

ECOSOC Dialogue on the longer-term positioning of the UN development system in the context of the post-2015 development agenda

Workshop 2: Funding 8 May 2015, Mission of Indonesia New York

Summary by the Vice President of ECOSOC

I. Overview of presentations

H.E. Mr. Desra Percaya, Permanent Representative of Indonesia, welcomed participants to the second in a series of workshops as part of the ECOSOC Dialogue process. He highlighted that the UN development system is at an inflection point where conducting business-as-usual is no longer an option if the UN is to remain fit-for-purpose.

In her opening remarks, *Vice President of ECOSOC, H.E. María Emma Mejía Vélez* provided a context for this workshop on funding by highlighting one of the key messages emanating from the previous workshop on functions, which was that the UN development system would need to become more organically linked and that funding will be critical in that regard. She stressed that the current funding architecture has become both complex and fragmented which inhibits the UN development system's ability to effectively position itself in the post-2015 development agenda. Funding in the post-2015 era should become an instrument for integrated UN support to countries.

Mr. Navid Hanif, UN DESA, spoke on the evolution of funding to this day and touched on some of the possible implications of the post-2015 development agenda on funding practices in the UN development system. He briefed participants on some of the major transformations in the modalities used to fund the Organization in the past 60 years and pointed-out that in the past funding practices hadn't always been aligned with organizational functions as mandated at the intergovernmental level, but rather by the perceived fitness of individual entities. He stated that funding, especially core funding could become a key instrument for integrating the work of the system.

The Chair of the UNDG Advisory Group, Ms. Anne-Birgitte Albrechtsen, stressed that funding must support the priority functions of the Organization. In this context, funding must incentivize better integration between humanitarian assistance, development and addressing negative effects of climate change. She also stressed that funding approaches at country-level need to be differentiated. In addition, she highlighted the importance of using pooled funding mechanisms and giving greater priority to innovative funding approaches, as well as the need for a more consistent and coherent funding approach by donor countries.

Mr. Romesh Muttukumar, independent expert and author of the independent background paper, expressed concern that vertical funds, which are likely to play a more active role in the post-2015 development landscape, could potentially divert funds away from established multilateral organizations, including the UN. He highlighted the opportunity for the UN in a new era where there are expected to be an increasing number of sources of financing for development, but stressed that the UN would need to demonstrate flexibility and be innovative in order to take advantage of this opportunity.

Ms. Guitelle Baghdadi-Sabeti from the Coordinated Resource Mobilization Unit, WHO, briefed participants on on-going financing dialogue with Member States, which is part of WHO's reform process. WHO's financing will be underpinned by four guiding principles, namely, alignment and flexibility, predictability, transparency and reducing vulnerability. The financing dialogue will continue in November 2015 where the focus will be on results and WHO's role in the broader global health agenda.

Mr. Yannick Glemarac, Deputy Executive Director for Policy and Programme at UN-Women, and former Executive Coordinator at the UN Multi-Partner Trust Fund Office highlighted emerging funding mechanisms. Firstly, different forms of pooled financing mechanism and outlined some key differences between vertical funds and UN inter-agency pooled funds. Resources channeled to the UN system through vertical funds are highly earmarked in nature meaning the UN role is solely as an implementing organization. With UN inter-agency pooled funds the emphasis shifts from the 'fit' to the 'purpose'. The second emerging funding mechanism, under the category of innovative financing instruments, is innovative spending which includes the concept of leveraging larger private flows to maximize the development impact of limited public resources. In that regard, he stressed the need to be able to adequately measure the volume of resources that are leveraged by the UNDS to support goals. Another category of innovative finance is innovative sources in the market which aim to influence investment flows and creates access to new resources for development purposes. An example is a green bond which is a bond whose proceeds are used to fund environmentally-friendly projects.

Mr. Olav Kjoen, Director of the Division for Public Partnerships, UNICEF stressed that funding is not exclusively about money, but also about building partnerships to leverage results. The system will need to think about ways of leveraging other assets of the Organization and focus the bulk of its funding on those who are most in need. With the growth of many emerging economies and changing trends in philanthropy, private contributions are showing much greater potential within the resource mix of UNICEF. The kinds of partnerships formed with private sector actors--such as through UNICEF's network of national committees--should play an increasingly important role in the UNDS re-focus on leveraging partnerships for the new agenda. Vertical funds could prove useful in the post-2015 context, although the creation of any new vertical funds should ensure that operational activities are not siloed.

II. Key Messages

Funding practices must be aligned with functions, and different functions will likely require different funding modalities

Funding UNDS should flow from agreement on functions, and not the other way around, as is sometimes the case. Different functions may require different funding modalities. Some critical functions, such as the UN's normative, leveraging and convening role, are best funded through core resources. Other functions, such as projects and programmes could be funded through non-core resources but the quality of such resources needs to be improved, including through soft earmarking, pooled financing and earmarking at the outcome or thematic level.

