DEVELOPMENT FINANCING 2000

Mobilising Support and Resources for the United Nations Funds and Programmes

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# Mobilising Support and Resources for the UN Funds and Programmes

Study 2000:1

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Ministry for Foreign Affairs

# Mobilising Support and Resources for the United Nations Funds and Programmes

by

COWI

in association with

**OXFORD INTERNATIONAL ASSOCIATES**

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# Acronyms and Abbreviations

| | |
|---|---|
| ACP | African, Caribbean and Pacific |
| ARI | Acute Respiratory Infection |
| BWI | Bretton Woods Institutions |
| CCA | Common Country Assessment |
| CDF | Comprehensive Development Framework |
| DAC | Development Assistance Committee |
| DFP | Development Funds and Programmes |
| ECC | European Community |
| ECOSOC | Economic and Social Council |
| EDF | European Development Fund |
| EMU | European Monetary Union |
| EU | European Union |
| FAO | Food and Agriculture Organisation of the United Nations |
| FfD | Financing for Development |
| GBP | British Pound |
| GDP | Gross Domestic Product |
| GEF | Global Environment Facility |
| GLOC | Government Contribution towards Local Office Costs |
| GNP | Gross National Product |
| HIPC | Highly Indebted Poor Countries |
| HRD | Human Resource Development |
| HRM | Human Resource Management |
| IBRD | International Bank for Reconstruction and Development |
| ICPD | International Conference on Population and Development |
| ICSID | International Centre for Settlement of Investment Disputes |
| IDA | International Development Association |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Co-operation |
| IFI | International Financial Institutions |
| IGO | Inter-Governmental Organisation |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| IMIS | Integrated Management Information System |
| IPF | Indicative Planning Figure |
| LAC | Latin America and Caribbean |
| LPC | Large Programme Countries |
| MDB | Multilateral Development Bank |
| MDF | Multilateral Development Fund |
| MDF-RM | Multilateral Development Fund Replenishment Model |
| MIGA | Multilateral Investment Guarantee Agency |
| MTP | Medium-Term Plan |
| MYFF | Multiyear Funding Framework |
| NIC | Newly Industrialised Country |
| NGO | Non-governmental Organisation |
| NORUN | Nordic United Nations Project |
| ODA | Overseas Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |

| | |
|---|---|
| OPEC | Organisation of Petroleum Exporting Countries |
| OWG | Ad-Hoc Open-Ended Working Group on Funding Strategy |
| PPP | Purchasing Power Parity |
| PRSP | Poverty Reduction Strategy Paper |
| RDB | Regional Development Banks |
| ROAR | Results Oriented Annual Report |
| SDR | Special Drawing Rights |
| SHD | Sustainable Human Development |
| SPA | Successor Programming Arrangements |
| SRF | Strategic Results Framework |
| SURF | Sub-Regional Resource Facilities |
| TE | Transition Economy |
| ToR | Terms of Reference |
| TRAC | Target for the Resource Allocation from the Core |
| UIP | Unintended Pregnancy |
| UN | United Nations |
| UNDCP | United Nations International Drug Control Programme |
| UNDFP | United Nations Development Funds and Programmes |
| UNDG | United Nations Development Group |
| UNDP | United Nations Development Programme |
| UNEP | United Nations Environment Programme |
| UNESCO | United Nations Educational, Scientific and Cultural Organisation |
| UNFPA | United Nations Population Fund |
| UNHCR | United Nations High Commission for Refugees |
| UNICEF | United Nations Children's Fund |
| UNIDO | United Nations Industrial Development Organisation |
| UNIFEM | United Nations Development Fund for Women |
| UNO | United Nations Organisation |
| USD | United States Dollars |
| WHO | World Health Organisation |

# Foreword

The Swedish Ministry for Foreign Affairs initiated the project *Development Finance 2000* with the purpose to increase awareness, knowledge and international commitment to a strong, effective and well-funded multilateral system for development. The project covers both the United Nations, Multilateral Development Banks and Global Public Goods.

Globalisation and the changing character of development financing justifies new analysis on the roles and financing of the UN and the development banks. The increasing flow of private investment in many developing in the last decade is very positive, but there is continued need for ODA in order to create an enabling environment for development and to support the provision of global and regional public goods. As part of this process, strong legitimate international organisations with a robust funding base is as needed as ever.

Despite years of reforms and improved efficiency, the funding of many UN Funds and Programmes continues to be uncertain and unpredictable. Initiatives to strengthen long term financial planning have so far not yielded sufficient results. This motivated us to commission this study which we hope will stimulate the debate and contribute to long lasting solutions for organisations we all have a responsibility to support.

Gun-Britt Andersson
State Secretary for Development Cooperation, Migration and Asylum Policy

# Executive Summary

This Study on *Mobilising Support & Resources for the United Nations Development Funds & Programmes* (referred to throughout as "the Study") is being carried out under the *Development Finance 2000 Project* initiated by the Swedish Ministry for Foreign Affairs in order to "help increase awareness, knowledge and international commitment to a strong, effective and well-funded multilateral system in the field of development" (see ToR).

The Study was undertaken from April to October 2000 by Percy Mistry of Oxford International Associates and Niels Eilschow Olesen of COWI. In order to collect data and information, visits were made to a number of donor capitals (Canada, Denmark, France, Germany, Ireland, Sweden, and the UK), to Permanent Missions of Japan, USA, Brazil, Egypt and Pakistan and to the headquarters of UNDP, UNFPA and UNICEF.

The views expressed in the Study are those of the authors and do not necessarily reflect the views of the Swedish Ministry for Foreign Affairs.

Objective of the Study

The purpose of Study is to develop new perspectives in the thinking about financing the UN funds and programmes. In this way, the authors and the Ministry for Foreign Affairs hope to "create political energy and momentum on issues concerning multilateral financing in the field of development" (see ToR). The Study focuses on the lack of donor support for the UN agencies and the relationship between reform and funding. The Study also provides analyses of the distinct elements of a replenishment mechanism as a model for mobilising resources for the UN funds and programmes and makes recommendations on its usefulness.

The main conclusions and recommendations are pulled together in this Executive Summary and grouped around the following four main themes:

- Political will
- Functioning of the UNDFPs: reforms vs. funding
- The priorities of programme countries and donors
- A new funding mechanism for the UNDFPs

## Political Will

An element of uncertainty, if not confusion, remains in the donor community about what kind of role the UN and its DFPs should play in facilitating the process of development in the majority of its members. Lack of clarity about their roles and mandates is an issue that affects DFPs *within* the UN system as well as the respective role of the UN system vis-à-vis the IFIs and the regional development banks.

Monopoly of the IFIs/MDBs

The danger exists that until greater clarity of view and a global consensus on the respective roles of the UN system versus the IFIs/MDBs emerges, the development agenda will be dominated, if not monopolised, by the IFIs. Such a monopoly creates a major conflict of interest across the various different development assistance roles that financial institutions purport to play. It diminishes the overall quality of assistance and compromises objectivity and impartiality. Nevertheless, the donor community appears to be drifting inadvertently in the direction of eviscerating the role of the UN, and continuing to build up *soft intervention capacity* in the IFIs and MDBs at the expense of the UNDFPs.

The normative role of the UNDFP

In considering this issue it might be useful for donors to recall that much of the seminal thinking about development since 1980 has emanated from the UNDFPs. It has been the interventions of the DFPs (UNDP) on issues such as “social and human development” reflecting the importance of human and social capital that have influenced the development thinking and programmes of the 1990s. In a similar vein UNICEF made a major contribution to influencing development policy with its approach to putting a human face on adjustment during the 1980s. These thoughts should introduce a sense of caution and sobriety in donor countries about the importance of maintaining if not strengthening the soft intervention capacity that the DFPs have, instead of compromising it further.

Another important issue is that of “voting rights”, which in the UN are effectively de-linked from “funding obligations” leading to perceptions of a constitutionally congenital proclivity for UN institutions to be fiscally profligate. Unless voting power and funding obligations are effectively re-linked, the UN system will continue to suffer from a chronic deficit of “political will” to fix it. For that reason, one of the most important issues is that of engaging the non-DAC members more productively in the funding of the DFPs as a start to greater participation in the funding of the multilateral development financing system as a whole. If universality is to mean anything, it must apply equally to the “rights” as to the “obligations” side of the equation.

The key question that needs answering is: What is the right balance to achieve between (a) retaining and strengthening the soft-intervention type development capacity that already exists in the UN system (but which is at risk of being dissipated, if core resources keep dwindling) and is welcomed by programme countries and (b) building up competing similar soft-intervention capacity in the IFIs and MDBs, when it is not clear that the IFIs/MDBs are likely to do as cost-effective a job in as user-friendly a manner?

*Recommendation*

The Study recommends that separate studies be undertaken to answer this important question before it becomes possible to determine properly the resource requirements of these different parts of the multilateral system for providing essential soft interventions in support of development.

Further, the international community as a whole needs to reach a consensus on a meaningful, value added agenda for the UNDFPs - and especially for UNDP - to pursue on a consistent, systematic basis. That should be one objective of the UN Conference on Financing for Development scheduled in 2001. Until such a consensus is reached, it is difficult to see major donors becoming enthusiastic about increasing core funding substantially for any DFP on a firm *multiyear* basis. That will prolong, if not diminish further, the sub-optimal functioning of the DFPs. That is the Catch-22 situation that the UNDFPs presently seem to be trapped in.

## Functioning of the UNDFPs: Reforms vs. Funding

Reform in return for funding

Since the mid-1990s, wide and deep reforms have been occurring in all the three funds and programmes that were the focus of this Study (UNDP, UNPFA and UNICEF). These reforms are resulting in the adoption of a programme approach in planning, implementing and managing their activities to achieve key priorities and results; instead of concentrating, as they did previously, on administering a compendium of unrelated micro-initiatives in each programme country. Though the intensity and pace of reform is striking in all three agencies, it is still very much a “work in progress”.

In launching and “selling” reforms to both programme countries and to agency management and staff, a tripartite bargain was struck. Programme countries agreed reluctantly to changes in DFP mandates, priorities and programmes that they were (and many still are) uncomfortable about. DFP managements committed themselves to following through on an ambitious and difficult programme of internal change despite being over-stretched. These two parties undertook their part of the “implicit bargain” on the clear understanding that “performance would pay” with donors rewarding reforms by increasing core funding and making it more predictable on a *multiyear* basis. Although some individual donors are responding positively to the reform process with incremental funding, that does not appear to be happening across the board. The asymmetry between two parties believing that they have kept their end of the bargain, while the third party (i.e. the donors collectively) has not, defines the nub of the problem that the DFPs now face.

The continued deterioration of *core funding* has been more than offset by increases in *supplementary funding* in UNDP and UNICEF but not in UNFPA. This growing imbalance, between resources that can be relied upon and resources that are exigent, is both distorting the core programme priorities of the DFPs and making the management of their programmes more difficult at the operating level. Moreover, in UNDP, one of the results of supplementary funding is that the agency is becoming a *de facto* administrative sub-contractor to the IFIs for administering public programmes in specific regions.

The mandate of UNDP

UNDP's mandate still remains amorphous, excessively broad, all encompassing, and somewhat loose and unclear. The lofty phrases used to describe its vision are difficult to translate into meaningful activity implications at the operational level. The intended shift in its programme orientation (the so-called move "upstream") raises questions about whether its inherited legacy of management and staff resources are capable/qualified to meet the challenges that its new MYFF and Business Plan have enunciated.

Unresolved questions remain about UNDP attempting to compete on the same high ground of "policy" as the IFIs that appear to have longer experience in this arena. Its comparative advantages are not clear versus those of *the reservoir of soft intervention capabilities* (and the much larger funding capability behind them) that have already been built up in the World Bank and regional development banks. These issues continue to bedevil and impede the provision of donor support for core funding of a level that UNDP's management believes is absolutely crucial for "minimum critical mass" to be maintained and ensure its survival as an effective agency. Unfortunately, UNDP does not appear to have been successful in communicating that belief to the international community. It does not appear to be shared by several major donor countries.

UNFPA: stretched to the limit

The asymmetry between progress on reform accompanied by a sustained secular decline in funding between 1995-1999 is even more stark in UNFPA. The trend of declining core resources needs to be reversed. It is difficult to see how the smallest of the three DFPs can realise much greater efficiency at the margin through further internal cost squeezing and reform. Attempting to do so would risk contraction of its already over-stretched capacity to administer programmes in over 150 countries and having it fall below an acceptable minimum. This would put UNFPA in the trap of being seen as inefficient and ineffective.

The funding potential of UNICEF

In UNICEF, the asymmetry between reform and funding is of a different nature and a lower order of magnitude. UNICEF has unique "brand equity". Therefore, UNICEF's access to sources of funds other than governments for its core funding does not threaten its "critical mass". Indeed the Study's findings suggest that UNICEF may not have scratched even the tip of a very large iceberg in raising resources from non-governmental sources.

The focus of UNICEF's resource mobilisation strategy on raising core resources from governments raises serious questions about the implications of that priority for other DFPs and for UNICEF's relations with donor governments. These questions need to be looked at more thoughtfully and answered by UNICEF's management and the donor community.

UNICEF overlaps substantially with UNPFA

The reforms undertaken since 1995 have resulted in much greater programme transparency and priority definition in all three DFPs, although considerable difficulty remains in reaching consensus on whether there should be further focusing and rationalising of UNDP's mandate; or whether this has been overdone. In UNICEF's case, its medium-term plan (MTP) which has been integrated into the

MYFF raises the issue of aggressive and deliberate "mission creep" into terrain that overlaps substantially with UNFPA's. The fact that this duplication is not challenged but widely supported raises two questions.

*First*: Is there a danger of applying dual standards where duplication/overlap are implicitly or explicitly encouraged in certain instances (which are important to the donor community) yet discouraged in others (that are more important to programme countries)? *Second*: As UNICEF moves into UNFPA terrain, is there a danger that it may be affected negatively by the political contention that assails UNFPA? Might UNICEF's "brand equity" be diminished as a result with an adverse and possibly irreversible long-term impact on its reputation and resource mobilisation capacity?

The Study did not come up with easy answers to either of these somewhat profound questions that seem, regrettably, to be swept under the carpet. There may be no easy answers. Nevertheless, the questions deserve to be asked more transparently and openly; and they need to be thought about more deeply than they appear to have been so far.

