financial Integrity study on IFFs notes that *'the dominant channel for IFFs moving in and out of the developing world is trade misinvoicing ... [which] account[s] for at least 66% of measurable IFF outflows and 97% of measurable inflows in 2014'*<sup>7</sup> (emphasis added). It is clear that the use of trade is a major vector for shifting illicit funds.

## Conclusion

While curtailing illicit flows in order to boost domestic resource mobilisation may appear to be a daunting task it is vitally important to fulfill the promise of the SDGs. Funds generated by decreasing the flow of illicit money will go a long way toward hitting UNCTAD's US\$ 2.5 trillion target. The good news is that this multi-pronged approach is not expensive or technically difficult to accomplish. Political will is the indispensable ingredient necessary to achieve success. And considerable UN leadership and support.

## Footnotes

<sup>1</sup>Addis Ababa Action Agenda Of The Third International Conference On Financing For Development'. New York: United Nations, 2017, [www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf).

<sup>2</sup>Resolution Adopted by The General Assembly On 25 September 2015'. New York: United Nations, 2015, [http://www.un.org/ga/search/view\\_doc.asp?symbol=A/RES/70/1&Lang=E](http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E).

<sup>3</sup>Joseph Spanjers and Matthew Salomon, 'Illicit Financial Flows to and from Developing Countries: 2005-2014', (report, Global Financial Integrity, 2017) p.2, <http://www.gfintegrity.org/report/illicit-financial-flows-to-and-from-developing-countries-2005-2014/>.

<sup>4</sup>Aiste Brackley and Mark Lee, 'Evaluating Progress Towards the Sustainable Development Goals', (Globescan and Sustainability, 2017), <http://www.globescan.com/component/edocman/?view=document&id=271&Itemid=591%20>.

<sup>5</sup>UNCTAD Developing Countries Face \$2.5 Trillion Annual Investment Gap In Key Sustainable Development Sectors, UNCTAD Report Estimates. (press release, UNCTAD, 2014), <http://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=194>

<sup>6</sup>Selim Jahan, 'Global 2016 Human Development Report', (report, UNDP, 2016), [http://hdr.undp.org/sites/default/files/2016\\_human\\_development\\_report.pdf](http://hdr.undp.org/sites/default/files/2016_human_development_report.pdf).

<sup>7</sup>Joseph Spanjers and Matthew Salomon, 'Illicit Financial Flows'.





# Open budgeting and monitoring for the Sustainable Development Goals:

## A country-level perspective

By Claire Schouten and John Hendra

One of the key shortcomings of the Millennium Development Goals (MDGs) was that governments were not required to openly, regularly and comprehensively report on the public financial resources they invested in pursuit of the goals. This includes how these funds were raised, how they were spent and what results were achieved. Without this information it has been very difficult to track MDG commitments, investments and outcomes — and to understand why specific goals were, or were not, achieved.

The 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda (AAAA) meanwhile, offer an opportunity to overcome the pitfalls of the MDGs. They endeavour to ensure governments report on their spending and progress towards the achievement of the Sustainable Development Goals (SDGs). Agenda 2030 specifically commits to ‘build effective, accountable and inclusive institutions at all levels’ and the AAAA pledges to ‘strengthen national control mechanisms, such as supreme audit institutions, along with other independent oversight institutions, [and] increase transparency and equal participation in the budgeting process’.<sup>1</sup>

### ‘Leaving No One Behind’: Strengthening budget practices for sustainable development

Research by the International Budget Partnership and Development Finance International looked at governments’ budget transparency practices, at the relative ease of identifying MDG spending (‘readability’), and at budget classification and presentation for both planned and actual spending. The research draws on the Government Spending Watch<sup>2</sup> initiative of Development Finance International, which monitored MDG-related spending across 72 developing countries, and the International Budget Partnership’s Open Budget Survey<sup>3</sup>, the world’s leading independent and comparative measure of transparency, oversight and public participation in government budget processes.

John Hendra serves as Senior UN Coordinator in helping the UN development system become more ‘fit for purpose’ to support implementation of the 2030 agenda for Sustainable Development and the Sustainable Development Goals (SDGs). In this role, he provides advisory and change management support to the UN Development Group, to individual UN Agencies and to UN country teams around the world.

Claire Schouten is Senior Program Officer for International Advocacy at the International Budget Partnership, which collaborates with civil society around the world to analyse and influence budgets to improve governance and reduce poverty. Claire Schouten specialises in integrity, transparency, accountability, and participation in public resource management.

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

Of the 72 countries monitored by Development Finance International, one third (24 countries) did not have sufficient data to allow further analysis. Of the remaining countries, eleven<sup>4</sup> were considered to have relatively strong budget systems that enabled meaningful tracking of MDG spending. Such countries, including Colombia, provide good examples for more accountable SDG spending and monitoring.

Various other countries are disaggregating their budget data, revealing the impact of budgeting decisions on different people in society, including marginalised communities. For example, Ecuador’s 2014–2017 Four-Year Budget Programming includes the resources allocated to inequality by category. The categories include gender, disabilities, interculturality, human mobility, childhood



## Colombia

Colombia has strong multi-year plans, and transparent and detailed budgeting formats, that foster both transparency and accountability across a highly decentralised system. Multi-level planning and budgeting processes, including the General Participation System (Sistema General de Participaciones), redistribute national funds to social sectors across territories and establish common reporting formats.

The System for Monitoring the Government's Goals, which is linked to a National Performance Evaluation System, facilitates meaningful performance budgeting. Both the budget and SINERGIA performance information are publicly available and regularly updated through a user-friendly website.<sup>5</sup>

Colombia carried its good budgeting practices from the MDGs forward with Agenda 2030. After the SDGs were adopted, Colombia established a 'High Level Inter Institutional Commission for SDGs' to oversee implementation. As highlighted in its 2016 Voluntary National Review<sup>6</sup>, Colombia has focused its efforts on incorporating the SDGs into the planning structure at the sub-national level. Municipal and departmental governments have worked to disseminate and appropriate the SDGs as a framework that guides the development process and the effective access to goods and services at all levels. The territorial development plans of the newly elected local representatives include budgetary and regulatory policy actions that are aligned to the SDGs.

and adolescence, youth and senior citizens.<sup>7</sup> Other countries, such as Brazil and Mexico, address populations and priorities in their budgets such as indigenous communities and climate change.<sup>8</sup> Such practices of disaggregation are critical to ensure that governments are, indeed, leaving no one behind.