Funding of UNDS activities should be targetted to those most in need, both among and within countries

There is a growing consensus for a results-based focus on the most vulnerable and marginalized, including within middle income countries (MICs). As has been recently demonstrated, temporary shocks to countries' economic and social systems can significantly set back hard-won development gains, as was the case of the Ebola outbreak in West Africa

Innovative forms of financing are complex

The expansion of overall resource flows which have accompanied the acceleration of globalization over the past couple of decades has not only repositioned the role of ODA but has presented the UNDS with an opportunity to enhance its overall impact using innovative financing mechanisms. For example, there is potential for the Organization to leverage large amounts of private resources using the limited public resources it has access to. However, innovative financing will require improved capacities both among countries and in the UNDS. The UNDS has a role to play in supporting countries to access new and innovative forms of financing, and therefore level the playing field in doing so. – particularly for those countries with weaker capacity. In addition, the avenues on how to leverage funding will need to be sustainable. Some programme countries, including those that have a weak private sector, may not have the opportunity to set up the mechanisms required for new forms of financing, such as the carbon finance tax, to supplement official humanitarian, development and climate assistance from donor countries.

Funding as an instrument for policy integration

The UNDS must ensure that its operations are not siloed and in that respect, funding can be used as an instrument for policy integration, including to incentivize better integration of the humanitarian, development and climate dimensions. A real push on transparency is needed from both the UNDS and the donors' side to enable funding to be used as an instrument for policy integration.

III. Emerging priorities

Drivers of change for functions and funding

It is critical to reflect on the drivers of change for the UNDS functions and funding, ahead of the transition to the post-2015 development agenda. Lessons learned and messages emerging from the evolution in funding trends should inform and guide Member States in their approaches to funding operational activities for development to ensure the UN they want.

The current funding architecture is unsustainable, and needs to be changed

The current funding architecture is unsustainable in several ways, and needs to be changed. It relies too heavily on a few donors, and needs significant incentivizing in terms of broadening the donor base, and strengthening support to joint and pooled funding. While the UNDS has, in fact, been fairly innovative in generating new funding mechanisms, further reflection is required by both donors and the UNDS, to ensure a better use of instruments such as the One Programme. Foundations, civil society and academia can be key drivers in providing innovative ideas. The UNDS needs to have measures in place to ensure that private contributions – the vast majority of which tend to be non-core - are not diverting the focus of the Organization

Preserving the multilateral nature and character of the system requires predictable, flexible and sufficient funding.

The over-dependence on a few donors, non-core and increasingly on the private sector is threatening the multilateral character and independence of the UN development system. While some emphasized that entities should estimate the “critical mass” of core resources needed to achieve their strategic plan's objectives, others were skeptical and stressed the need to better define what was meant or intended by the concept of critical mass. This rhetorical discussion did not divert attention from the fundamental issue that a certain level of core resources was essential for the UNDS to plan and deliver in a predictable, sustainable and trust-worthy way, and preserve its multilateral nature. Overall, there is a need to re-conceptualize and modernize the debate.

The focus should be on the quality and attributes of different sources of funding in relation to specific functions

Non-core/earmarked resources are a reality and will continue to comprise the larger share of overall funding to the UNDS. There is need to move away from a false dichotomy between core and non-core resources. Different sources of funding have different attributes, and are therefore better fit for some functions than for others. Limited public funds may be best used to unlock funds in the private sector to help ensure the post-2015 agenda's ambitious goals are met. Non-core resources allow for entities to be flexible, innovate and pursue specific outcomes in response to national priorities. However, their quality and accountability must be improved to make them less strictly earmarked or “core-like”, and aligned to UN priorities and mandates, so that they can play a complementary role to core resources.

IV. Moving forward

A real push is required to make data on funding more transparent, and better mapping and matching at country level.

More information on how funding is sourced and allocated would draw attention to whether there is a misalignment between core and non-core resources. Funding at the country-level could also be more focused if there existed better transparency and mapping of the funding situation, which would also help distinguish the aid orphans from the aid darlings. Existing modalities could be improved by better mapping and matching against country-level priorities—as well as against the expansive, complex web of development cooperation—in preparation for the post-2015 context.

Structured dialogues on financing could be one way to generate innovative ideas on how to increase the quantity of flexible funding so that the UN's multilateral character remains intact. It was suggested that principles may be elaborated for improving the quality of earmarked funding.

System-wide planning and budgeting options needed at different levels

Strategic planning within the UNDS still tends to be over-reliant on entity-specific planning processes. At present, the UNDS has too few options for system-wide planning and budgeting, and this is a gap which needs to be filled for successful cooperation on the post-2015 agenda. Member States and the UNDS should reflect together on innovative approaches and methods for strategic planning and budgeting on cross-cutting issues such as building resilience and addressing the humanitarian-development nexus.

Increasing complexity of the development agenda requires strengthened financial skills, knowledge sharing platforms on innovative financing and a new lexicon on funding

The SDGs add sustainability and policy integration to the basic needs agenda of the MDGs, thus increasing the development agenda's breadth and complexity, and the need for a UN development system that is well equipped to support developing countries in its implementation. In that regard, a new set of skills and financial literacy is needed for the UNDS and UNCTs to develop and manage a new financial architecture, which could include public issue-based pooled funding; performance-based payments; innovative and blended financing. To capture this complexity, the UN lexicon on funding must also change to better reflect the changes in the development landscape.