*Recommendation*

For these ambitious and far-reaching reforms to be sustained, it is strongly recommended that the core funding base of key UN agencies is bolstered, regularised and made more predictable and certain over periods of at least four years to prevent the programmes of these agencies from excessive, disruptive volatility. It is also essential to prevent and reverse the demoralisation of DFP managements and staff who are all showing distinct signs of reform-fatigue without any pay-off in sight.

It is recommended that the mandate of UNDP be re-examined in order to reach a consensus between programme and donor countries on where UNDP should be positioned over the next 10 years. The term "up-stream" and what type of implications this new concept may have should be examined further in order agree on what should be UNDP's role vis-à-vis the IFIs.

UNFPA is still trying to do too much with too little. The answer does not lie in cutting back what it is trying to do but in governments increasing significantly the resources available to it.

As concerns UNICEF - with its unique brand equity - the Study recommends that the full potential for raising resources from non-governmental resources should be explored further and various options should be considered for its future corporate structure that would enable it to maximise non-government resource mobilisation. Its strong focus on securing more government core funding has implications for the other DFPs that need to be more carefully considered by the donor community. Overlap between the mandates of the three agencies also needs to be explored further with a view to achieving greater clarity.

The MYFF of the UNDFPs

Urged by donors, considerable effort and resources have been invested by all three DFPs in the MYFF process - in the belief that such a framework was needed to generate increases in predictable core funding on a *multiyear* basis. Early experience with the outcome of the first round of *multiyear* pledging in

2000 in UNDP, UNFPA and UNICEF does not, however, provide ground for optimism about the future. It does not provide any encouragement that these processes will "deliver the goods" in terms of: increasing resources; making them more predictable and assured; or improving the egregiously skewed pattern of burden-sharing that exists today. However, it may simply be too early to reach any definitive conclusion about the success or failure of the MYFF and associate *multiyear* pledging of contributions given the fact that these initiatives are being tried out for the first time and are still nascent.

As far as *multiyear* pledging is concerned, the indications for future years received by the DFPs have been made by very few donors with most citing a procedural inability to make such pledges beyond the current year even in indicative terms. In each DFP, the shortfall between resource requirements and indicative pledges for future years grows very rapidly. These shortfalls make the utility of the MYFF and *multiyear* pledging as effective resource mobilisation devices, aimed at increasing resource availability on a more secure basis, quite suspect.

The effect of exchange rate movements

Part of the core funding deficiency has been exacerbated by exchange rate movements (especially the decline of the Euro against the US dollar) between 1996-1999. There is not much that governments can do about exchange rate effects after making suitable budgetary efforts to increase contributions in local currencies. The hedging efforts of DFPs (which are relatively unsophisticated in being limited to buying forwards) have been compromised by the uncertainty governing the timing of resource inflows. However, there is a way of dampening (though not eliminating) the volatility that has been manifest by using a composite numeraire like the SDR - at least for programme and budget management rather than strictly for accounting purposes. The arguments against this possibility have been explored by the Study and found not to hold much merit.

More emphasis on results and impact

Although MYFF's do not appear to be securing their aim of assured *multiyear* core funding, they are sharpening programme focus and inducing DFP managements to pay greater attention to outcomes and results. However, donors may be overdoing, somewhat unthinkingly, their emphasis and insistence on wanting firm evidence attributing results and outcomes to the specific programmatic interventions of each DFP. They are in effect asking questions that are fundamentally unanswerable. Neither the theories nor the analytical techniques to provide such answers exist as yet.

In asking for the impossible, donor representatives are placing unnecessary stresses and strains on DFP managements and staff that are entirely avoidable if a sense of proportion is restored in the "question-asking" process. The cost-benefit ratio in most such instances suggests that it is simply not worthwhile to try to accommodate unreasonable questions with impossible answers. Some defensive capacity needs to be incorporated in the Executive Board processes of DFPs, utilising peer group pressure at Board level to prevent such excesses. It would help if member countries had, in their Missions to the UN, more representatives who understood and were familiar with the core businesses of the DFPs, sitting on their Executive Boards.

It is difficult to reconcile the *voluntary* nature that presently characterises funding of the DFPs with the objective of achieving better *burden-sharing* among donor governments. Most of the donor country representatives with whom discussions were held pointed out the contradiction in stipulating (as this Study is aimed at doing) that voluntary contributions should be based on strict or partial burden-sharing. They are, at present, disinclined to respond positively to the introduction of burden-sharing precepts and negotiations in the DFP funding processes; or to accept the view that it is a valid concept to apply in practice in the DFPs.

In part, funding the DFPs has become hostage to the contra-precedent set in funding the MDFs. The legal obligations entered into under replenishment agreements for the MDFs have limited the capacity of donors to exercise much discretion over their annual multilateral ODA budgets. With these lock-ins already in place, larger donor countries appear to be in no mood to tie themselves down in similar fashion to making binding commitments, based on burden-sharing principles, for the only remaining line-item in their budgets (i.e. contributions to DFPs) on which they have any flexibility.

Larger donor countries also appear to believe implicitly that replenishments based on burden-sharing resulting in regularised core funding for the DFPs would lead to waste and resource diversion for two reasons. First, despite the process of reform that has been undertaken, they still see the DFPs as being less efficient and effective than the MDBs. Second, they remain concerned about the agenda and priorities of the DFPs at the country level being driven by programme countries in a manner over which the donors have still not found a way of exercising effective restraint and control. Thus, the blunt weapon of withholding core funding is the only tool they have come to rely upon.

*Recommendations*

It is recommended that donors and programme countries urgently increase the amount of funding in accordance with discussions and commitments to the MYFFs made in the Executive Boards of the agencies.

In terms of diminishing the effect of exchange rate fluctuations, the Study recommends that DFP financial managers should explore further (e.g. with counterpart financial staff from the World Bank) the notion of using the SDR as a device for managing volatility in programmes and budgets. As programme volatility of +/- 15% annually is difficult to accommodate in DFPs, a sizeable liquidity cushion and reserve need to be built up which then raises questions about the effectiveness of throughput and resource utilisation capacity. There is no question that DFPs need to employ a greater degree of financial sophistication than they presently have in-house for liquidity management, the introduction of exchange equalisation buffer reserves, and liquidity cushions for managing emergency expenditures. Such arrangements need to be put in place sooner rather than later.

## The Priorities of Programme Countries and Donors

One of the concerns that emerged in the Study is the growing gap between the development assistance priorities that donors think are important, and those that programme countries emphasise in achieving sustainable development. This "twist" is occurring partly as a result of political pressures operating on donor governments making it easier for them to obtain aid appropriations to certain support activities, but not others. The development agenda of aid agencies is also driven by the "development fashions" that are in vogue at the time. What is frustrating programme countries is that their development is being driven in a direction that is deflecting them from putting in place the foundation blocks needed for sustained and sustainable development. They are being pushed by bilateral and multilateral aid agencies to pursue strategies that are politically correct rather than sticking doggedly to less fashionable strategies which they believe are the ones that will work in the long run.

Whose needs and whose priorities?

The UNDFPs, and especially UNDP, are caught in the middle. They would like to respond to the needs of programme countries. But doing so risks their funding support from donors. Programme countries feel that the donor-driven reforms that have been pursued since the mid-1990s have less to do with increasing the flexibility, widening the mandate, and increasing the responsiveness and reach of the UNDFPs. They are aimed instead at bringing the UNDFPs under the control of donors with a concomitant weakening of programme country influence in priority-setting. Programme countries are concerned that the reforms being pursued by the DFPs will re-orient these institutions in the same way as the MDBs. Such an orientation reflects the priorities of donor countries and of politically active, single-issue lobbies in these countries, rather than addressing the development needs of programme countries. As far as programme countries are concerned, these changes also compromise the core principles of universality and consensus to which they attach paramount importance.

In the UNDFPs, the developing countries have adhered to the principle of universality as being an uncompromisable bedrock of their charters. To them it is of paramount importance to retain the integrity and character of the UNDFPs as institutions governed by democracy among sovereign states (i.e. one state, one vote) and avoid the risk of their becoming clones of the IFIs in being governed by the democracy of dollars (i.e. one dollar, one vote or something roughly to that effect).

Who controls the UNDFP?

Donors, on the other hand, assert that the funding problem of the UNDFPs arises because of donor discomfort with a lack of democratic accountability. Donors who provide 97% of the funds have less than 20% of the votes in the UNDFPs. They cannot expect to secure approval in their parliaments for funds that will be spent with them having very little say (if voting majorities prevailed) as to "for what" and "how efficiently". Donor countries therefore feel that they suffer from the UN equivalent of "taxation without sufficient representation". The conundrum is how these two contrasting positions can be reconciled in a way that does not compromise either the integrity or the funding of these institutions.

The Study believes that, in holding their views, the programme countries have a point that should not be casually dismissed. However, their influence in getting their point across is diminished because they do not bear a fair share of the burden of financing the DFPs.

The perennial problem of DFPs not being sufficiently supported and under-funded (in terms of core resources) by OECD-DAC donors arises, because of the acknowledged asymmetry between institutional control (i.e. in terms of voting power) and funding. Donors believe that programme country voting control of these institutions creates perverse incentives for DFPs to be intractable and fiscally irresponsible, when OECD-DAC members provide virtually all their funding. Moreover, it leaves the DFPs exposed to having their annual resource requirements continually driven upwards through ostensibly "demand-driven" programmes.

What is "fair" burden-sharing?

Programme countries now produce nearly half the real output of the world (measured in PPP terms). They account for over 30% of world trade. Together they hold over 50% the world's international reserves. They are seen by donors as driving the DFPs while paying less than 3% towards their core resource costs. In today's market-oriented world with balanced rights and obligations, this is a basically untenable situation. It is an anomaly that differentiates the DFPs from the MDFs in terms of attracting OECD-DAC donor support.

This problem is not going to be solved by exhortation and proselytising about the importance of aid and ODA/GNP ratios or upholding the principles and tenets of multilateralism *circa* 1950. Clearly "fair" shares of funding burdens cannot be based on share in world production, trade or reserve holdings alone. The relative incomes (and therefore the relative funding capacities) of people in donor and programme countries also needs to be taken into account in determining what a fair share of the financing burden would be in each case. The OECD world with about 850 million people enjoys a per capita income averaging US$22,000. The non-OECD world with 5.15 billion people has an average per capita income of about US$2,000. But that disparity cannot possibly justify, on the basis of any fair burden-sharing indicators, the non-OECD world providing just 3% of core DFP funding.

*Recommendation*

It is recommended that a compact be negotiated whereby, as part of their global obligations, the non-OECD countries agree to increase gradually their share of the DFP funding burden. Only when programme countries accept that their "rights" in the DFPs are coupled inextricably with an acceptance of their corollary funding "obligations", will they be respected by donors. This will require considerable political effort but it is an objective that should be put before the high-level consultation on Financing for Development (FfD) in 2001 as a major agenda item for agreement.

## A New Funding Mechanism for the UNDFP

In considering the avenues open to DFPs for funding their resource requirements the Study considered a number of options and evaluated their advantages and disadvantages. After considering these options, the Study arrives at the inescapable conclusion that the UNDFPs have a fundamentally *political problem* in organising their funding support. A problem of that nature cannot be resolved by a technical or methodological means. Given the limitations of voluntary contributions, the apparent early warning signs that multiyear pledges for the first MYFF have not yet yielded any promising results, and that the concept of a compact suggested by the UNDP being unworkable, the only option left to pursue is that of a replenishment. Before analysing how a replenishment mechanism could be applied to the UNDFPs, it is important to be aware of what implications this may have on the issue of burden-sharing in the UNDFPs.

Burden-sharing in the UNDFPs

Burden-sharing issues in UNDP and UNFPA on one hand, and UNICEF on the other, need to be looked at differently because they involve different issues and require different approaches to resolving them. This is elaborated on in Chapters 4 and 5. The detailed treatment of burden-sharing therein needs to complement this summary conclusion. The overall conclusion about relative burden-sharing is summarised in Box 4:5 in Chapter 4.

The three main burden-sharing distortions in funding the DFPs are that:

- Except in UNICEF, the US is disinclined to contribute to the level of its “fair share” as indicated by traditional burden-sharing indicators in DFPs or MDFs. This leaves a “gap” of 8-10% in filling any replenishment geared to indicator-based burden-sharing. However, in UNDP and UNFPA the gap is even larger (about 15%) and needs to be narrowed.

- As a whole, the large European economies, with the exception of the UK and to a lesser degree Germany, are under-performing in meeting fair burden-sharing obligations where DFP funding is concerned. One way of circumventing that problem is by making a European contribution to the DFPs based on the same assessment formulae as for the EDF. The EDF is today the most over-funded but under-administered programme in the global aid industry. In contrast, UNDP has global aid machinery and capacity that is being under-utilised because of a chronic, endemic core funding shortage. It also has collateral advantages that go beyond simply solving UNDP’s funding problem or achieving fairer burden-sharing for financing the DFPs within the EU.

- Third, the non-DAC and programme countries now need to be engaged in fairer burden-sharing as well. A compact needs to be entered into whereby as part of their global obligations the non-OECD countries agree to increase gradually their share of the DFP funding burden from 3% to 30% by 2020.

*Recommendation*

The present pattern of burden-sharing is neither healthy nor sustainable for the stability and continuity of the UN system. Current burden-sharing distortions are so large that they cannot be corrected overnight. For burden-sharing to be accepted as a basic component of replenishment negotiations for funding the DFPs, a political initiative should be taken in order to build consensus through the OECD-DAC working group mechanisms. Intra-donor political efforts will need to be complemented by similar efforts between programme and donor countries.

A replenishment model for the UNDFPs

If a replenishment model were to be applied to the DFPs, the optimal replenishment period should cover two biennia - four years. In practical terms that would mean gearing up for a replenishment at the earliest in time for the next MYFF for 2004-2007. Assuming that a 12-15 months negotiating period should be allowed for the first time, this would mean launching the first replenishment negotiation meeting by no later than the last quarter of 2002 for negotiations to conclude and an agreement put in place by the last quarter of 2003. If that target was adopted, the strategy for creating consensus around the need for a replenishment approach in funding the DFPs would need to be developed now and unveiled at the high-level consultation on Financing for Development 2001. A major political initiative would need to be launched immediately thereafter to create consensus for a replenishment in the donor community and between donors and programme countries.