While these examples are promising, governments have a long way to go to be more transparent and inclusive throughout the budget process. According to the 2015 Open Budget Survey, 76% of countries (78/102 countries surveyed) failed to provide sufficient budget information. It is in governments' interest to publish comprehensive budget information – it contributes to lower sovereign borrowing costs, lower levels of corruption and better fiscal performance.<sup>9</sup>

As transparency without participation is insufficient for accountability, governments also need to create appropriate mechanisms for public participation. With the aim of strengthening public participation in the budget process, the Global Initiative for Fiscal Transparency (GIFT), a network of governments, international financial institutions and civil society organisations, released the Principles of Public Participation in Fiscal Policy<sup>10</sup> in 2016, following extensive public consultation. GIFT provides guidance on how public entities should engage directly with the public in managing public resources, with examples including expert pre-budget consultations in Croatia, advisory committees in budget preparation and evaluation in South Korea and social audits in India and Kenya.<sup>11</sup> The Open Budget Survey is aligned with the GIFT participation principles and measures the extent to which

national institutions provide opportunities for the public to engage throughout the budget cycle in 115 countries.

### Strengthening national oversight mechanisms: Fostering accountability for the SDGs

Agenda 2030 also duly noted the importance of oversight institutions in ensuring accountability for the effective implementation of the SDGs. The International Organization of Supreme Audit Institutions (INTOSAI), an umbrella organisation for the external government audit community, has included the SDGs as a cross-cutting theme in its strategic plan for 2017–2022. The organisation highlights how Supreme Audit Institutions can contribute to the SDGs by auditing national systems of follow-up, conducting performance audits of programmes that contribute to the SDGs, and assessing and supporting SDG 16 to build effective, accountable and inclusive institutions at all levels. In Brazil, the Tribunal de Contas da União (TCU) has conducted performance audits and monitored the SDGs, such as Goal 2, Target 2.4 on food production and agricultural practices.

Parliaments also play an essential role in fostering accountability through their enactment of legislation and adoption of budgets and ensuring oversight for effective execution of budgets. In various countries, such as Indonesia, parliaments coordinate efforts on the SDGs with the executive branch through a Parliamentary Task Force, support implementation and oversight through a budget committee and establish a more conducive enabling environment for the implementation of the SDGs through legislative reform and facilitation of citizen engagement.<sup>12</sup>





## So what's to be done?

### Future priorities and partnerships

As we have learned from the MDG experience, it is crucial that a diverse range of actors have the ability to track how resources are invested in pursuit of the goals and the results those investments achieve. We need partnerships across institutions and sectors to make this happen and ensure an inclusive, accountable Agenda 2030.

#### 1. *Open the books and opportunities for engagement*

As highlighted above, governments need to open their budgets by providing more regular, comprehensive and accessible budget information and opportunities to engage in the budget cycle. They can adopt low-cost, effective transparency measures simply by publishing online documents<sup>13</sup> that they already produce for internal use.

Open and inclusive practices can strengthen trust and citizen satisfaction with public goods and services. Participation mechanisms, such as participatory budgeting, can contribute to an increase in tax revenues so greatly needed to finance sustainable development.<sup>14</sup> Governments can learn from the many examples of public participation around the world and establish mechanisms to engage citizens throughout the budget process.

UN Agencies can seize the opportunities around the release of various assessments<sup>15</sup> to discuss the state of fiscal openness with governments. They can use the assessments in country programmes, enable peer learning and provide capacity development support to facilitate more open budget practices.

#### 2. *Adopt an integrated approach to budgeting to foster policy coherence*

Development partners have an important role to play to strengthen budget systems and promote open practices. UN Agencies and partners at the global and country level should have a coherent strategy on how to support budgeting and monitoring, bringing different streams and thematic areas of work together to foster policy coherence and integrated financing. The need for an integrated approach is also called for in the Addis Agenda (AAAA), noting that 'cohesive nationally-owned sustainable development strategies, supported by integrated national financing frameworks (INFFs), will be at the heart of our efforts'.<sup>16</sup> Open practices and strengthened budget systems provide a key foundation for implementing a coherent approach to financing.

There can be a UN-wide agenda on open budgeting and accountability, building on the collaborative work

already underway. For example, the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP) have worked together on issues of biodiversity and climate change in budgeting. UNDP has joined forces with UNICEF in countries such as Mongolia to support health budgets and with UN Women to promote gender-responsive budgeting. UNDP has supported several countries in Asia, Pacific and Africa to undertake Development Finance Assessments (DFAs) that comprehensively scan a country's financing landscape and develop a baseline for INFFs.

Going forward, it is critical to bring together various UN budget-related policy tools such as UNICEF's fiscal analysis capacity, UN Women's gender-responsive budgeting capacity and UNDP's DFAs as part of a more strategic, integrated UN effort. The UN Development Group's Mainstreaming, Acceleration and Policy Support (MAPS) package and integrated missions also offer an opportunity for a more coherent UN approach to open budgeting and participatory monitoring to achieve the SDGs.

#### 3. *Bring together finance and oversight actors to better share how funds are collected, spent and the results they achieve*

National and international actors should encourage collaboration across institutions and share budgeting and monitoring practices in SDG plans and reviews. The UN can capture good SDG budgeting and monitoring practices in guidance and tools for country planning, implementation and reporting. Governments can work together with oversight actors, including Supreme Audit Institutions (SAIs), parliaments and civil society, to monitor implementation and report their progress at the country level and through the High Level Political Forum.

### Conclusion

It is a critical time to strengthen national budget systems and practices for more effective and accountable spending and monitoring to meet the SDGs. Open budget practices, including publishing comprehensive budget information, enabling meaningful public participation and strong oversight throughout the budget cycle, are essential to tackle global and country challenges in implementing the SDGs. It is a crucial priority across global and country agendas and an opportunity for wider partnerships and more joined-up support. Successful implementation of Agenda 2030 may in part depend on it.



## Footnotes

<sup>1</sup>‘Transforming our World: the 2030 Agenda for Sustainable Development’, New York, United Nations, 2015; ‘Addis Ababa Action Agenda Of The Third International Conference On Financing For Development’. New York: United Nations, 2017.