Replenishments are not cost-free exercises. They will involve considerable costs in terms of staff time, overhead and travel for both the DFPs concerned and contributing governments. They will involve a delicate set of issues concerning the role of replenishment negotiators in determining policy matters vis-à-vis the role of Executive Boards. Economies of scale will be an important consideration, as will the implications of two or three separate replenishment negotiations being conducted simultaneously for each institution. It would be easiest to negotiate a single replenishment for all the DFPs under the aegis of UNDG. However, it is doubtful whether the internal co-ordination mechanisms within the UN system exist, or are strong enough, for a pooled approach to be taken at the outset.

Replenishments cannot be seen as a quick fix or panacea for solving the DFP core funding problem. Without the political will to support DFPs in the same way that donors are prepared to support the MDFs, replenishments may pose as many problems as voluntary contributions. These would include agreements being reached at very low levels of core funding with certainty being traded off for volume.

The MDF replenishment model would need to be adapted in significant respects to be more responsive and user-friendly to the somewhat different core funding needs of DFPs.

As required by the ToR, simulations of a replenishment exercise were carried out for UNDP and UNICEF on the basis of a crudely derived burden-sharing formula (share in world GDP at both market and PPP exchange rates). The major results of these simulations are as follows:

Simulation for UNDP

- *OECD-DAC vs. Non-DAC Relative Burden-sharing*: The simulation assumes an OECD-DAC contribution of 70% to UNDP's core resources from governments. The rounded 70:30 ratio for DAC vs. non-DAC contributions is inescapable for purposes of any simulation intended to reflect indicator-based burden-sharing. The 70:30 scenario is, in reality, implausible for *immediate* application in UNDP. This size of reduction in the DAC share cannot be achieved from a starting ratio of 97:03 in one funding round; it could only be achieved slowly over several replenishments.

- *Burden-sharing within DAC Countries*: In 1996-1999 the four Nordic and six other like-minded European countries (in particular the Netherlands and Switzerland, although this group also includes Austria, Belgium, Ireland and Luxembourg) provided nearly 53% of the DAC share. Such out-of-kilter largesse resulted in diminishing the shares of larger EU countries (especially France, Italy and Spain, with Germany and the UK both doing marginally more than fair burden-sharing would have required). These five large European Union economies should together have financed over 26% of the DAC share. However, they ended up financing just 20%.

- Within DAC, the non-European "like-minded" donors (Australia, Canada and New Zealand) together contributed the proportions that fair burden-sharing might have required. Canada did more while the other two did less.

- Japan's contributions to UNDP's core resources were fractionally less than would be suggested by fair burden-sharing.

- The share of the US was proportionately the lowest of all DAC donors by an unjustifiable margin even allowing for a "real world discount" of 6-9% in the normative US share. The simulation for UNDP figured on a US contribution of 16% to total core resources for 2000-2003 within an overall OECD-DAC contribution of 70%. The simulation therefore assumed a US share representing about 23% of the DAC total versus 10% for 1996-1999.

- *The Non-DAC Countries*: The largest assumption in the simulation is that non-DAC countries will contribute their normative share of 30% of total core resources. Non-DAC countries are seen as driving the DFPs while paying under 3% towards their core resource costs. In today's market-oriented world, that is a basically untenable situation. It is an anomaly that differentiates the DFPs from the MDFs in terms of attracting DAC support. Common-sense and realism suggest that it will be impossible to get non-DAC members to jump from a less than 3% share to a 30% share in funding UNDP's core resources in one big leap.

- A gradual approach toward a long-term goal on which all members agree is perhaps the only way to get DAC and non-DAC contributors to "buy-in" to more sensible burden-sharing through disciplined replenishment negotiations. The fiction that DFP contributions are inherently voluntary and must be left that way - with the costs and consequences involved - is neither logical nor appropriate where resources of the magnitude of US$5-6 billion for 4-year replenishment periods are concerned. It is too convenient a defence on the part of defalcating donors that is invalid and needs to be dispensed with.

- *Budgetary Implications for Different Contributors*: The large shifts in share between DAC and non-DAC contributors have major budgetary implications. In coping with the shifts in share discussed above, the budget efforts (and reductions) that would need to be made to accommodate them in one swoop would themselves destabilise the sensible management of ODA budgets in donor countries, unless dealt with in a gradual manner.

- *Increases in DAC Budgets*: The UNDP simulation results in budget *increases* of 102% over 1996-1999 levels for the US and 44% for Japan. It results in much higher increases for France (291%); Italy (197%) and Spain (260%), but substantially lower (and entirely manageable) increases for Germany (9%)

and the UK (15%). It also implies a 150% increase for Australia and New Zealand

- *Decreases in DAC Budgets*: These increases are offset by substantial *decreases* in budget contributions by the Nordic countries averaging 83%. They also involve decreases for the like-minded smaller European members of DAC averaging 73%. The overall impact for DAC as a whole is a decrease of 10% in the *dollar amount* of the DAC contribution.

- *Exchange Rate Effects*: The simulation did not take either explicit or implicit account of the potential impact of exchange rate changes between the US dollar and the Euro in determining the size of these budget increases.

- *Increases in Non-DAC Budgets*: Increases in the budgetary contributions of the under-performing DAC donors pale in comparison to the percentage increases implied for non-DAC contributors' budgets. In the non-DAC groups, the percentage increases for budgetary effort range from a low of over 800% for the LPC and Arab-OPEC groups to about 1,800% increases for the NICs and a high of nearly a 2,800% increase for the Transition Economies as a whole. These percentage increases appear dramatic; but they are not quite as disconcerting when the absolute dollar amounts of normative contributions are taken into consideration. It is the minuscule existing base of contributions from the non-DAC members that makes the percentage increases look so high.

Simulation for UNICEF

- *OECD-DAC vs. Non-DAC Relative Burden-sharing in UNICEF*: The simulation for UNICEF assumes a 77:23 ratio for DAC vs. non-DAC contributions instead of 70:30. The difference reflects the willingness of the US to contribute its fair share in UNICEF in contrast to its reluctance to do so in the other DFPs. However, the immediate application of the 77:23 scenario is also entirely implausible and impossible to achieve from the 97:03 ratio in 1996-1999.

- *Burden-sharing within DAC*: In 1996-1999 the four Nordic and the six other like-minded European countries provided just under 47% of the DAC share. Unlike UNDP, the shares of all the larger EU countries (including Germany and the UK) were significantly lower than they should have been. The deviation was least in the case of the UK and greatest in the case of Germany.

- *The Impact of Private Contributions to UNICEF on Government Shares*: It cannot be an accident or coincidence that the very low shares of all the larger European countries (other than the UK) coincided with their being among the top six contributors of *private resources* to UNICEF. The same is true of Japan. Japan's private sector contribution is so large relative to that of other contributors that the simulation has justified the assumption of a lower share for Japan's government contribution in UNICEF than in UNDP (12% instead of 14%). Even taking into account their private sector contributions, the five larger European Union economies should have financed between 25-26% of the DAC share of contributions to UNICEF's core resources from governments. However, they financed only 11.5%.

- The private sector contributions of the Nordic countries are minuscule reflecting perhaps a societal preference for financing UNICEF from public rather than private funds. It may be that in economies whose marginal direct tax rates do not permit the same private generosity from after-tax disposable income, private contributions cannot be expected to be as high as in countries that provide more headroom for private contributions.

- By contrast, the private sector contributions of the other like-minded smaller European DAC donors (especially Belgium, the Netherlands and Switzerland) are, in relative terms, as high as those of Japan, given their comparative economic capacities. These three countries share the same characteristic as the US in making both large public *and* private contributions to UNICEF.

- Unlike the US, however, they did compensate for that to a small extent with a lower public contribution (totalling just over 13% for all three countries) than to UNDP (to which they contributed 21%).

- Australia and New Zealand contributed less to UNICEF's fiscally funded core resources than the proportions suggested strictly by fair burden-sharing. However, in Australia's case, relatively large private sector contributions may have been an explanatory factor. Canada did only fractionally less than its normative share even though its private sector contribution was large (if smaller than Australia's).

- *The Non-DAC Countries*: The non-DAC share of 23% of total government-funded core resources is substantially lower than their normative share of 30%. Even so, the share of 23% is still a very substantial change compared to a total non-DAC contribution today of just 3%.

- *Increases in DAC Budgets*: The combined effect of a 13% increase in volume coupled with increased shares for Japan and the large EU donor countries, results in budget *increases* over 1996-1999 levels of 84% for Japan and a marginal reduction for the US (1%). It results in higher increases for France (252%); Germany (400%); Italy (80%); Spain (400%) and Belgium (78%) with a lower and more tractable increase for the UK (35%) and Canada (23%). It implies an 88% increase for Australia and New Zealand.

- *Decreases in DAC Budgets*: These increases are offset by substantial *decreases* in budget contributions by the Nordic countries averaging 86%, for the Netherlands (71%) and Switzerland (51%). The overall impact for DAC as a whole is again a decrease of 10% in the *dollar amount* of the DAC contribution from the previous 4-year period. As with UNDP, the simulation did not take either explicit or implicit account of the potential impact of exchange rate changes between the US dollar and the Euro in determining the size of budget increases or declines.

- *Increases in Non-DAC Budgets*: The increases in non-DAC budgets for UNICEF shown by the simulation are only slightly smaller than the magnitudes indicated by the simulation for UNDP. The percentage increases for enhanced budget effort range from a low of 433% for the European non-DAC members to over 1,000% for the transition economies; with intermediate increases of 566% for the Arab OPEC group; 991% for the NICs and 700% for the LPCs and OPCs. As explained, while these percentage increases may look dramatic, they are manageable and plausible when the absolute dollar amounts of potential normative contributions are taken into consideration.

The main conclusion that these two simulations lead to, is that the shift to normative burden-sharing cannot be forced immediately.[1] It can only be achieved over time. In that sense, the simulations confirm the slow-and-steady strategy for achieving changes in burden-sharing through replenishments over a longer term than any donor may have had in mind.

The conclusion of the Study on the main point of issue is that extant patterns of burden-sharing - the integral but fragile backbone of any replenishment negotiation - are egregiously skewed in UNDP and UNFPA, and only a little less so in UNICEF for historical reasons. To correct these large distortions, and return to a semblance of balance in burden-sharing patterns based on justifiable indicators, all donors involved along with the programme countries, would need to accept and agree that this could not be done overnight. It can only be achieved over a long period of time; probably over at least 4-5 replenishment cycles covering the next 16-20 years.

*Recommendation*

It is recommended that donors and programme countries reach consensus at the outset about what the long-term goal is. They would need to accept the need for a changed pattern of burden-sharing - in keeping with global changes in the evolving financial capacities of different constituencies in the international community - to achieve “balance” by a time-bound target date; e.g. 2020. The problem with needing such a long period to achieve balance is that circumstances may have changed sufficiently by then to render obsolete any specific burden-sharing parameters suggested now. Therefore, some flexibility should be permitted to accommodate the global changes that are likely to occur in the world economy over the next 20 years.

[1] No simulation was required under the ToR for UNFPA, although the implications and findings would have been almost identical to UNDP.

# 1 Introduction

This Study on *Mobilising Support & Resources for the United Nations Development Funds & Programmes* or UNDFPs (referred to throughout as "the Study") is being carried out under the *Development Finance 2000 Project* (DFP-2000); the third in a recent series of Nordic/Swedish initiatives aimed at mobilising support for the multilateral system. The first project in that series began a decade earlier.

These Nordic-UN initiatives aimed at focusing the international community's attention - the donor community's in particular - on the importance of strengthening support of all kinds (moral, political, public and financial) for the UN's development assistance system. DFP-2000 places equal emphasis on support for the multilateral development banks (i.e. MDBs) - both global and regional; a theme that is dealt with in a parallel study to this one.

These efforts have assumed a particular urgency in the 1990s. Traditional donor support for the multilateral system, and for the UN in particular, has dwindled to the point of raising fundamental questions about its existence and raison d'être; not merely its health. At the threshold of the 21$^{st}$ century, major unanswered questions remain about the commitment of the international community to ensuring that the UN plays a useful, and critical, role in helping its developing member countries to achieve "developed" status. Oddly enough, there is no clear indication of any consensus within or across the developed and developing parts of the UN's membership as to what that role might be.

At present, various parts of the UN system play six main functional roles:

a) Maintaining ***peace and security*** through both permanent mechanisms, such as the Security Council, as well as special exigent programmes (e.g. those in Bosnia, Kosovo, and East Timor to mention a few recent examples);

b) Facilitating ***global commercial interaction*** by setting up UN-anchored, treaty-based legal-cum-operational governing frameworks for dealing with cross-border issues and interests in particular (fragmented) areas of frequent/intensive commercial cross-border activity – e.g. aviation, telecommunications, meteorology, postal services, maritime shipping, etc.;

c) Providing ***emergency, disaster and humanitarian relief/support*** in the aftermath of man-made or natural disasters through agencies such as UNHCR and other similar institutions;

d) Protecting ***human rights*** often in the face of their violation by national governments in the event of sub-national ethnic conflicts;

e) Establishing **global norms** to guide the behaviour and policies of countries in a number of areas such as the environment, gender, children, poverty, development assistance targets and practices etc. (this is often referred as the UN's normative role).

f) Facilitating ***global development*** in three ways: i.e. (i) *universally* (via UNDP); (ii) *sector-specifically* (through specialised agencies, e.g. FAO, WHO, UNIDO, UNESCO, UNEP as well as DFPs such as UNICEF, UNDCP, UNFPA, UNIFEM, etc.); and (iii) *region-specifically* (i.e. through UN Regional Economic Commissions with those for Africa, LAC, Asia and Eastern Europe playing a pro-active advocacy and issue-based role).

The first four of these roles attract reasonably broad donor financing support (if not always swiftly enough or in sufficient amounts), especially when the vital commercial or geopolitical interests of developed countries are involved. That is not to suggest that funding in these areas is sufficient to permit the UN playing as effective and sustainable a role as it might. It is instead to suggest that although funding problems persist in every area of the UN's operations, these four areas do not raise the kinds of issues and differences among donors (and between donors and G-77 countries) as do the last two.

What the UN system has had difficulty with for a considerable period of time is funding adequately its *development facilitating* role. This function has not attracted sufficient support across the whole donor community. It is this particular area that previous Nordic-UN projects, DFP-2000 and this Study therefore concentrate on.

It appears that there are different perceptions of what the UN's role in development should be. They differ on the part of donor countries, programme countries, and DFP managements. Broadly, those perceptions might be portrayed as seeing the UN's role in development as being: (a) *minimalist and tightly controlled* on the part of the donor community; (b) *maximalist and relatively uncontrolled* on the part of programme countries; and (c) *intermediate, pragmatic, responsive* on the part of most DFP managements. If that over-simplified three-way portrayal is valid, then the underlying reasons for some of the problems faced by the UNDFPs - especially in mobilising resources on a secure long-term basis - become immediately and intuitively obvious.

An element of uncertainty, if not confusion, remains in the donor community about whether the UN should even play a development facilitating role. Perhaps inadvertently, donors seem (by withholding adequate support for the DFPs) to be leaving the "development agenda" to be determined almost entirely by the global and regional financial institutions. Principally these include the International

Monetary Fund (IMF) and the World Bank Group (comprising IBRD or the Bank proper, IDA, IFC, MIGA and ICSID) – together known as either the Bretton Woods institutions (BWIs) or the international financial institutions (IFIs). Implicitly they also include the regional development banks (RDBs) for Latin America & the Caribbean, Africa, Asia and Europe. But there is a distinction between the roles of the IFIs and the RDBs; at least, as perceived by developing countries. Whereas the IFIs are seen as dictatorial and domineering, the RDBs are seen as more receptive and accommodating. In that sense, the RDBs are, in some ways, the "natural allies" of the UNDFPs whereas the Washington-based IFIs are not.

This disturbing trend toward encouraging the IFIs to dominate the development agenda raises some serious questions. Should the global system for development assistance not accommodate, perhaps even encourage, an element of constructive intellectual co-operation and competition across inter-governmental institutions in the public domain? Or should it permit, by design or default, an IFI-driven *global creditor monopoly* to dominate (as now seems to be happening) development thinking? Is it appropriate that institutions that are quintessentially creditors, and have their own vested interests at stake, should dominate in setting the development agenda for four-fifths of the world to which they lend? Might that kind of monopoly not detract from their role and judgement as lenders of supposedly last resort? Does it not compel multiple conflicts-of-interest to arise in the roles that IFIs play, and encourage too all-pervasive and incestuous a relationship between the MDBs and developing countries? Might the developing world and the global community at large not benefit from the continued functioning of more neutral, multilateral "safety-valves" (without a creditor's axe to grind) that might permit more impartial, disinterested and objective interlocution and intervention in development matters; especially of the "soft" variety?

In considering these questions, it might be useful for donors to recall that much of the seminal thinking about development since 1980 appears to have emanated from the UNDFPs and not from the IFIs. It has been the interventions of the DFPs (UNDP) on issues such as "social and human development" reflecting the importance of human and social capital that have influenced the development thinking and programmes of the 1990s. In a similar vein, UNICEF made a major contribution to influence development policy with its approach to putting a human face on adjustment during the 1980s.

Left to their own devices with a monopoly over the development agenda, the IFIs would probably have inflicted far more unnecessary economic and structural damage in the developing world than they actually did, had initiatives such as those alluded to above (along with myriad others) from the UNDFPs not checked these exuberant excesses. Similarly, pressures for the Brady Initiatives and the HIPC Initiative on mitigating the impact of excessive indebtedness came from outside the IFIs through the application of external pressure in which the DFPs played an extremely useful supportive role. Left to themselves, the IFIs would have continued to refuse acknowledging that an indebtedness problem even existed; let alone created by the result of their own lending actions and excesses. Those reminiscences should introduce a sense of caution and sobriety in donor countries about the importance of maintaining, if not strengthening the soft intervention capacity that the DFPs have instead of compromising it further.

These are not just rhetorical questions and issues. They require thoughtful answers if development assistance in the 21st century is to have a better record of performance and achievement in terms of positive outcomes than in the previous half-century. Answering this set of fundamental questions is not made any easier by the plethora of *development funds and programmes* (DFPs) - not to mention the development role of other self-governing *specialised agencies* created under their own charters - that have "grown like Topsy" within the UN system over time. There are unquestionably (from any reasonable viewpoint) too many of these DFPs. Created precipitously to respond to a perceived long-term or exigent need they have expanded in amoeba-like fashion and developed a life of their own without any sunset provisions applying to their closure.

The multiplicity of UNDFPs raises many uncomfortable issues and concerns that the UN system as a whole has yet to address or resolve adequately. Its failure to do so has influenced the funding pattern and prospects of the DFPs. Many DFPs have overlapping mandates that are tolerated and encouraged by donors in some popular areas (e.g. promoting gender rights and maternal health) while discouraged in others (economic policy advice). Such dual standards create problems of their own especially when the different priorities of the donor and programme countries collide. Moreover, the existence of too many DFPs has resulted in the multiplication of separate DFP country offices around the world at considerable expense. Although the establishment of the UNDG has been a welcome development, its Secretariat faces considerable difficulty in getting the different DFPs to co-operate as effectively and intensively as they might with one another at headquarters and in the field.

Taken together, these factors militate against the solidifying of positive support for the DFPs – especially in the donor community on which they crucially depend. These institutions have proven difficult to rationalise and merge into a single coherent UN development agency; or even bring together and co-ordinate under a single UN "development umbrella"; e.g UNDP. Their fragmentation and disparate existence militates against coherence, consistency, unity of purpose and direction in the UN's development assistance orientation and focus. It makes it difficult to attract incrementally increasing core resources for them individually, or for the system as a whole.

These realities notwithstanding, it must be acknowledged that in the last 3-4 years more progress has been made in achieving better co-ordination and co-operation across DFPs in the UN system than among the RDBs and IFIs. It is also the case that the UNDFPs are, after some early resistance to reform initiatives, slowly but surely, becoming more transparent and accountable under pressure from their membership; particularly from donors through the withholding of core resources. By contrast, available evidence suggests that the trends may be moving in the opposite direction in the IFIs; and particularly in the World Bank. There, the absence of similarly acute resource constraints, and ineffective Board oversight of management, may be resulting in an ever-widening and uncontrollable agenda. Yet, judged by its actions rather than its rhetoric, the donor community seems to be behind the curve in responding to these two divergent trends. It remains inclined to weaken the UN development assistance system while simultaneously building up additional "soft-intervention capacity" in the World Bank through the recently proposed Grant Funded Facility; at a time when the trends should indicate otherwise.

This issue highlights an important question for donors to consider and answer carefully as they re-orient and re-allocate their multilateral aid budgets: i.e.

*What is the right balance to achieve between: (a) retaining and strengthening soft-intervention type development assistance capacity that already exists in the UN system (which is at risk of being dissipated if core resources keep dwindling) and is welcomed by recipient/programme countries; and (b) building up competing similar soft-intervention capacity in the World Bank and other MDBs when it is not clear that the MDBs are likely to do as cost-effective a job in as user-friendly a manner?*

The critical importance of answering this question became apparent as the Study unfolded. It was not a question that this Study, given its more specific Terms of Reference, was asked to or attempted to answer. A valid answer can only be derived after two thorough analyses have been undertaken. The first needs to focus on the kinds of soft-interventions that programme countries at different stages of economic and social development still need to support their development efforts. The second should look at the comparative advantages of the UNDFPs, vis-à-vis those of the MDBs and bilateral aid agencies in providing such interventions. An informed study covering both types of analyses needs to be done urgently if a balanced perspective is to be restored on the desirability of preventing further deterioration in the soft-intervention capacity of the UNDFPs, while at the same time adding similar capacity in the MDBs on the other. If the question posed above remains unanswered, it will be impossible to gauge – in any rational way – the amount of funding that is needed by the DFPs on the one hand, or the MDBs on the other, to provide programme countries with an adequate level of soft-intervention support for their development.

The studies carried out under the two projects that preceded DFP-2000 - i.e. the *Nordic-UN Project of 1990-1991* and *the Nordic-UN Reform Project of 1996* - resulted in some valuable recommendations. These have been relentlessly pursued by the Nordic countries within the UN system. Slowly but surely, they are being implemented. They have contributed to improving the management, institutional cultures, and the effectiveness and efficiency of many UN funds and programmes. More importantly, they have brought about changes in the approach taken by some UN agencies to planning their resource needs on a multiyear basis and trying to mobilise resources accordingly. They have resulted in closer co-operation among various UN agencies, funds and programmes and in improved co-operation/co-ordination of activities between the UN system and MDBs.

The progress made in the 1990s represents just the start of a long, challenging process of change. More remains to be done before the UN system and the MDBs perform as they should – i.e. to the satisfaction of both the suppliers of funds and users of services. Rightly or wrongly, scepticism continues to prevail about whether all the UNDFPs are needed. Do they warrant funding support simply because they exist or do they serve a wider purpose that is universally supported and acknowledged?

There is equal concern that many UN agencies still appear to be running for the benefit of their management and staff instead of serving the core interests of either donors or developing countries. Such concerns are not new; they have resonated for some time. Many UN agencies may find it disconcerting that they still do; especially after they have made major internal efforts to reform. Unfortunately, lost or compromised institutional reputations are not recovered overnight. Often there is a considerable lag before perception catches up with reality. It may be that many UN agencies are trapped in the twilight zone between making major efforts at reforming themselves and donors not yet having fully recognised or appreciated how far they have come.

Alleviating residual scepticism will require further effort before the donor community provides the kind of support that the UN and MDBs need if a coherent development agenda is to be pursued successfully at the global level. It is urgent that the funding base of key UN agencies whose activities are important in supporting development is bolstered, regularised and made more certain/predictable over a number of years. Donor commitments are necessary on a multiyear basis, to secure the programmes of the main UN agencies and protect them from excess volatility and disruption. Otherwise the risk exists that the reforms undertaken by many agencies will not be sustained nor consolidated. In that event the ultimate losers will not be the agencies themselves but the developing countries they serve.

## 1.1 Issues Addressed by the Study

Given the time and budget limitations established at the outset, the Study was compelled to be selective about the questions and issues it chose to focus upon. In formulating those questions the authors kept in mind its principal task: i.e. examining whether an MDF-type “replenishment model” (see Box 5:1 in Chapter 5) could be applied to resource mobilisation for the UNDFPs, in particular UNDP, UNFPA and UNICEF. Using that compass bearing, the Study attempted to consider all the key questions that influenced resource mobilisation from donors on a predictable and assured basis.

The Study focused on four broad clusters of issues (enumerated below) to the extent that time permitted. These issues were analysed from two perspectives. The first involved a literature survey of generally available published material and internal UN agency documents. The second involved in-depth discussions with key officials. These included discussions with managers in three DFPs (UNDP, UNFPA and UNICEF) as well as key donor officials in capitals (Denmark, France, Germany, Italy, Sweden and the United Kingdom) and in the UN Missions (Japan and the US). They also included illuminating discussions with three programme country representatives on the UNDFP Executive Boards (Brazil, Egypt and Pakistan). The issue-clusters considered included:

A. Questions about the ***functioning of UNDFPs*** that influenced donor support and prospects for multiyear pledges: i.e. the political/popular attractiveness of their mandates; the width/depth of support that such mandates attract; past, present and future improvements that have either taken or are likely to take place in their leadership, management, institutional capabilities, effectiveness and efficiency; the operation of their Executive Boards; the lagging response to the gradual recovery of lost reputation (i.e. have donors recognised that many UN agencies have reformed and changed for the better? Will more time be needed before a stronger donor funding response materialises?); interactions *between* the management/staff of these agencies with donors and with recipients (broadly referred to as the G-77), as well as the interactions *within* each of these three distinct groups (i.e. management/staff; donors, and recipients) in the institutions concerned.

B. Concerns on the part of the ***donor community*** in supporting the UN system: i.e. the existence or absence of consensus on the mandates of the three agencies studied; consensus (or lack of it) on the usefulness or indispensability of their programmes, focus and operations; questions about the quality of leadership and management in the agencies; concerns about the quality of staff and the efficiency/effectiveness of particular agencies; concerns about co-operation and co-ordination *among* UN agencies and *between* UN agencies and other parts of the multilateral system; concerns about G-77 majority influence in determining UNDFP agenda; lack of donor commitment to agency orientation because of a feeling that UN agencies are being driven by a G-77 agenda rather than a balanced/appropriate agenda that donors are willing to support; concerns that agency management/staff might be playing pro-active but divisive “divide-and-rule” games between donors vis-à-vis recipients; issues concerning burden-sharing vis-à-vis other donor countries; issues concerning funding flexibility provided by particular donor budgetary processes, procedures, cycles; conflicts between funding for the UN and for other multilateral and bilateral claims on donor aid budgets; legal limitations on donors being able to make multiyear commitments to UN agencies in the same way as such commitments are made to MDB concessional windows.

C. Issues concerning the role that ***G-77 countries*** play in driving the agenda of particular UNDFPs: e.g. realism (or lack thereof) on the part of G-77 countries about objectives, aims and means in driving agencies in certain directions in order to preserve *universality*, leading to self-defeating outcomes such as, e.g. agencies adopting an agenda that donors will not support, thus resulting in a shortage of resources and institutional paralysis; a tendency on the part of G-77 to offset their lack of influence in the MDBs by requiring UN agencies (in which they have majority votes but little funding capability) to finance some interventions that donors do not support; lack of coherence in a disparate G-77 agenda for various UN agencies that is country-driven rather than consistency-led.

D. Interactions between ***donors and G-77*** in Executive Boards (and in capitals) concerning the operations of particular agencies; areas of contention; areas of mutual agreement; likely areas of common ground.

In the discussions held and the literature search undertaken, the Study explored as many of the above questions as were feasible. It came up with useful findings in all of these areas although the Report does not answer each one seriatim. Instead the answers become apparent as the Report's chapters and arguments unfold. Officials from donor and programme countries were diplomatic, guarded and circumspect on many of the contentious issues raised although they did not leave much doubt about what the views of their authorities were. On some issues, the Study did not come up with unambiguous, clear-cut answers with which all sides (i.e. donors, DFP managements, and programme countries) would agree unequivocally. Nevertheless the Study did come up with the kind of findings that permitted it to conclude definitively on the core issue: i.e. the prospects of applying an MDF-type replenishment model in the UN system.