<sup>2</sup><http://www.governmentspendingwatch.org>

<sup>3</sup><http://www.internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/>

<sup>4</sup>Bangladesh, Colombia, Dominican Republic, Ecuador, El Salvador, Ghana, Kenya, Malawi, Nepal, Peru and South Africa

<sup>5</sup>Debbie Budlender, ‘Tracking Spending on the SDGs: What Have we Learned from the MDGs?’, International Budget Partnership, 2017.

<sup>6</sup>See <https://sinergia.dnp.gov.co>

<sup>7</sup>‘Colombia Voluntary National Review’, [Sustainabledevelopment.un.org](http://Sustainabledevelopment.un.org), 2016.

<sup>8</sup>‘Open Budget Survey 2015 – Ecuador Questionnaire’ International Budget Partnership, 2015.

<sup>9</sup>‘Open Budget Survey 2015 – Brazil Questionnaire’, International Budget Partnership, 2015; ‘Open Budget Survey 2015 – Mexico Questionnaire’ International Budget Partnership, 2015.

<sup>10</sup>See Alt and Lasen (2006); Benito and Bastida (2009); Glennerster and Shin (2008); and Hameed (2005) <http://internationalbudget.org/wp-content/uploads/The-Political-Economy-of-Transparency-Participation-and-Accountability.pdf>

<sup>11</sup>Global Initiative for Fiscal Transparency Principles of Public Participation in Fiscal Policy: [http://www.fiscaltransparency.net/pp\\_principles/](http://www.fiscaltransparency.net/pp_principles/)

<sup>12</sup>Global Initiative for Fiscal Transparency Public Participation Principles Guide: <http://guide.fiscaltransparency.net/>

<sup>13</sup>Jakarta Declaration on Development Effectiveness to Implement the Sustainable Development Goals’, (Jakarta, GOPAC, 2016).

<sup>14</sup>The eight documents are the pre-budget statement, executive’s budget proposal, enacted budget, in-year report, mid-year review, year-end report, audit report, and citizens’ budget.

<sup>15</sup>Diether W. Beuermann and Maria Amelina, ‘Does Participatory Budgeting Improve Decentralized Public Service Delivery?’ IDB Working Paper Series, No. IDB-WP-547, November 2014.; Paolo de Renzio and Joachim Wehner, ‘The Impacts of Fiscal Openness: A Review of the Evidence’ (report, GIFT and International Budget Partnership, 2015).

<sup>16</sup>These include the International Monetary Fund’s (IMF) fiscal transparency evaluations; the multi-donor collaborative Public Expenditure and Financial Accountability (PEFA) assessment; and the Open Budget Survey

# Conclusion

While there is agreement on the urgent need for reform of the UNDS funding arrangements, there is little consensus on what should be prioritised. From the facts and the analysis provided in this report, some important messages on this emerge. These messages are not so much in the form of solutions but rather they identify areas where we believe energy, which is always in short supply, should be focused.

## Revitalising the funding of the UNDS

The current push on UNDS reform invites an exploration into the design of a new approach to financing that better aligns finance to function and which further develops more ‘core-like’ characteristics in earmarked revenue.

Improved and systematised data, followed by deeper analysis of the current dominant features of the UNDS funding arrangements, are needed, both at system-level and entity level. Generalities will not yield progress. The collection and presentation of data needs to be more geared to providing an empirical base for informed policy making. Too often accounting needs prevail over informing policy making.

Also critical are dynamic partnerships, in particular between the International Finance Institutions (IFIs) and the UN. Major breakthroughs have been achieved with the approval of IDA 18 and the ‘Billions to Trillions’ strategy adopted by the IFIs in anticipation of the 2015 Addis Ababa conference on Financing. This must be capitalised on and a partnership built strategically on respective mandates, strengths and comparative advantages must be pursued.

## Repositioning the role of the UNDS

A few key themes emerge in this report as essential to a successful repositioning of the UNDS to meet the

challenges of Agenda 2030. To begin with, the UN must strengthen its leveraging role. This will require a major push on the part of the UN in developing robust system-wide financial data and strategies, employing professional capabilities and developing the skills needed to partner effectively with a range of financing actors at the local, regional and international levels.

The UNDS must also reinforce the sustaining peace approach and the creation by the Secretary-General of a strategic platform for financing prevention and peace-building could go a long way in accomplishing this. It has the potential to facilitate joint analysis, strategic decision-making and coordination, and bring a coherent plan together with the appropriate financial means for implementation.

The UN should pursue both stronger normative and global public goods agendas as globalisation currently faces a significant backlash. It must ensure it is an effective instrument in facilitating solutions to challenges aggravated by globalisation, those requiring a collective response.

Finally, the UNDS must recognise the centrality of transparency and accountability for the effective implementation of Agenda 2030. In 2015, the Addis Ababa Action Agenda and SDG 16 both enshrined the notion of open financial data into their outcomes and the UNDS must make the most of this lowest of the ‘low-hanging fruit’ in SDG financing. All of this points to possible new pathways for the UNDS and this sort of imaginative and bold thinking is sorely needed in the current discourse on the future financing of the UN.





# Acronyms & Abbreviations

|         |                                                           |
|---------|-----------------------------------------------------------|
| AAAA    | Addis Ababa Action Agenda                                 |
| AC      | Assessed Contributions                                    |
| ADB     | Asian Development Bank                                    |
| ADBI    | Asian Development Bank Institute                          |
| AfDB    | African Development Bank                                  |
| AIIB    | Asian Infrastructure Investment Bank                      |
| AU      | African Union                                             |
| BEPS    | Base Erosion and Profit Shifting                          |
| BRICS   | Brazil, Russia, India, China and South Africa             |
| BSDC    | Business and Sustainable Development Commission           |
| CAT-DDO | Catastrophe Deferred Draw-Down Option                     |
| CDC     | UK's Development Finance Institution                      |
| CEB     | Chief Executives Board                                    |
| CEO     | Chief Executive Officer                                   |
| CGD     | Center for Global Development                             |
| CGIAR   | Consultative Group on International Agricultural Research |
| CR      | Corporate Responsibility                                  |
| CRRF    | Comprehensive Refugee Response Framework                  |
| CSMs    | Country Support Mechanisms                                |
| DAC     | Development Assistance Committee of the OECD              |
| DCF     | Development Cooperation Forum                             |
| DFA     | Development Finance Assessment                            |
| DFID    | UK's Department for International Development             |
| DIBs    | Development Impact Bonds                                  |
| DIE     | Deutsches Institute for Entwicklung                       |
| DPA     | Department for Political Affairs                          |
| DPKO    | Department for Peacekeeping Operations                    |
| DRC     | Democratic Republic of the Congo                          |
| DR-GPGs | Development Relevant Global Public Goods                  |
| DRM     | Domestic Resource Mobilisation                            |
| EC      | European Commission                                       |
| ECOSOC  | Economic and Social Council                               |
| ESG     | Environmental, Social and Governance                      |
| EU      | European Union                                            |
| F2F     | Funding to Financing                                      |