As indicated earlier, the international community as a whole (i.e. donors and developing countries) has yet to reach a consensus on a meaningful, value-added *development agenda* for UN agencies to pursue on a consistent, systematic basis. Until that obstacle is surmounted, it is difficult to see major donors becoming enthusiastic about increasing funding substantially for any UNDFP on a firm multiyear basis. That may prolong, if not diminish further, the sub-optimal functioning of the UNDFPs. Such an outcome may, in turn, prevent or hold back some poor countries that rely on assistance from these agencies (because they find them more sympathetic and responsive than the MDBs) from developing their economies and societies as quickly as they otherwise might. It may impede these countries from participating more effectively, equitably and productively in the new, different, more complex and challenging global economic order that is now emerging; perhaps more rapidly than envisaged even a decade ago. For that reason, and somewhat paradoxically, the UNDFPs, and particularly UNDP, appear to be suspended in an uncomfortable limbo. Of the DFPs, UNDP is perhaps the most insufficiently supported by donors while its services remain in demand by programme countries. There is a sense that it is needed by the global community although no clear common view has yet emerged on what it should do and how its funding can be made more certain.

This Study is based on the premise that if the UN system, including its development assistance component, did not exist, it would need to be invented. It would be necessary to provide a legal-cum-constitutional as well as an operating framework for dealing with a plethora of cross-border problems/issues that national governments - on their own or in self-selected groups, working on a bilateral or plurilateral basis - cannot possibly handle. It is likely that *de nov*o construction of a UN system in 2000 would look quite different from the inherited patchwork of institutions that exists; mainly because it is based on a design dating back to the very different world that had emerged in 1945.

Ever since, the UN system has evolved in fits and starts to accommodate the realities of a continually changing world. Regrettably, much of its prevailing ethos (especially the nexus between OECD members and others) seems unfortunately trapped in the artificial divisions created and nurtured by the geo-political tensions and competition that characterised the global system between 1945-1990. It is questionable whether the UN system's evolution suits the world that has since taken shape or whether the constraints operating on it have led to an institutional mutation. It often appears when hearing the views of some official delegations that they seem trapped in the pre-1990 time-warp.

Pragmatically, it is impossible to ignore, or write off completely, the sunk costs of the present UN framework comprising the core UNO, the DFPs, the emergency relief, refugee and humanitarian assistance agencies and the specialised agencies. Any future UN edifice or system that evolves must necessarily be built on foundations that already exist. There does not appear to be any strong desire on the part of the global community to scrap what has emerged and start afresh. The world does not appear to relish taking the risk of dismantling the UNDFP structure completely. But it has yet to accept the challenge of making that structure - awkward and unwieldy as it is - to work better in addressing the needs of the UN's various constituencies; particularly the majority of its membership that still find the goal of rapid, successful development elusive.

The Study discerned very quickly that there really are no legal or other impediments to prevent either donors or the DFPs from subscribing to or accommodating a replenishment basis for funding. Donors often assert that their legal and budget systems/processes preclude the possibility of making firm, binding multi-year commitments to the DFPs. What they are really saying is not that these impediments are insuperable but that they are unwilling to make the political effort needed to overcome them through appropriate legislation – as indeed they have done in the case of the MDFs.

The Study also considers:

- The glaring asymmetry that has emerged between 1996-1999 between "institutional and programme reform" on the one hand, and "reform of funding" on the other (Chapter 2);

- The prognosis for MYFFs resulting in predictable multiyear funding on a more assured basis with better burden-sharing (Chapter 3);

- The options open to DFPs (along with their advantages and disadvantages) for securing funding on a more reliable basis (Chapter 4); and

- How a replenishment system might result in greater predictability, security and burden-sharing in the DFPs (Chapter 5).

In dealing with these issues the Study highlights the steps that need to be taken in pursuing an appropriate political strategy for getting the international community to accept the need for better burden-sharing and resource mobilisation for DFPs via replenishments.

## 1.2 Political Will

As noted above, the UN system (and the DFPs as part of it) seems to be suffering from a very high degree of ambivalence and image-confusion about its utility and effectiveness in the mind of its member governments and the global public.

There is no clear consensus about what it should do or how. There is just a vague sense that it is needed, but at the same time that what is on offer falls far short of what is wanted. At the root of it all is the fact that universality rather than weighted voting governs the system. That, in the view of the 25 or so significant donor countries who pay almost all of the UN's bills, leaves them hostage to the caprice of over 160 other countries that are not obliged to pay for what they want the system to do - no matter how resource-intensive their demands may be.

Thus, "voting rights" are effectively de-linked from "funding obligations" leading to a constitutionally congenital proclivity for UN institutions to be fiscally irresponsible and profligate. Unless voting power and funding obligations are effectively re-linked, the UN system will continue to suffer from a chronic deficit of "political will" to fix it. For that reason, one of the most important issues is that of engaging the non-DAC members more productively in the funding of the DFPs as a start to greater participation in the funding of the multilateral development financing system as a whole. If universality is to mean anything, it must apply equally to the "rights" as to the "obligations" side of the equation.

In the same context it is odd that the realism that now governs bilateral relationships between individual developed and developing countries has not yet pervaded the hallowed corridors of the UN. In the UN, country delegations - whether from developed or developing countries - seem transfixed in a time warp, which they are reluctant to exit from. They still indulge in useless and arcane bureaucratic complexities, still use the same tired rhetoric inherited from the days of confrontation between two superpowers and from the days of independence and the new international economic order. There is a reluctance to recognise that the world has changed dramatically, but that the UN has not changed sufficiently with it. Indeed the gap is resulting in the increasing dysfunctionality of the UN.

To keep pace, the UN has to change not just its complacency, language and culture. It has to change entirely its ways of doing business and of prioritising and rationalising its activities. This is not simply a question of the developed countries always proposing and pressing for change while the developing countries feel their natural role is to automatically resist it. The developed world has a propensity all too often to "use" the UN when the purpose suits a particular self-interest, and to discard or denigrate it when the purpose does not. Also the world is changing rapidly in ways that very few people even in the developed world can begin to comprehend. That change is being driven by the "knowledge surplus" in the developed world.

Feeling that they have always been victimised, first through colonisation, then through a permanently disadvantaged and effectively disenfranchised position in the globalising economy, developing countries have adopted the attitude that all change is bad, unless it can be understood and, worse still, "controlled" by their relatively disadvantaged governments. Since oft-incapable governments have to exercise judgement in their participation in international affairs, it should not be surprising that matters in the UN do not evolve as they should. However, to accept that complacently and do nothing about it, is to accept the slow and agonising demise of the UN as a useful body. The UN cannot continue to be run on the principles of low intensity diplomatic guerrilla warfare between donors and G-77. Yet even the discussions held in the context of this small Study suggest that is precisely the way in which these two broad camps of antagonists see the game being played out regardless of whether the game makes any sense. It is urgent and imperative that this unfortunate "way of life" in the UN is changed so that developed and developing countries can shift from their obsession with "lose-lose" or "zero-sum" scenarios and focus more on co-operating to realise the benefits of "win-win" scenarios in the international context.

Until this happens the ingredient of "political will" on the part of financially capable donors will always be missing from the recipe of international co-operation for achieving more rapid global development. And a deficit of "political will" cannot be compensated for through the adoption of different techniques, methodologies and devices for realising better funding outcomes.

## 1.3 The Evolving Global Monopoly over the Development Agenda

Another key issue which concerns this Study both directly and indirectly is tacit donor encouragement of what seems to be an emerging monopoly by the IFIs (and particularly the World Bank) over the conceptualisation, implementation, financing, and monitoring/evaluation of the global development agenda. This issue impinges on the Study because it concerns directly the concomitant and continued erosion of mandate and territory that is implied for the UNDFPs in making soft interventions of a kind in which they should have an undisputed comparative advantage.

It is surprising that donors seem insufficiently concerned about the serious conflicts of interest that arise when a major preferred inter-governmental creditor also insists on playing multiple-roles with multiplied schizophrenic consequences. Should donors not be asking themselves whether it is advisable for any international development financing institution to pretend to play all the roles simultaneously of a partner, advisor, tutor, researcher, statistician, interlocutor, negotiating adversary, conditionality-enforcer, and overall disciplinarian? Is that healthy for either the institution concerned or for the country it is ostensibly trying to assist? Should any institution be encouraged to put itself in a position where it is identifying, preparing, pre-appraising, appraising, negotiating, financing, supervising, monitoring and evaluating the same project or programme in any country? Should any institution be permitted to perform all of those functions in even one project in one country? Is it defensible that one institution is now attempting to do all of that for all projects and programmes in all sectors in all developing countries? Is there not a need to separate the provision of *soft interventions* (such as assistance, advice and know-how transfer) from the associated provisions of *hard interventions* such as conditional credit?

These are serious issues because they affect the future of development and of the developing world. Institutional megalomania cannot possibly be healthy under any set of circumstances; especially if its consequences are the erosion and eventual destruction of user-friendly capability in agencies in other parts of the global system. They are raised in stark, dramatic terms not to pursue a pro- or anti- institutional agenda but to raise timely concerns about the safety and security of the system as a whole if this egregious degree of power concentration is not just permitted to occur but even implicitly encouraged.

This Study provides a timely opportunity to have this issue put on the table and examined more carefully in the context of high-level consultation on Financing for Development in 2001 and beyond. It is perhaps the most important question to answer thoughtfully in the context of securing the future of effective and efficient UNDFPs.

# 2 Asymmetry between Reform and Funding of the UNDFPs

## 2.1 Introduction: Reform vs. Funding

In discussions about putting the resources of the main UNDFPs on a secure multiyear footing - principally UNDP, UNFPA and UNICEF - the issue that has invariably arisen concerns the linkage between reforms in these agencies and their funding. Throughout the 1990s, reform of the UNDFPs has been a prominent priority that has been pressed hard by the donor community. It has been a contentious issue in exchanges between programme and donor countries on their Executive Boards.

Programme countries have felt that the reforms being driven by donors in the 1990s had less to do with increasing the flexibility, widening the mandate, and increasing the responsiveness and reach of the UNDFPs. They appeared to have more to do with bringing the agendas and activities of the UNDFPs under the control of donors with a concomitant weakening of programme country influence and input into DFP direction and management. Programme countries were concerned that the reforms being pressed would re-orient the development agenda of the UNDFPs in the same way as that of the MDBs had been changed. Such changes would reflect the priorities of donor countries and of politically active, single-issue lobbies in these countries, rather than address the urgent development needs of programme countries. They would also result in compromising the core principles of universality and consensus to which programme countries attached paramount importance.

The subject of reform was an equally contentious issue in discussions between donor countries and the management level of these agencies until the breakthrough signalled by the present Secretary General of the UN on his appointment in the mid-1990s. Following the two Nordic-UN projects referred to earlier, and initiatives of other countries, the period 1996-1999 has been a period of intense reform throughout the UN system; particularly in all three of the UNDFPs that constitute the subject of this Study. Early resistance on the part of DFP managements to reform was triggered perhaps in part by the sharp reaction of the programme countries in which the DFPs worked. It was also triggered by concern about the impact of unleashing reforms in institutions whose management capacity had been stretched by reform-fatigue of a kind that was creating major problems in managing staff and re-orienting the human resource base and skills of these organisations.

A period of hard bargaining between programme and donor countries on reforms started in the mid-1990s and has continued each year in the Executive Boards of these institutions. It has resulted in wide and deep reforms occurring in all three UNDFPs aimed at sharpening their mandates and re-focusing management attention on achieving desirable outcomes and results rather than on managing and rationing inputs. Reforms have resulted in the agencies adopting a results-orientated programming approach in planning and managing activities instead of concentrating on a compendium of unrelated micro-projects in each programme country. Though the intensity and pace of reform have been striking in all three DFPs the reform process is still a "work-in-progress". It has resulted in significant changes. More are in the offing. But it will be some time before their effects and results are fully visible.

It is generally accepted now that reforms in these agencies were necessary and overdue. Looking back, such reforms were essential in the interests of achieving greater clarity about the mandates and functions of these institutions, better focus of their programmes, greater transparency, effectiveness and efficiency in their functioning, and greater accountability for outcomes and results. Clearly a case could be made, and some donors have made it, that such reforms were essential in their own right; irrespective of any linkage to funding. But such an argument, though perhaps theoretically correct, would be disingenuous and indicative of bad faith in the *realpolitik* that governs these institutions. In getting programme countries and the managements of the DFPs to agree to far-reaching institutional reform, Executive Board documents, internal management documents, and discussions with donors as well as programme countries certainly suggest that a tripartite bargain was struck. It involved programme countries, DFP managements and donor countries each agreeing to fulfil commonly understood obligations.

On their part, programme countries agreed to changes in DFP mandates, priorities and programmes that they were (and still are) uncomfortable about on the grounds that doing so would result in the DFPs getting more resources from donors. This stance seems paradoxical to some degree. Why would programme countries want DFPs to do more of the things that these countries do not agree with? DFP managements committed themselves to following through on an ambitious agenda of change despite being over-stretched. They did so on the implicit understanding that donor countries would make an equivalent effort to: (a) increase funding levels; and (b) provide resources on a more secure multiyear basis to cover programmes over two biennia. Programme countries and DFP managements now feel that they have been discharging the obligations they undertook as part of the tripartite bargain but that donor countries are not. That asymmetry characterises the nub of the problem that the UNDFPs face.

To examine this issue further the Study looked at the reforms undertaken in each of the three DFPs concerned vis-à-vis the resources that have been provided by government. These findings are presented below in abbreviated form.

## 2.2 UNDP: Major Reforms Implemented but Still Decrease in Core Funding

### 2.2.1 Reforms

Box 2.1 summarises the reforms undertaken in UNDP between 1995-1999. Table 2.1 indicates the resources provided in that period. Together they show that while the reform effort has been broad and deep, resources at the same time have been dwindling.