|          |                                                          |
|----------|----------------------------------------------------------|
| FAO      | Food and Agriculture Organization of the United Nations  |
| FD       | Financing Dialogue                                       |
| FDI      | Foreign Direct Investment                                |
| FDN      | Financiera de Desarrollo Nacional                        |
| FfD      | Financing for Development                                |
| FI       | Finance Initiative                                       |
| FONDEN   | Fondo de Desastres Naturales                             |
| FOPREDEN | Fondo para la Prevención de Desastres Naturales          |
| FOCAC    | Forum on China Africa Cooperation                        |
| FY16     | Fiscal Year 16                                           |
| G20      | Group of 20 major economies                              |
| G77      | Group of 77 developing nations                           |
| GA       | General Assembly                                         |
| GCERF    | Global Community Engagement and Resilience Fund          |
| GCF      | Global Climate Fund                                      |
| GCF      | Green Climate Fund                                       |
| GCFE     | Global Concessional Finance Facility                     |
| GCRP     | Global Crisis Response Platform                          |
| GCTF     | Global Counter Terrorism Forum                           |
| GDP      | Gross Domestic Product                                   |
| GEI      | Global Economic Governance Initiative                    |
| GIFT     | Global Initiative for Fiscal Transparency                |
| GNI      | Gross National Income                                    |
| GPEDC    | Global Partnership for Effective Development Cooperation |
| GPGs     | Global Public Goods                                      |
| HFCs     | Hydrofluorocarbons                                       |
| HLM      | High-Level Meetings                                      |
| HLPF     | High Level Political Forum                               |
| IAEA     | International Atomic Energy Agency                       |
| IATI     | International Aid Transparency Initiative                |
| IBRD     | International Bank for Reconstruction and Development    |
| ICAO     | International Civil Aviation Organization                |
| IDA      | International Development Association of the World Bank  |
| IDB      | Inter-American Development Bank                          |
| IEP      | Institute for Economics and Peace                        |
| IFAD     | International Fund for Agricultural Development          |
| IFC      | International Finance Corporation                        |
| IFFs     | Illicit Financial Flows                                  |
| IFI      | International Financial Institutions                     |
| ILO      | International Labor Organization                         |
| IMF      | International Monetary Fund                              |
| IMO      | International Maritime Organization                      |
| INFFs    | Integrated National Financing Frameworks                 |
| INGO     | International Non-Governmental Organization              |
| INTOSAI  | International Organization of Supreme Audit Institutions |
| IOM      | International Organization for Migration                 |
| IPPF     | Infrastructure Project Preparation Facility              |





|                |                                                                 |
|----------------|-----------------------------------------------------------------|
| <b>IRP</b>     | Independent Review Panel                                        |
| <b>ITA</b>     | Independent Team of Advisors                                    |
| <b>ITC</b>     | International Trade Center                                      |
| <b>ITU</b>     | International Telecommunication Union                           |
| <b>KLIP</b>    | Kenya Livestock Insurance Programme                             |
| <b>KNOMAD</b>  | Knowledge Partnership on Migration and Development              |
| <b>KPMG</b>    | Klynveld Peat Marwick Goerdeler                                 |
| <b>LDC</b>     | Least Developed Countries                                       |
| <b>LICs</b>    | Low Income Countries                                            |
| <b>LLDC</b>    | Landlocked Developing Countries                                 |
| <b>M&amp;E</b> | Monitoring and Evaluation                                       |
| <b>MAPS</b>    | Mainstreaming, Acceleration and Policy Support                  |
| <b>MDB</b>     | Multilateral Development Bank                                   |
| <b>MDGs</b>    | Millenium Development Goals                                     |
| <b>MIC</b>     | Middle-Income Countries                                         |
| <b>MICF</b>    | Malawi Challenge Fund                                           |
| <b>MICs</b>    | Middle Income Countries                                         |
| <b>MIGA</b>    | Multilateral Investment Guarantee Agency                        |
| <b>MPTFO</b>   | Multi-Partner Trust Fund Office                                 |
| <b>NDB</b>     | New Development Bank                                            |
| <b>NEET</b>    | Not in Education, Employment or Training                        |
| <b>NEPAD</b>   | New Partnership for Africa's Development                        |
| <b>NGO</b>     | Non-Governmental Organization                                   |
| <b>OAD</b>     | Operational Activities for Development                          |
| <b>ODA</b>     | Official Development Assistance                                 |
| <b>ODI</b>     | Overseas Development Institute                                  |
| <b>OECD</b>    | Organization for Economic Cooperation and Development           |
| <b>OHCHR</b>   | Office of the United Nations High Commissioner for Human Rights |
| <b>P5</b>      | 5 Permanent members of UNSC                                     |
| <b>PAHO</b>    | Pan American Health Organization                                |
| <b>PBF</b>     | Peacebuilding Fund                                              |
| <b>PCRAFI</b>  | Pacific Catastrophe Risk Assessment and Financing Initiative    |
| <b>PDR</b>     | People's Democratic Republic                                    |
| <b>PEF</b>     | Pandemic Emergency Financing Facility                           |
| <b>PEFA</b>    | Public Expenditure Financial Accountability                     |
| <b>PRI</b>     | Principles for Responsible Investment                           |
| <b>PSC</b>     | Programme Support Cost                                          |
| <b>PSW</b>     | Private Sector Window                                           |
| <b>PVE</b>     | Preventing Violent Extremism                                    |
| <b>QCPR</b>    | Quadrennial Comprehensive Policy Review                         |
| <b>RCI</b>     | Recruitment Cost Indicator                                      |
| <b>S&amp;P</b> | Standard & Poor's                                               |
| <b>SAI</b>     | Supreme Audit Institutions                                      |
| <b>SCR</b>     | Security Council Resolution ?                                   |
| <b>SDGs</b>    | Sustainable Development Goals                                   |
| <b>SG</b>      | Secretary General                                               |
| <b>SIDS</b>    | Small Island Developing States                                  |
| <b>SITRA</b>   | Finnish Innovation Fund                                         |