*Box 2:1 Reforms Undertaken between 1995-1999*

- Introduction of an incentive based programming system (TRAC)
- Restructuring of HQ and management processes
- Increased focus on mechanisms for organisational learning
- Increased focus on staff learning/training
- Introduction of the Programme Approach
- Revised Policies/Procedures for formulation, execution and implementation of projects and programmes
- Introduction of Monitoring & Evaluation indicators and tools to measure delivery and impact
- Management Systems revised to improve accountability of country offices
- Overhaul of Financial Control processes to support monitoring and supervision of field offices
- Upgrading IT infrastructure, creation of intranet and access of most country offices to the Internet
- Application of Logical Framework techniques and processes for programme management and MIS
- Introduction of new Guidelines for national execution, private sector co-operation, execution by NGOs
- Increased focus on local, regional and global private-sector collaboration
- Strengthened partnerships within UN system; esp. with the UN Development Group
- Strengthened partnerships with World Bank and regional banks at HQ and field levels
- Strengthened partnership with NGOs and civil society partnership at country, regional and global levels
- Active participation in UNDG to implement UN reforms at country, regional and global levels
- Enhanced Resident Co-ordinator functions and further development of the functions of the Resident Co-ordinator
- Instrumental in developing and promoting CCAs and UNDAF process
- Pro-active participation with World Bank under its CDF processes
- Integration of UNDAF/CCA guidelines into new UNDP country programming guidelines
- Harmonisation of budget format with UNFPA and UNICEF
- Increased focus on evaluation of projects and programmes
- Adoption of a results based management system (MYFF)

### 2.2.2 Funding

*Table 2:1 UNDP Funding between 1996-1999 (millions US$)*

| | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|
| **Income** | | | | |
| Regular resources | **848** | **760** | **746** | **681** |
| Cost sharing | 801 | 841 | 1,275 | 1,177 |
| Other contributions | 10 | 11 | 8 | 9 |
| Miscellaneous | 100 | 74 | 107 | 109 |
| **Total income** | **1,759** | **1,786** | **2,137** | **1,977** |

Source: UNDP

While change and reform in UNDP have been continuing at a progressively intensive pace through the 1990s, regular resources have steadily declined from a peak of US$1.1 billion in 1992, to US$899 million in 1995, and down further to US$681 million in 1999. The overall reduction between 1992-1999 has been over 40% while the reduction between 1996-1999 has been 20%. Yet, UNDP's management has selected the 1992 high point as the core funding target to be achieved by 2003 in its MYFF for 2000-2003.

UNDP's regular resources in 1999 were less than 60% of the 1992 level. Part of the decline (about 12%) was due to the effect of currency fluctuations: i.e. especially the decline in the dollar value of European currencies (represented by the new Euro) between 1996-1999. This happened because donors usually make regular resource contributions in local currencies, which are then accounted for in US dollars. In many instances, donor governments have also decreased their local currency contributions to the organisation during the 1990s.

The large, secular declines that have occurred in UNDP's core funding through the 1990s, and especially in the last four years, have naturally had an adverse impact on the organisation and its ability to manage programmes effectively. It has destabilised country offices and their ability to plan ahead for more than a year at a time although resource planning and allocation cycles are supposed to be for three years. With acute uncertainty about the level of resources likely to be available even for the current year, UNDP country representatives now spend much of their time adjusting for cuts in already allocated regular resources and negotiating with government about how to spread these cuts.

Some donors have lowered their contributions to regular resources. Others have increased supplementary funding significantly; in the form of third-party cost sharing agreements, trust fund agreements and contributions to extra budgetary resources. Between 1992-1999, supplementary funding has increased by nearly four times. In 1992 it accounted for US$409 million. Today it amounts to around US$1.5 billion. Thus while regular resources have declined at an average annual rate of around 12%, supplementary funding has increased at an annual rate of about 37%. It is, of course, a credit to UNDP that it has been able to attract supplementary funding. In some situations it has been able to fill the programme gaps that would have been left by the shortfall of regular resources. But the increase is not confined to filling in gaps in ongoing and new projects/programmes funded by the usual *bilateral* DAC donors. In fact, the increase in supplementary funding is due more to work associated with government cost-sharing arrangements associated with IFI loans. These arrangements are being managed by UNDP on behalf several governments in Latin America and accounted for more than 80% of all supplementary funding (cost-sharing and trust funds) in 1999. Five countries - Argentina, Brazil, Colombia, Panama and Peru accounted for more than half of such funding; equivalent to roughly US$550 million.

The continuous decline in regular funding has prompted the Executive Board to consider how UNDP might evolve in the near term. Should, for example, UNDP continue to have a near universal presence in almost all programme countries? Can the principle of a universal presence be adhered to when the level of regular resources may now have dropped below a critically low point. With so few resources spread over more than 130 country offices, can UNDP sustain a critical mass (in terms of local presence) in the programme countries? If it cannot, will it still be trusted and relied upon to provide services that programme countries have attached importance to?

Under the first UNDP corporate plan (June 1995), changes were initiated focusing on linking overall corporate, and immediate operational, priorities.[2] Under Successor Programming Arrangements, initiatives were undertaken that resulted in abandoning the previous Indicative Planning Figure system (the IPF system) which was entirely based on entitlements. Under IPF, each country was entitled to a certain level of resources according to an agreed formula. In the new SPA system, a part of core resources are set aside for high quality programmes on a first-come-first-served basis. This part is referred to as the target for resource allocation from the core (TRAC). However, declining resources have left this mechanism too short of funds for it to work effectively.

Another major reform initiative - UNDP 2001 - was launched in 1997. That process focused on the following five dimensions: (1) *enhanced support to country offices*, e.g. revised Programme Manual; revised National Execution Guidelines; Private Sector Guidelines; Guidelines for Execution by NGOs, etc.; (2) *organisational learning*, e.g. establishment of sub-regional resource facilities (SURFs); encouragement of staff to learn, etc.; (3*) re-engineering and restructuring of HQ* with simplified reporting, better HRM and new corporate IT systems; (4) strategies for *resource mobilisation and strategic partnerships;* and (5) *support to the United Nations reform process*, e.g. increased focus and support for the United Nations Resident Co-ordinator system.

A recent assessment of the outcomes of that change management process concluded that, in terms of re-engineering and restructuring, "… a great deal of tinkering with processes and procedures [has been undertaken] in an effort to improve efficiencies without questioning whether certain activities should be done at all …".[3] Organisational learning was also identified as a key area for improvement; but the assessment concluded that lack of focused and sustained leadership that promotes learning had resulted in this objective not being

[2] Executive Board decision 95/22
[3] DP/2000/3

achieved. Overall, one of the conclusions is that "… it is crucial to recognise the deeply rooted, complacent culture…" which is an important characteristic of UNDP.

Such assessments do not provide the kind of positive feedback needed to make a credible case for increasing core funding. Nonetheless, such feedback is indispensable for the organisation to improve on a number of fronts. Some donors interviewed during the Study indicated that they were fully aware of the reforms undertaken over the past few years. But they were not yet convinced about the depths that had been plumbed by these reforms or the impact that they were having in enhancing UNDP's efficiency and effectiveness.

Continuing efforts to make management processes more efficient and responsive, and improve the functioning of the organisation (e.g. decentralisation to country offices) have been accompanied by ongoing discussions at the Executive Board on what UNDP should be doing. During the second half of 1990s, differences of view on UNDP's mandate and programme focus have been a perennial bone of contention between (and within) the donor and programme country groups. As a result of deliberations in the Board in 1997, a number of measures were identified to narrow UNDP's development focus further. However, some donors question whether these discussions have achieved what they were intended to: i.e. making UNDP a less amorphous, more focused agency.

Programme countries have perceived donor efforts to narrow the focus of UNDP as an unacceptable attempt to drive the development agenda, and to confine UNDP's role in a way that would eviscerate it and make it dysfunctional.

Interviews with donors and programme countries during the Study confirmed that there are almost as many views on what UNDP ought to be doing and how, as the number of countries represented in the Board. Some feel that resources should be focused on improving governance. Others believe that human rights should rate a higher priority. Still others believe that UNDP's key interlocutors should be civil society organisations rather than government units, with UNDP playing a much stronger role in developing the capacity of civil society organisations to influence public decision and policy making. Programme countries of course see this as encouraging UNDP to support subversive causes.

Controversy about the mandate of UNDP and its programme focus became manifest when a number of programme countries reacted strongly to the incoming Administrator's introductory statement indicating that, on his watch, UNDP would focus primarily on governance. Programme countries interpreted this signal as an intolerable narrowing of UNDP's focus to a contested area when there is no commonly agreed definition of what good governance is.

The first Results Oriented Annual Report (ROAR) issued last month, indicated that activities aimed at creating an enabling environment for SHD, including a range of governance-centred activities, were the most significant focus area for UNDP in 1999. Some 52% of all regular and supplementary resources were utilised in this area. This suggests that, irrespective of the reservations expressed in the Executive Board about any sudden changes in the organisation's focus, UNDP has nonetheless shifted a significant share of its activities into the controversial area of governance. Of course it is possible, to keep programme countries on board, that UNDP may have resorted (at the country level) to the expedient of "dressing up" traditional activities favoured by programme countries, which formerly may have been classified in a different way, as "governance" in order to keep everyone happy. That type of subterfuge is not exactly unknown in the aid industry. In this instance it may even be justified.

Ongoing but unresolved discussions concerning the mandate and the focus of UNDP signify that there is still much soul-searching to be done about what it would take for UNDP to be perceived as a more attractive agency, worthy of increased support, by donor governments. They have invariably asked UNDP to be more pro-active in communicating more effectively what it is achieving at the country level, in order to help build a credible case for maintaining or increasing their contributions. The feedback that donors receive in capitals from their embassies in programme countries is very mixed; and highly dependent on the personality and capability of the UNDP's country representative. In some cases such feedback is supportive; in many others it is appalling. Yet, irrespective of what UNDP does in terms of public relations and information campaigns, it will never quite have the brand equity of UNICEF. Hence, it will continue to be an uphill battle for UNDP to raise resources even with improved communication and greater efforts in donor constituencies to make them more aware of why it is needed and what would be lost if it ceased to operate.

### 2.2.3 Twisting the Development Agenda Out of Shape

One of the core problems that emerged tangentially in the Study, and affects UNDP most profoundly, is that there is a growing gap between the priorities that donors think are important in funding development assistance, and the priorities that programme countries think are important in achieving sustainable development. This "twist" is occurring partly as a result of political pressures operating on donor governments making it easier for them to obtain aid appropriations to certain support activities, but not others. Aid programmes these days are becoming increasingly sensitive to the "labels" used to describe them than to their substantive content. To a certain extent the development agenda is being driven increasingly by single-issue focused NGOs which governments in many donor countries rely on public advocacy for continued aid. Further, the development agenda also seems to be driven by what "development fashions" are in vogue at the time.

What is frustrating many developing country governments now - with UNDP unfortunately getting caught in the middle as the most user-friendly of the international interlocutors they have - is that their development agenda is being driven in a direction which is deflecting them from putting in place the foundation blocks of development. They feel that they are being compelled to pursue strategies that are politically correct and in vogue for the moment rather than sticking doggedly to less fashionable strategies which they believe are the only ones that will work in the long run. A simplified portrayal of this problem becomes apparent in Box 2:2 below.

A quick glance at Box 2:2 below shows how large the perception gap is now between donors and programme countries on what is regarded as important for development. Donors and their instrumentalities (e.g. IFIs) invariably portray themselves as knowing better on the grounds of superior knowledge. More often than not they do not even bother with that. As long as money is attached to a particular priority, the development agenda is inevitably twisted out of shape. Donors and IFIs do not have the difficult task of managing development in impossibly difficult environments. Programme country governments do. If the perception gap is as large as the box shows then all notions of "ownership" and "partnership" become a senseless subterfuge. Programme country governments can never, in any substantive sense, be expected to "own" or be "genuine partners" in an agenda they simply do not believe is the right one; looked at from the viewpoint of the day to day challenges they face and the domestic constituencies (not necessarily democratic) that they are accountable to. That they will sign compacts and documents and strategy papers to signify "ownership" is a grand self-delusion on the part of the donor community and the IFIs.

Depicted in this fashion, UNDP's mandate and agenda problem becomes immediately obvious. Programme countries find it useful because it has catered to their perception of urgent priorities. Donor countries are unwilling to support it because its agenda up till now has not necessarily reflected their (ever-changing and inconstant as well as inconsistent) priorities. Now that UNDP, to secure its funding base, is shifting in a direction that reflects donor priorities more closely, the question is: Will programme countries find it as useful? Will it still be able to command their trust?

These are not easy questions to answer. However, it would a dereliction not to raise them in even a tangential context. Dealing with the perception gap and undoing the twist in the development agenda will rapidly become the most significant issues confronting the development assistance community in the very near future.

*Box 2:2 Differing Perceptions of Priorities for Sustainable Development*

| **Donor Country Priorities** | **Developing Country Priorities** |
|---|---|
| *Good Governance* | *Infrastructure* |
| Democracy | Electricity, Water, Sanitation, Telecoms |
| Elections | Roads, Railways, Ports |
| Political Parties | Airlines, Shipping |
| Civil Society Representation | |
| Human Rights | *Capital Markets* |
| Corruption | Securities Exchanges |
| | Derivative/Commodity Markets |
| | Global Financial System Integration |
| | NPAs in Banking Systems |
| *Policy* | *Policy* |
| Macroeconomic (MFE) | Macroeconomic (MFE) |
| Privatisation/Corporatisation | Deregulation of Controlled Sectors |
| Trade Liberalisation | Proper Regulation of Markets |
| Education, Health, Social | Labour Markets/Employment Absorption |
| | Industrialisation & Exports |
| | Global Market Access |
| *Gender/Children* | |
| Rights, Equality, Access | Cultural Compatibility of Modernisation |
| Participation | Coping with E-Commerce Revolution |
| Child Rights/Child Labour/Soldiers | |
| | *Governance* |
| | Admin. Efficiency, Effectiveness, Honesty |
| | Decentralisation/Devolution |
| *Environment:* | Quality of State, District, Local, Municipal Gt |
| Global Emissions Protocols | Civil Service Rationalisation |
| Global Warming, Ozone, CFC | Managing Resurgent Ethnicity |
| | Reducing Costs of Governance |
| | *Gender/Children* |
| | Reducing Malnutrition, Starvation, Poverty |
| | Assuring Survival |
| | Reducing Population/Fertility |
| | Coping with Cultural Traditions/Constraints |
| | *Environment:* |
| | Local Focus on emissions, pollution |
| | Protection of Trees, Forest Cover/Fires |
| | Water and Irrigation Constraints |

Finally, in underlining the concern that the development agenda is being twisted out of shape by overlapping but not entirely compatible sets of priorities, of donors on the one hand, and those who are supposed to be developing (the programme countries) on the other, two related issues deserve mention.

The first concerns the much used but little understood clichés of “ownership” and “partnership”. Whatever documents programme country governments might sign, donors and multilateral institutions must surely realise that while such commitments are *de rigeur* in order to secure financing, they do not mean very much in substance. Programme country governments are most unlikely to exert genuine ownership over, or be partners in, a development agenda that does not reflect their own priorities. They cannot be persuaded to become owners and partners in an “enterprise” they do not believe in. Genuine ownership and partnership can only be brought about by mutual dialogue and gentle persuasion of the merits of one argument over another in a way that programme countries can accept and be comfortable with. Thus, when an argument is won or lost the outcome is based on the merits of the case and not on the relative power of one party over another. This obvious lesson has yet to be imbibed fully in the development community.