|                  |                                                                                |
|------------------|--------------------------------------------------------------------------------|
| <b>SME</b>       | Small- and Medium-sized Enterprises                                            |
| <b>SRI</b>       | Socially Responsible Investing                                                 |
| <b>SRSG</b>      | Special Representative of the Secretary General                                |
| <b>SSC</b>       | South-South Cooperation                                                        |
| <b>SSE</b>       | Sustainable Stock Exchanges                                                    |
| <b>TCU</b>       | Tribunal de Contas da União                                                    |
| <b>TOSSD</b>     | Total official support for sustainable development                             |
| <b>U.A.E</b>     | United Arab Emirates                                                           |
| <b>UN</b>        | United Nations                                                                 |
| <b>UNAIDS</b>    | Joint United Nations Programme on HIV/AIDS                                     |
| <b>UNCDF</b>     | United Nations Capital Development Fund                                        |
| <b>UNCTAD</b>    | United Nations Conference on Trade and Development                             |
| <b>UNCTs</b>     | United Nations Country Teams                                                   |
| <b>UNDAF</b>     | United Nations Development Assistance Framework                                |
| <b>UNDG</b>      | United Nations Development Group                                               |
| <b>UNDESA</b>    | United Nations Department of Economic and Social Affairs                       |
| <b>UN DOCO</b>   | United Nations Development Operations Coordination Office                      |
| <b>UNDP</b>      | United Nations Development Programme                                           |
| <b>UNDS</b>      | United Nations Development System                                              |
| <b>UNEP</b>      | United Nations Environment Programme                                           |
| <b>UNESCO</b>    | United Nations Educational, Scientific and Cultural Organization               |
| <b>UNFPA</b>     | United Nations Population Fund                                                 |
| <b>UNHABITAT</b> | United Nations Human Settlements Programme                                     |
| <b>UNHCR</b>     | United Nations High Commissioner for Refugees                                  |
| <b>UNHQ</b>      | United Nations Head Quarters                                                   |
| <b>UNICEF</b>    | United Nations Children's Fund                                                 |
| <b>UNIDO</b>     | United Nations Industrial Development Organization                             |
| <b>UNITAR</b>    | United Nations Institute for Training and Research                             |
| <b>UN OAD</b>    | United Nations Operational Activities for Development                          |
| <b>UNOCHA</b>    | United Nations Office for the Coordination of Humanitarian Affairs             |
| <b>UNODC</b>     | United Nations Office on Drugs and Crime                                       |
| <b>UNOPS</b>     | United Nations Office for Project Services                                     |
| <b>UNRC</b>      | United Nations Resident Coordinator                                            |
| <b>UNRWA</b>     | United Nations Relief and Works Agency for Palestine Refugees in the Near East |
| <b>UNSC</b>      | United Nations Security Council                                                |
| <b>UNU</b>       | United Nations University                                                      |
| <b>UN WOMEN</b>  | United Nations Entity for Gender Equality and the Empowerment of Women         |
| <b>UNWTO</b>     | UN World Tourism Organization                                                  |
| <b>UPU</b>       | Universal Postal Union of the United Nations                                   |
| <b>USD</b>       | United States Dollar                                                           |
| <b>VC</b>        | Voluntary Contributions                                                        |
| <b>WBG</b>       | World Bank Group                                                               |
| <b>WFP</b>       | World Food Programme                                                           |
| <b>WHA</b>       | World Health Assembly                                                          |
| <b>WHO</b>       | World Health Organization                                                      |
| <b>WIPO</b>      | World Intellectual Property Organization                                       |
| <b>WMO</b>       | World Meteorological Organization                                              |
| <b>WTO</b>       | World Trade Organization                                                       |



# Annex & Endnotes



## Annex 1: UN Toolkit of financing instruments with focus on countries affected by fragility and protracted crisis

| FINANCING INSTRUMENT                                                                | SHORT DESCRIPTION                                                                                                                                                                  | SOURCE OF FINANCING                     | TYPE OF FINANCING       | USED BY / INSTRUMENT ACCESSIBLE TO                                                                            | PURPOSE / USED FOR                                                                                                                                                                                                                        | USED WHERE?                            | DECISION-MAKING STRUCTURE                                                                                                                      | REQUISITES FOR ESTABLISHMENT                                                                       | INDICATIVE AMOUNT (in 2015)                                            | ADVANTAGES                                                                                                                                                                                                                           | DIS-ADVANTAGES                                                                                                                |
|-------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------------------|---------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <b>Assessed grants (total UN-wide, global revenue of US\$ 14.5 billion in 2015)</b> |                                                                                                                                                                                    |                                         |                         |                                                                                                               |                                                                                                                                                                                                                                           |                                        |                                                                                                                                                |                                                                                                    |                                                                        |                                                                                                                                                                                                                                      |                                                                                                                               |
| <b>1. Assessed contributions to UN entities</b>                                     | 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; partly 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\$ 5.4 billion in revenue in 2015 for 23 UN entities - CEB data 2015 | 1. Important source for UN entity's normative, policy and capacity building work at country level.<br>2. Speed and flexibility: in principle high;<br>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. |
| <b>2. Assessed contributions for UN peace-keeping</b>                               | Covers contributions based on approved budget for peace-keeping                                                                                                                    | Member States through an assessed scale | Grants; largely non-ODA | DPKO, DFS, De-pending on budget and mandate, funding can also be accessed to some extent by other UN entities | Peacekeeping, peace consolidation                                                                                                                                                                                                         | Peacekeeping missions in 16 countries  | Security Council + Under-Secretary-General for DPKO and DFS<br><br>General Assembly through the 5th committee oversees and approves the budget | Political decision: Security Council<br><br>Financial decision: General Assembly (Fifth committee) | US\$ 8.5 billion in revenue in 2015 -CEB data 2015                     | 1. This instrument can be combined and sequenced with financing from PBF and country based transition funds<br><br>2. Risk management: very high; instrument normally used in situations of very high contextual risk.               | Limited flexibility for reallocating among programmatic interventions                                                         |



| FINANCING INSTRUMENT                                                              | SHORT DESCRIPTION                                                                                                                                          | SOURCE OF FINANCING                                                        | TYPE OF FINANCING       | USED BY / INSTRUMENT ACCESSIBLE TO              | PURPOSE / USED FOR                                                                                                                                                                                                             | USED WHERE?                                                                                      | DECISION-MAKING STRUCTURE                                                                                                                                                            | REQUISITES FOR ESTABLISHMENT                                                                   | INDICATIVE AMOUNT (in 2015)                                                         | ADVANTAGES                                                                                                                                                                                                                                                        | DIS-ADVANTAGES                                                                                                                                             |
|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>3. Assessed contributions for UN Political Affairs</b>                         | Covers contributions based on approved budget for field based missions, special envoys and sanctions panels and monitoring groups and DPA's regular budget | Member States through an assessed scale                                    | Grants; largely non-ODA | DPA                                             | Prevention, mediation, elections, anti-terrorism                                                                                                                                                                               | 12 field based missions, 11 Special representatives and 9 sanctions panels and monitoring groups | Security Council + Under-Secretary-General for DPA<br>General Assembly through the 5th committee oversees and approves the budget                                                    | Political decision: Security Council<br>Financial decision: General Assembly (Fifth committee) | US\$ 0.6 billion in requirements and appropriations for 2015<br>-A/70/348 & A/70/67 | 1. This instrument can be combined and sequenced with financing from the Peace-building Fund and country based transition funds<br>2. Risk management: very high; instrument normally used in situations of very high contextual risk.                            | Limited flexibility for reallocating among programmatic interventions                                                                                      |
| <b>Voluntary core (total UN-wide, global revenue of US\$ 4.6 billion in 2015)</b> |                                                                                                                                                            |                                                                            |                         |                                                 |                                                                                                                                                                                                                                |                                                                                                  |                                                                                                                                                                                      |                                                                                                |                                                                                     |                                                                                                                                                                                                                                                                   |                                                                                                                                                            |
| <b>4. Voluntary core contributions</b>                                            | Voluntary, non-carmarked grant contributions left to the discretion of each contributor                                                                    | In most cases Member States through voluntary annual or multi-year pledges | Grants; ODA             | 16 UN entities (mainly UN Funds and Programmes) | For the core mandate of UN entity concerned. This can be humanitarian, sustaining peace/transition, development and/or human rights. Used as well to finance normative work and standard setting 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\$ 4.6 billion in revenue for 16 UN entities<br>-CEB data 2015                    | 1. Important source for UN entity's normative, policy and capacity building work at country, regional or global levels;<br>2. Speed and flexibility: in principle very high;<br>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 of 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                                                                                                                                              | REQUISITES FOR ESTABLISHMENT                                                                                                                                                  | INDICATIVE AMOUNT (in 2015)                                                                                                | ADVANTAGES                                                                                                                                                                                                                           | DIS-ADVANTAGES                                                                                                                                 |
|---------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Earmarked funding (total UN-wide, global revenue of US\$ 25.4 billion in 2015)</b> |                                                                                                                                                                                                                                                        |                                                                                                                      |                         |                                                                                       |                                                                                                                                                                                                                                                    |                                                  |                                                                                                                                                                        |                                                                                                                                                                               |                                                                                                                            |                                                                                                                                                                                                                                      |                                                                                                                                                |
| <b>5. Inter-agency pooled funds (global)</b>                                          | 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, governments and multi-lateral development banks                    | 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 by or co-chaired by the UN<br><br>UN takes a lead role in making fund allocation decisions.  | Legal agreements and TOR<br><br>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. | US\$ 0.8 billion in transfers from all global inter-agency pooled funds -UN Inter Agency Pooled Fund Data Base 2015        | 1. Strong added value in promoting UN coherence.<br>2. Normally combined and sequenced with other financing instruments<br>3. Speed and flexibility: high<br>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 of funding through other financing instruments.    |
| <b>6. Inter-agency pooled funds (country)</b>                                         | 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, governments and multi-lateral development banks                    | 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 by UN co-chaired by UN and government<br><br>UN takes a lead role in making fund allocation decisions | Legal documents and TOR;<br>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.     | US\$ 0.9 billion in transfers from all country-level inter-agency pooled funds -UN Inter Agency Pooled Fund Data Base 2015 | 1. Strong added value in promoting UN coherence.<br>2. Normally combined and sequenced with other financing instruments<br>3. Speed and flexibility: high<br>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 of other financing instruments. |
| <b>7. Single-agency thematic funds</b>                                                | 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 | Ordained in TOR and legal documents;<br>UN agency takes the lead role in making fund allocation decisions                                                              | Legal documents and TOR<br>Cost structure depends on UN entity cost recovery policy                                                                                           | US\$ 0.5 billion in revenue in 2015 for single-agency thematic funds. -CEB Data 2015                                       | 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.            |