The second and related point concerns the current flurry of activity and the faith that donors are reposing in exercises such as CCA’s, UNDAF’s and CDF’s (and now the latest abomination of Poverty Reduction Strategy Papers (PRSPs)). These are being seen as a panacea for aid and resource co-ordination. They are supposed to provide the means for correcting the confusion that presently exists in bringing about focus and unity of purpose in development objectives and actions at the individual country level. This confusion is caused in the first place by a plethora of incompatible donor priorities, projects and programmes through donor preferences that are exerted bilaterally and multilaterally. It is also caused by inadequate and highly imperfect articulation of a coherent development strategy within most programme country governments.

Attempting to resolve these incompatibilities through efforts that are principally donor or MDB or DFP driven (which is what all these initiatives essentially are) suggests that history has taught the development community very little. If unity of strategic purpose, objective and action is to be achieved, it can and should only be achieved through the Budget Document of the country concerned. That document should be (as it is in all OECD countries) the embodiment of a government’s own strategy - one that it can own, be accountable for to its own population, and used as a standard for performance measurement. Any other document should only be used as an input into the Budget. It should have no self-standing purpose of its own.

The way in which the CDF’s and UNDAF’s are being portrayed and aggrandised by the World Bank and the UN respectively as the new magic bullets to cure all the ills of unfocused and uncoordinated development, again holds the potential for serious dysfunctionality in the preparation and use of these documents. Their only use is to provide an input into the government’s own budget. They should not be portrayed as having any other value or be “sold” as the way in which the World Bank or the UN is going to save a particular country from itself or, in the aggregate, save the developing world.

The point is not made in a vacuum. It is a critically important one for all the DFPs to recognise and imbibe; especially UNDP.

## 2.3 UNFPA: Declining Resources in Spite of Tangible Programme Results

Table 2:2 and Box 2:3 presented below depict the reforms undertaken by UNFPA relative to the resources provided by donors between 1996-1999.

*Table 2:2 UNPFA Funding between 1996-1999 (millions of US$)*

| | **1996** | | **1997** | | **1998** | | **1999** |
|---|---|---|---|---|---|---|---|
| Regular Resources | 309 | (-5%) | 293 | (-6%) | 277 | (-10%) | 250 p |
| Supplementary Resources | 19 | | 30 | | 32 | | 34 p |
| *Total* | *328* | | *323* | | *309* | | *284* |
| Memo: Exchange Gains/(losses) | NA | | (13) | | (15) | | (12) |

Source: UNFPA

As the table above and box below indicate, in close similarity with what has been happening at UNDP, a period of intense and sustained reform, and management/staff effort at improving the focus, efficiency and effectiveness of UNFPA, has been accompanied by a progressive decline in regular (core) resources contributed by governments from US$309 million in 1996 to around US$250 million (provisional estimate) in 1999. That represents an overall decline of nearly 20% over the 4-year period or an average of 7% annually in each intervening year in nominal terms. In *real terms* those declines would translate into an overall loss of around 30% and annual losses averaging 10%. The asymmetry between reform effort and donor response in terms of sustaining support for UNFPA could not be more stark.

*Box 2:3 UNFPA: Reforms Undertaken between 1996-1999*

- Decentralisation of decision-making to field with HQ re-organisation to support field offices
- Restructuring of Management structure and processes
- Introduction of UNFPA Integrated Field Office Management System and MIS
- Revised Policies/Procedures for programme formulation and implementation
- Improvement of Monitoring & Evaluation indicators and tools to measure delivery and impact
- Management Systems revised to improve accountability of field and regional managers
- Establishment of a new Office for Results Based Management attached to Executive Director
- Inter-divisional Group on Results Based Management
- Overhaul of Financial Control processes to support monitoring and supervision of field offices
- Upgrading IT infrastructure, creation of intranet and UNFPA web-sites
- Improved, real-time intra-UNFPA exchange and flow of information vertically and horizontally
- Application of Logical Framework techniques and processes for programme management and MIS
- National capacity-building to support field decentralisation
- Capacity-building to support global and local logistics management (for supplies and commodities)
- Increasing local, regional and global private-sector participation in supply management
- Strengthened partnerships within UN system; esp. with UNDP, UNICEF and WHO
- Strengthened partnerships with World Bank and regional banks at HQ and field levels
- Strengthened partnership with NGOs and civil society at country, regional and global levels
- Global Initiative on Contraceptive Requirements, Logistics Management, country/regional stocks
- Improved co-ordination of donor support
- Active participation in UNDG to implement UN reforms at country, regional and global level
- Participation in joint approach to Resident Co-ordinator system
- Participation in single "UN House" in 42 countries (26 in 1998, 6 in 1999, 10 in 2000)
- Pro-active participation in CCAs and UNDAF processes
- Pro-active participation with World Bank under its CDF processes
- Integration of UNDAF/CCA guidelines into UNFPA country programming
- Harmonisation of budgets with UNDP and UNICEF
- Pro-active role in forming WHO-UNICEF-UNFPA co-ordinating committee on health
- Evaluation of log-frame application across UNFPA
- Increased (and positive) External Evaluations of UNFPA programmes and projects
- Gender mainstreaming in UNFPA and achievement of highest gender balance of any UN agency
- Adoption of MYFF and results-based reporting and management processes

The agenda and mandate of UNFPA is politically contentious – caught as it is in the passionate, often violent, disagreement between the “pro-life” and “pro-choice” lobbies in key donor countries and conflicts with religious belief/ ideology in some programme countries. Yet, surprisingly, in discussions with donor and programme country governments, it appears to attract pragmatic support across a broad spectrum of its membership. Programme as well as donor countries, irrespective of ideology, religious coloration or hue, appear to agree that UNFPA’s role in reducing fertility and population growth rates is indispensable for sustainable development to occur. It is perhaps the most crucial challenge facing the global community in its efforts to achieve reductions in poverty – especially in the poorest countries. UNFPA’s programmes on adolescent sexual health/behaviour, the provision of contraceptives, maternal health and mortality reduction, and its policy/advocacy role may raise concerns in many quarters. But they are essential and indispensable roles that have to be played. Regrettably, they are often sensationally overplayed and misrepresented by the media, placing UNFPA in an exposed and untenable position in many donor and programme countries with sensitivities and beliefs inimical to reducing fertility and population growth rates.

Member governments in all countries have an obligation to protect UNFPA from such counter-productive political fall-out diverting its mission. But given the intensity of passion and feeling with which “pro-life” preferences are expressed, many donor governments find it politically more expedient and convenient to duck under the parapets. The political backlash in many donor countries has been of a nature that donor governments – despite the clear support of officials for UNFPA’s role and the recognised need for expanding it – appear unable to sustain a level of financial support for UNFPA that global conscience and development pragmatism might demand. Even a passing familiarity with the challenges of development cannot fail to recognise the vital importance of UNFPA’s mission. The failure of donor governments to provide adequate core funding support to UNFPA reflects probably the most disconcerting decline of official standards and dereliction of public duty to the lowest common denominator in the multilateral system.

The unconscionable decline in UNFPA’s resources between 1996-1999 has been in sharp contrast with their growth over previous four-year periods. Between the periods 1984-1987 and 1988-1991, UNFPA’s total income grew by 38.5%. Between 1988-1991 and 1992-1995 that growth rate fell moderately to 29.5%. Between 1992-1995 and 1996-1999, UNFPA’s income has grown by less than 9%. Table 2.2 indicates successive annual declines in regular resources for three years between 1996-1999. In fact, from a peak of US$328 million in 1995, the decline has actually occurred over four straight years. That trend of declining growth, coupled with the 1996-1999 experience of declining resources in nominal terms is disconcerting and needs to be reversed. It is difficult to see how UNFPA, which is the smallest of the DFPs, can realise much greater efficiency at the margin through further reforms. Nor can it squeeze more resources for programmes out of its already minuscule administrative budget without risking the contraction of its capacity to administer programmes below an acceptable minimum. If it did, it would fall into the trap of being seen as inefficient and ineffective.

The Executive Director of UNFPA noted in a recent report (DP/FPA/2000/7; 24th February 2000) to the UN Economic & Social Council (ECOSOC) that:

> "The reduction in core resources in 1999 adversely affected UNFPA's programmes constraining the Fund's ability to maximise programme results. UNFPA's programmes had to be drastically reduced by some US$72 million, and this has cut into the results that could have been produced in programmes that had been previously approved by the Executive Board. The reduction in resources could not have come at a worse time: 81 new UNFPA country programmes have been approved by the Board since the ICPD and, as was shown by the ICPD+5 process, momentum has been building in every region of the world to step up the implementation of the ICPD Programme of Action. Moreover, because of the strong momentum in the Fund's programme delivery, provisional estimates indicate that UNFPA programme expenditures were very high in 1999. This reflected the fact that most programmes were in mid-cycle and had reached their peak implementation phase. As a result, UNFPA may have to draw down from its operational reserve to cover the over-expenditure, which would have to be replenished from 2000 resources".

Discussions in May 2000 with UNFPA's management indicated that the programme financing over-spend in 1999 was of the order of around US$26 million and would need to be financed from resources allocated for 2000. This is the first time in history that an event of this nature has occurred. It has unsettled UNFPA's management and country representatives who have had to revert to governments and renegotiate or cut back on UNFPA's contributions to programmes that had been firmly agreed (after approval by UNFPA's Executive Board). This has affected UNFPA's credibility in some programme countries as a reliable partner although management has tried to minimise the damage. Such unexpected cutbacks - resulting from unanticipated funding volatility and the lack of funding coming through after firm pledges have been made - have also demoralised field staff who have exerted every effort to implement programmes and, at the same time, cope with the burdens of an overloaded institutional reform agenda.

## 2.4 UNICEF: Stagnation in Core Resources but Private Sector Funding Potential not Fully Utilised

Where UNICEF is concerned the asymmetry between reforms and resource availability is of a different nature. It is of a lower order of magnitude and less damaging to UNICEF's mission and programmes than is the case with either UNDP or UNFPA. In UNICEF's case, the regular core resources provided by governments have stagnated over the last four years at an average annual level of around US$350 million; although governments have not been ungenerous in providing supplementary resources for earmarked countries and programmes. UNICEF also has a significant amount of access to non-governmental sources of funding. These include resources raised privately by its National Committees as well as resources from NGOs, foundations and from various affiliated corporate fund raising programmes involving airlines, hotels and sports governing bodies. A large and growing part of private funds also contributes to UNICEF's regular core resources. As the following exposition will show, the stagnation in regular core resources provided by governments, is more than offset by increases in funding from these other sources. Indeed indications are that UNICEF may have scratched barely the tip of the iceberg in terms of its potential ability to raise far larger amounts from non-governmental sources.

Among UN agencies, UNICEF is in some respects unique. It has extraordinary “brand equity”. Its name is instantly recognised by a significant proportion of the global public. It has a benign reputation in virtually all governments and parliaments embracing both donor and programme countries. UNICEF is the most attractive face and facet of the UN in most countries. Its mandate, focused on children, is neither amorphous nor diffuse (like UNDP’s) nor is it as politically charged and contentious as UNFPA’s. That makes obtaining budget appropriations for UNICEF easier than for almost any other UN agency except when a particular donor government feels that management is being unresponsive to its priorities and concerns.

If that is the case, then why have donor governments’ contributions to UNICEF’s regular core resources stagnated instead of increasing apace and maintaining proportionality - as UNICEF’s management would clearly wish - with the increases occurring in resources from non-governmental sources? How can governments on the one hand still press an agency like UNICEF - with its major reputation advantages over its sister DFPs - to undertake reforms and yet not be as forthcoming with unconditional funds when those reforms are, after an initial period of perceived resistance, being implemented?

This Study came up with four possible answers to those sensitive questions. None of them provide much comfort as far as prospects for reviving core funding from governments is concerned. The *first* reason that might have affected (and may still be affecting) core funding to UNICEF from governments is that many large European donors have been under significant budget pressure through the mid- and late 1990s. That has been partly because of a long period of stagnation/recession, partly in order to meet the tests of entry into EMU, and for other reasons (e.g. the continuing high fiscal costs of unification in Germany). As economic unification and the process of accession progress, it is likely that there will be continued pressure in Europe for taxation to be further moderated and converge toward lower rather than higher marginal rates in order to increase European competitiveness. Partly for these and other reasons, European countries other than the UK have also witnessed prolonged weakness in their exchange rates relative to the US dollar (the UN’s *numeraire*). That has only exacerbated the problem of their contributions in US dollars being translated into looking even smaller than their domestic budget efforts would have suggested.

At a time of sustained pressure, ODA budgets usually get less protection than budgets for domestic health, education and social security expenditures. Under stagnant or declining aid budgets, many traditional donors with large bilateral aid programmes, (e.g. France and Germany), shift a disproportionate burden of the cuts they are compelled to make on to multilateral aid programmes. However, a large part of the multilateral aid budget is pre-empted by legally obligated contributions; e.g. under treaties in the case of the EDF and under similar obligations applying to the concessional multilateral funds like IDA. The scope left for discretionary downward adjustments is therefore either shifted back to bilateral programmes and/or is disproportionately concentrated on the few multilateral institutions to which contributions are voluntary and not legally binding - i.e. to the UNDFPs. Within that universe, when donors look at spreading the cuts around, they must inevitably consider the financial position of agencies that have access to non-governmental sources of funding to protect their programmes against the interests of those that do not have such access.

That introduces the *second* reason why some major donors are, tacitly or otherwise, taking into account in their budget considerations the amounts raised by UNICEF in their countries via their National Committees as justification for lowering their budget subventions. In reacting to suggestions that they might not be pulling their fair weight in contributing to UNICEF's regular core resources, these donors respond by observing that how a particular country chooses to finance UNICEF is a matter of social preference. They imply that private funding from a particular country should be taken broad account of when looking at things from a "burden sharing" point of view. In countries with high levels of direct taxation, a broad public mandate and strong political support for high levels of ODA relative to GNP, citizens may prefer to see contributions to popular agencies like UNICEF made through government contributions. In low-tax countries citizens may have a preference to contribute voluntarily from their after-tax discretionary resources rather than have contributions made through the budget.