| FINANCING INSTRUMENT                                                                      | SHORT DESCRIPTION                                                                                                                                                                                   | SOURCE OF FINANCING                                                                                                   | TYPE OF FINANCING       | USED BY / INSTRUMENT ACCESSIBLE TO                                                                                   | PURPOSE / USED FOR                                                                                                                             | USED WHERE?                                                                                                                             | DECISION - MAKING STRUCTURE                                                                                                                      | REQUISITES FOR ESTABLISHMENT                          | INDICATIVE AMOUNT (in 2015)                                                        | ADVANTAGES                                                                                                                                                           | DIS-ADVANTAGES                                                                                                                                                                       |
|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------|----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (continue) Earmarked funding (total UN-wide, global revenue of US\$ 25.4 billion in 2015) |                                                                                                                                                                                                     |                                                                                                                       |                         |                                                                                                                      |                                                                                                                                                |                                                                                                                                         |                                                                                                                                                  |                                                       |                                                                                    |                                                                                                                                                                      |                                                                                                                                                                                      |
| <b>8. Revenues from Global Vertical funds</b>                                             | 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 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<br><br>Funding received is earmarked to specific projects | Global Public Goods                                                                                                                            | GAVI: 54 eligible countries<br><br>GEF: Global, LDCs<br><br>GPE: 61 countries<br><br>GFATM: Over 100 countries<br><br>MP: 147 countries | GAVI: Board<br><br>GEF: the Assembly<br><br>GPE: Board of Directors<br><br>GFATM: Board (implementers and donors)<br><br>MP: Executive Committee | Different depending on Global Vertical Fund concerned | US\$ 1.4 billion in revenue from vertical funds in 2015<br>-CEB Data 2015          | Can be combined and sequenced with other UN financing instruments<br><br>Scope for risk management at the Fund level.                                                | Highly earmarked, project specific contributions may reduce incentives for UN coherence.                                                                                             |
| <b>9. Local resources</b>                                                                 | 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<br><br>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. | Used eg by UNDP in 32 countries                                                                                                         | Specific to each agreement and UN entity                                                                                                         | UN entity specific                                    | Total US\$ 1.4 billion in revenue from local resources in 2015.<br>-CEB data 2015. | 1. Increases speed and flexibility of interventions on behalf of national governments.<br><br>2. Normally accompanied by interventions to build national capacities. |                                                                                                                                                                                      |
| <b>10. Project / programme specific contributions</b>                                     | 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<br><br>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<br><br>Cost structure depends on UN entity cost recovery policy              | UN entity specific                                    | Estimated at US\$ 20.4 billion in 2015                                             | 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                | REQUISITES FOR ESTABLISHMENT                                                                                | INDICATIVE AMOUNT (in 2015) | ADVANTAGES                          | DIS-ADVANTAGES |
|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------------|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------|-------------------------------------|----------------|
| Other revenue (total UN-wide, global revenue of US\$ 3.5 billion in 2015) |                                                                                                              |                                                   |                                                                   |                                    |                                                                                                                                                                              |                                        |                                          |                                                                                                             |                             |                                     |                |
| 11. Fees                                                                  | Revenue from services to national government, NGOs and others wishing to leverage UN Agency global expertise | Resources from Governments, NGOs and others       | Fees for UN entity providing services are recorded as UN revenue. | Governments; NGOs; others          | Depending on the service provided e.g. specialised procurement services                                                                                                      | Actors requesting the service provided | Specific to each agreement and UN entity | Fee structure is UN entity specific and product specific; it is meant to recover cost of rendering service. |                             | Leveraging UN specialised 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                                                                         |                             |                                     |                |



# Endnotes for Part One

<sup>1</sup>United Nations, 'Budgetary and financial situation of the organizations of the United Nations system,' (Note by the Secretary-General, United Nations General Assembly, October 2016, A/71/583).

<sup>2</sup>United Nations, 'Budgetary and financial situation of the organizations of the United Nations system'.

<sup>3</sup>United Nations, 'Budgetary and financial situation of the organizations of the United Nations system'.

<sup>4</sup>United Nations, 'Budgetary and financial situation of the organizations of the United Nations system'.

<sup>5</sup>United Nations, 'Implementation of General Resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR): Funding analysis', (Report of the Secretary-General, December 2016, A/72/61 – E/2017/4).

<sup>6</sup>OECD definitions are different from those of the SG's report or the CEB, so figures will differ slightly.

<sup>7</sup>United Nations, 'Implementation of General Resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR): Funding analysis', (Report of the SG, UN, December 2016), A/72/61 – E/2017/4, Paragraph 16.

<sup>8</sup>'Use of the multilateral aid system, year 2015', OECD website, [https://public.tableau.com/views/multilateralaidssystem\\_2/Multilateralsystemdata?:embed=y&:showTabs=y&:display\\_count=no&:showVizHome=no#1](https://public.tableau.com/views/multilateralaidssystem_2/Multilateralsystemdata?:embed=y&:showTabs=y&:display_count=no&:showVizHome=no#1).

<sup>9</sup>'Use of the multilateral aid system, year 2015', OECD website.

<sup>10</sup>United Nations, 'Implementation of General Resolution 67/226', Paragraph 25.

<sup>11</sup>Annual and Financial Reports used:

- WFP, 'Use of Multilateral Funding', (report, WFP, 2015)
- 'Contributions to WFP: Comparative Figures and Five-Year Aggregate Ranking', (report, WFP, 2013–2017)
- 'Voluntary Contributions by fund and contributor, 2015', (Sixty-ninth World Health Assembly provisional agenda item 20.1, WHO, 2016, A69/INF/3)
- 'Source and distribution of funds available – 31 December 2015' on WHO Funding Portal, <http://extranet.who.int/programmebudget/Biennium2014/Contributor>.
- 'Regular (core) resource contributors for 2015' on undp.org, <http://www.undp.org/content/dam/undp/documents/partners/donors/Core%20contributions%20to%20UNDP%20in%202015.pdf>.
- 'Pledges to UNRWA (Cash and In-kind) for 2015 – Overall Donor Ranking in USD as 31 December 2015', unrwa.org, [http://www.unrwa.org/sites/default/files/2015\\_donors\\_ranking\\_overall.pdf](http://www.unrwa.org/sites/default/files/2015_donors_ranking_overall.pdf).
- 'Pledges to UNRWA Programme Budget (Cash and In-kind) for 2015 – Top 20 Donors in USD as 31 December 2015', unrwa.org, [http://www.unrwa.org/sites/default/files/2015\\_top\\_20\\_donors\\_programme\\_budget.pdf](http://www.unrwa.org/sites/default/files/2015_top_20_donors_programme_budget.pdf).
- 'UNRWA donor charts, 2015', <https://www.unrwa.org/how-you-can-help/government-partners/funding-trends/donor-charts>.
- UNHCR, 'UNHCR's use of un-earmarked funding in 2015', (report, UNHCR, 2016).
- UNICEF, 'Compendium of Resource Partner Contributions 2015', (report, UNHCR, 2015).



<sup>12</sup>Annual and Financial Reports used:

- WFP, 'Use of Multilateral Funding'
- 'Contributions to WFP: Comparative Figures and Five-Year Aggregate Ranking', (report, WFP, 2013-2017)
- 'Voluntary Contributions by fund and contributor', 2015, A69/INE/3.
- 'Source and distribution of funds available - 31 December 2015' on WHO Funding Portal.
- 'Regular (core) resource contributors for 2015' on undp.org.
- 'Pledges to UNRWA (Cash and In-kind) for 2015 - Overall Donor Ranking in USD as 31 December 2015', unrwa.org.
- 'Pledges to UNRWA Programme Budget (Cash and In-kind) for 2015 - Top 20 Donors in USD as 31 December 2015', unrwa.org.
- 'UNRWA donor charts', 2015.
- UNHCR, 'UNHCR's Use of un-earmarked funding in 2015'.
- UNICEF, 'Compendium of Resource Partner Contributions 2015'.

<sup>13</sup>Annual and Financial Reports used:

- WFP, 'Use of Multilateral Funding'.
- 'Contributions to WFP: Comparative Figures and Five-Year Aggregate Ranking'.
- 'Voluntary Contributions by fund and contributor', 2015, A69/INE/3.
- 'Source and distribution of funds available - 31 December 2015' on WHO Funding Portal.
- 'Regular (core) resource contributors for 2015' on undp.org.
- 'Pledges to UNRWA (Cash and In-kind) for 2015 - Overall Donor Ranking in USD as 31 December 2015', unrwa.org.
- 'Pledges to UNRWA Programme Budget (Cash and In-kind) for 2015 - Top 20 Donors in USD as 31 December 2015', unrwa.org.
- 'UNRWA donor charts', 2015.
- UNHCR, 'UNHCR's Use of un-earmarked funding in 2015'.
- UNICEF, 'Compendium of Resource Partner Contributions 2015'.

<sup>14</sup>Annual and Financial Reports used:

- WFP, 'Use of Multilateral Funding'.
- 'Contributions to WFP: Comparative Figures and Five-Year Aggregate Ranking'.
- 'Voluntary Contributions by fund and contributor', 2015, A69/INE/3.
- 'Source and distribution of funds available - 31 December 2015' on WHO Funding Portal.
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- 'Pledges to UNRWA (Cash and In-kind) for 2015 - Overall Donor Ranking in USD as 31 December 2015', unrwa.org.
- 'Pledges to UNRWA Programme Budget (Cash and In-kind) for 2015 - Top 20 Donors in USD as 31 December 2015', unrwa.org.
- 'UNRWA donor charts', 2015.
- UNHCR, 'UNHCR's Use of un-earmarked funding in 2015'.
- UNICEF, 'Compendium of Resource Partner Contributions 2015'.

<sup>15</sup>Annual and Financial Reports used:

- WFP, 'Use of Multilateral Funding'.
- 'Contributions to WFP: Comparative Figures and Five-Year Aggregate Ranking'.
- 'Voluntary Contributions by fund and contributor', 2015, A69/INE/3.
- 'Source and distribution of funds available - 31 December 2015' on WHO Funding Portal.
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- 'Pledges to UNRWA (Cash and In-kind) for 2015 - Overall Donor Ranking in USD as 31 December 2015', unrwa.org.
- 'Pledges to UNRWA Programme Budget (Cash and In-kind) for 2015 - Top 20 Donors in USD as 31 December 2015', unrwa.org.
- 'UNRWA donor charts', 2015.
- UNHCR, 'UNHCR's Use of un-earmarked funding in 2015'.
- UNICEF, 'Compendium of Resource Partner Contributions 2015'.

<sup>16</sup>Annual and Financial Reports used:

- WFP, 'Use of Multilateral Funding'.
- 'Contributions to WFP: Comparative Figures and Five-Year Aggregate Ranking'.
- 'Voluntary Contributions by fund and contributor', 2015, A69/INF/3.
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- UNICEF, 'Compendium of Resource Partner Contributions 2015'.
- UNICEF, 'Compendium of Resource Partner Contributions 2015'.

<sup>17</sup>United Nations, 'Status of regular resources funding commitments to the United Nations Development Programme and its associated funds and programmes for 2016 and onward, 2016', (Executive Board of the United Nations Development Programme, the United Nations Population Fund, and the United Nations Office for Project Services Second Regular session 2016, DP/2016/21, 2016).

<sup>18</sup>United Nations, 'Budgetary and financial situation of the organizations of the United Nations system', (General Assembly Seventy-first session agenda item 143, October 2016, A /71/583).



# A note on data

It is important to note that the report uses existing financial data as provided by the UN system Chief Executives Board (CEB), United Nations Department of Economic and Social Affairs (UNDESA) and various annual reports of the UN entities.

In particular 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, while data quality is another issue for some of the variables. In some cases, gaps could only be filled by consulting the various annual reports of UN entities.

While we have done our best to ensure the numbers used are correct, there is a possibility of mistakes.









When the United Nations' General Assembly adopted the 2030 Agenda for Sustainable Development in 2015, UN member states envisioned, in their words, 'setting out a supremely ambitious and transformational vision'. This ambition and broad scope of Agenda 2030 represents an extraordinary opportunity for the UN development system (UNDS) to reaffirm its role and relevance in a rapidly changing world.

Doing so requires bold reform of the UNDS, particularly relating to a financing system that is fit for purpose and aligned to Agenda 2030 and its 17 Sustainable Development Goals (SDGs). Yet, it is far from clear what the appetite is for financing reform and which reforms should be prioritised. What is absolutely clear is that the UN and its new Secretary-General are confronted with a unique opportunity and that a robust and probing debate is needed if it is to emerge with a serious financing reform package.

This third annual report on financing the UNDS seeks to contribute to this debate by providing a thorough overview of the revenue, income, and expenditure of the UN development system, while also presenting fresh perspectives around priorities for financing reform. It gauges the major trends, opportunities and challenges around financing in the UNDS, and seeks to promote and stimulate new thinking.



Dag Hammarskjöld  
Foundation

### Dag Hammarskjöld Foundation

The Dag Hammarskjöld Foundation is a non- governmental organisation established in memory of the second Secretary-General of the United Nations. The foundation spurs dialogue and action on global development and multilateral cooperation.

[www.daghammarskjold.se](http://www.daghammarskjold.se)



United Nations  
MPTF Office

### The Multi-Partner Trust Fund Office

The Multi-Partner Trust Fund Office is a UN centre of expertise on pooled financing mechanisms. Hosted by UNDP, it provides fund design and fund administration services to the UN system, national governments and non-governmental partners. The UN MPTF Office operates in over 110 countries and has transferred over US\$ 9.5 billion from over 120 contributors to 67 participating organisations since its inception in 2004.

[mptf.undp.org](http://mptf.undp.org)