Strangely enough, however, in Germany, France and Japan, which are all higher tax countries than the UK or the US, private contributions through National Committees are, in fact, also higher than in the US or UK while governmental contributions are lower. That is also true of Spain and Italy. So the general theory behind the plausible explanation does not hold. It is only in the very high-tax Nordic countries that private contributions to UNICEF are relatively low. Discussions suggest that most donors are sensitive about this issue and unwilling to state explicitly that budget decisions for UNICEF do take into account resources flowing from non-governmental sources. Occasionally they may even disclaim the relevance of private funding in determining their public contributions unless their arguments are put to the test. Clearly it is embarrassing for any government to admit to making such an offset in the context of contributions to what are fundamentally inter-governmental agencies, and particularly to agencies with as high a public and political profile as UNICEF.

A *third* possible reason, uncovered by this Study, could be what one senior official of a large and influential donor country called an "element of institutional conceit" on the part of UNICEF. Though not alluded to in quite the same way by other donors there was a distinct shared sense of discomfort about that characteristic. Broadly interpreted that notion suggests an attitude or stance on the part of UNICEF's management that donors find troubling. It reflects a reluctance to have UNICEF's way of thinking or its mission or management questioned in any way. Earlier it reflected a resistance to essential reforms and change. At present it reflects a reluctance to accept the constraints operating on donors in making difficult choices and exerting pressure on donor governments in claiming resources that are under pressure. In some donor governments there is concern that

UNICEF may be doing this to the point perhaps of jeopardising the funding prospects of sister institutions; in the self-centred conviction that its mission and programmes are far more crucial than those of other UNDFPs or other development agencies. That tendency, may be hardening attitudes in some donor governments despite the image and standing of UNICEF in the public mind.

*Fourth* and finally, a fundamental reason (again unexplicated) appears to condition the attitudes of donors in contributing unconditional regular core resources to any UNDFP including UNICEF. It reflects an underlying concern about majority voting power in the DFPs being held by programme countries and therefore, at a push, being beyond the capacity of donors to control. Donors are concerned that if unconstrained resources are provided freely to DFPs their programmes and agendas will again be determined entirely by DFP managements and by programme countries. In terms of eligibility and allocation criteria, as well as the purpose for which they are used, donors feel (although they do not admit this openly) that the resources contributed may go in directions that do not reflect their development funding priorities. They may again result in an absence of desirable outcomes and results. The only way in which donor countries can accommodate such a situation is by holding regular core resources down to bare minimum levels while augmenting them with conditional resources earmarked for specific activities, programmes and countries; associating the use of such earmarked resources with their own bilateral programmes to the extent possible.

Those four reasons need to be kept in mind in evaluating the information presented in Table 2:3 and Box 2:4 below which compares the reforms undertaken in UNICEF with the stagnation in regular core resources provided by donors.

*Table 2:3 UNICEF Funding between 1996 - 1999 (millions of US$)*

| | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|
| *Regular Core Resources* | | | | |
| Governments | 356 0.1% | 358 -4% | 344 1.6% | 349 |
| Private/Other | 195 | 189 | 221 | 225 |
| **Total Core** | **551** | **547** | **571** | **574** |
| *Supplemental* | 230 | 139 | 178 | 236 |
| Governments | | | | |
| Private/Other | 57 | 104 | 101 | 93 |
| Total Supplemental | 287 | 243 | 279 | 329 |
| *Emergency* | | | | |
| Governments | 21 | 98 | 81 | 114 |
| Private/Other | 85 | 14 | 35 | 85 |
| Total Emergency | 106 | 112 | 116 | 199 |
| *Total Funds* | | | | |
| Governments | 607 | 595 | 603 | 699 |
| **Total Resources** | **944** | **902** | **966** | **1,102** |
| *Memo* | | | | |
| Core: G as % of TC | 64.6 | 65.4 | 60.2 | 60.8 |
| Supp: G as % of TS | 80.1 | 57.2 | 63.8 | 71.7 |
| Emer: G as % of TE | 19.8 | 87.5 | 69.8 | 57.2 |
| TG as % of TR | 64.3 | 66.0 | 62.4 | 63.4 |

Source: UNICEF

*Box 2:4 UNICEF: Reforms Undertaken between 1996-1999*

- Medium-Term Planning & Programming for HQ, Regions and Countries
- Decentralisation of decision-making to field and regions
- Management Excellence Programme to: clarify/focus UNICEF's mission; create a more effective organisation structure; improve transparency and accountability; introduce better management processes in support of field operations; create a more productive interface with the UN system; strengthen UNICEF's flexibility and responsiveness in emergencies; improve monitoring of programmes;
- Restructuring HQ Management structures/processes to reduce overhead costs
- Strengthened internal management oversight and improved internal controls
- Reorganisation of UNICEF's Regional Offices and creation of Regional Management Teams
- Concentration of overall responsibility for National Committees in the regional Office in Geneva
- Revised Policies/Procedures for programme formulation and implementation
- Introduction of a "performance culture" based on personal accountability at all levels
- Improved human resources management capacity for UN and local staff in UNICEF offices
- Systematisation of Country Management Plans and Country Programme & Budget Reviews
- Introduction of computerised real-time Programme Management System (PROMs)
- Introduction of further systems for HRM (human resources); Finance & Logistics management (FLS) and integration of these systems into a real-time IMIS.
- Reduced telecommunication and travel costs through wider use of intranet
- Cost savings from out-sourcing of short-term services
- Integrated Monitoring & Evaluation Plan to measure programme implementation and impact
- Strengthening of Internal Audit Office; wider audit coverage; improved audit methodology
- Overhaul of Financial Control processes at HQ and regional levels to support monitoring and supervision of field offices
- Upgrading IT infrastructure, creation of intranet, extranet and UNICEF websites
- Improved Supply and Logistics management through: Quality Assurance Programme; Customer Services Approach; increased local procurement; and continuous global monitoring of key prices
- Strengthened partnerships within UN system; esp. with UNDP, UNFPA and WHO
- Strengthened partnerships with World Bank and regional banks at HQ and field levels
- Strengthened partnership with NGOs and civil society at country, regional and global levels
- Improved co-ordination of donor support
- Active participation in UNDG to implement UN reforms at country, regional and global levels
- Participation in joint approach to Resident Co-ordinator system
- Participation in single "UN House"; active participation in CCAs and UNDAF

### 2.4.1 Core Funding and UNICEF's Resource Mobilisation Strategy

Taking the foregoing four points into account, looking closely at the figures presented in Table 2:3 above, and juxtaposing them against UNICEF's determination to focus its resource mobilisation strategy (E/ICEF/1999/5 dated 4th November 1998) around the particular priority of focusing on increasing the volume of regular core resources from governments, two important questions arise: *Why is UNICEF focusing on raising core resources from ODA budgets where funds are the most scarce, and from which increased contributions to UNICEF would involve difficult trade-offs with contributions to other DFPs? Why is UNICEF focusing on that particular source when it has other options open to it that its sister DFPs do not?* In answering those questions for the DFPs as a whole, and for the donor community, it is essential to scrutinise more carefully and evaluate the reasons that UNICEF provides to justify its stance. In its own words, UNICEF's resource mobilisation strategy is based on the following principles:

" …..fundamental to the strategy is the principle that UNICEF, as a member of the UN system, is an intergovernmental body whose core basis of support must remain contributions from Governments". ……. "the ownership of UNICEF rests with Governments". ……..

"….. the resource mobilisation strategy thus aims to improve the predictability and assure adequate growth in the core resources provided by Governments" …….

"….. The resource mobilisation strategy aims to increase contributions to core resources and make them more predictable and assured, while promoting increased burden-sharing among donor governments and increased ODA contributions to benefit children through UNICEF". …….

"….. to avoid changing the character of UNICEF, voluntary contributions from Governments must increase and become more predictable, together with those of the private sector". ……… " increases in private sector contributions should be matched by increases in government contributions" …..… As a member of the UN system, UNICEF is committed to maintaining the fundamental characteristics of that system, i.e., universality, neutrality, multilateralism, and a voluntary nature, …….. To that end, the resource mobilisation strategy is based on collective ownership and partnership, is programme-driven and encourages partnerships"……..

"…. Core resources are the backbone of the organisation's funding and thus are an essential determinant of the capacity of UNICEF offices. ….. Without a strong UNICEF programme based on core resources, it would not be possible to use effectively earmarked supplementary funds". ….. " Core resources are and must remain the foundation of UNICEF funding; they are essential to maintaining the organisation's multilateral nature". ……

The foregoing quotes suffice in establishing why UNICEF believes it is crucial to focus on increasing the level of regular core contributions from governments. On the face of it, it would be difficult to argue a contra case in theory. In an ideal world donor governments should indeed be more serious about meeting the 0.7% ODA/GNP target. They should reallocate their ODA to multilateral agencies that are effective; not necessarily just those that enjoy a popular mandate. They should be concerned about restoring the balance allocated for supporting soft interventions from the MDBs back to the UNDFPs; irrespective of whether they control the DFPs to the same extent as they do the MDBs. And, within the DFPs, donors should be allocating resources to different institutions on a fair and rational basis in accordance with agreed priorities to expand spending on basic social services and on the poorest and weakest segments of society.

However, the world is, regrettably, not ideal. The ODA/GNP target is not just being honoured in the breach rather than in the keeping; it is actually in danger of disappearing from view. Despite the extraordinary growth they have enjoyed through the 1990s and their consequently increased economic capabilities, the more affluent donors are actually reducing ODA in relative terms (i.e. to GNP) and even in absolute real terms. Moreover, the trend toward diminishing the soft intervention capacity of DFPs while building up even larger amounts of such capacity in the World Bank continues unabated to the detriment of both and to that of the programme countries.

Whether more enthusiastic exhortation and proselytising alone will reverse those unfortunate trends is open to question. It may be that more visible results need to materialise from development assistance before public support for it is restored. It may also be that donors have yet to be convinced that reforms in the DFPs will result in their becoming more effective and capable organisations whose programme priorities can be supported. More successes are needed, and they need to be related to the “success of aid” and of DFPs, than have been apparent so far. Instead the public and those representing it in parliaments in donor countries are subject to a daily barrage of news about abysmal failures, natural disasters, egregious corruption, increasing threats from nuclear, biological and chemical weapons, and the cascading of internecine conflicts and coups throughout the developing world. That does not create an environment broadly supportive of continued development assistance in the world community. Equally, in the public mind UN intervention is equated with ineffectual outcomes. There is a growing sense that perhaps government-to-government bilateral assistance, and intergovernmental assistance through multilateral channels (especially through DFPs other than UNICEF), are inferior and less effective channels for resource flows and knowledge transfers than are private channels, whether commercial or voluntary.

Against this disheartening background of development failures overwhelming the very few visible development successes, the UK’s recent ODA budget increases are a hopeful sign. So are those of smaller, but nonetheless committed donors such as Ireland. Whether they presage a thaw towards more ODA on the part of all major governments remains to be seen, but the signs are not particularly encouraging. For UNICEF’s resource mobilisation strategy to be accommodated by donor governments without trade-offs that damage other UNDFPs - in particular, UNDP and UNFPA - three things need to happen. First, declining ODA trends need to be decisively reversed. Second, the “multi-bi” distribution of ODA in major donor countries needs to shift in favour of multilateral allocations. Third, allocations within multilateral ODA budgets need to shift away from the MDFs more in favour of DFPs. Absent those three prerequisites, it is difficult to see how UNICEF can garner more resources from donors without a concomitant negative impact on UNDP and UNFPA. For that reason, UNICEF’s arguments need to be considered more pragmatically in a real-world context taking these trade-offs into account.

Clearly, the declining proportion of government funding of UNICEF’s regular core resources cannot be ignored complacently by UNICEF’s management. It would be seen as a dereliction to pursue a strategy other than the one enunciated. But its arguments need to be subjected to further scrutiny.

*First*, is it correct to assert that core funding by governments is crucial in order to retain UNICEF’s intergovernmental character? In absolute terms, of course it is. But the real question is: *At what point in the changing ratio between government and private funding is UNICEF’s intergovernmental character likely to be compromised?* The proportion of core resources coming from governments has declined from 73% in 1990 to 64% in 1996 and further to around 60% in 1998-1999. Has that shift changed UNICEF’s character? Have there been calls from non-governmental sources for a seat on UNICEF’s Board or for a say in policy-making? Not yet. When might that happen? That is impossible to say definitively one way or another.

The informed judgement of this Study (based on other examples that UNICEF does not accept since they are unique) is that there may well be some headroom for a further downward shift in the government-to-private funding ratio before the character of UNICEF as an inter-governmental institution is called into question.[4] An educated guess would be that the government funding ratio for core resources might drop to somewhere around 40% before UNICEF’s intergovernmental nature becomes an issue or its identity is threatened.

Most large private contributors to UNICEF’s resources would see no value in diminishing UNICEF’s intergovernmental character. In fact, quite the contrary. The value of their association with UNICEF and the success of their “piggy-backing” on its “brand-equity” (which is what attracts them to UNICEF in the first place) depend very much on UNICEF *retaining* its intergovernmental char-

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[4] As an extreme and perhaps somewhat different example, the hard windows of the MDBs – which are admittedly different lending institutions – now raise and lend between 20-35 dollars from private markets for every dollar that they lend from their own government provided resources. Clearly they have the backing of government callable capital to limit public:private exposure on a 1:1 basis. Callable capital has become a fictitious element of comfort although again it is impossible to say to what extent that perception is shared in private markets. Has the 1:30 public:private cash ratio made them any less intergovernmental? Have securities firms raising resources for MDBs in private markets demanded seats on their Boards? Clearly in the case of their soft funds, the MDFs rely almost entirely on public concessional funding and that may be a more pertinent example.

acter. However, that is an informed judgement that can never be quantitatively validated counterfactually. There is a risk that, at some point, if government core funding drops below a critical minimum, UNICEF might become no different from Save the Children or any other large NGO (rather than IGO) that is partly financed from public resources. That risk must clearly be avoided. But the categorical argument by UNICEF's management, implying that a point has already been reached where any further reduction in the proportion of government-to-private funding would call UNICEF's character into question, does not appear to have the force of conviction behind it.

Indeed, UNICEF itself is continuing, quite properly, with plans for increasing the level of resources mobilised from non-governmental sources independently of whether matching government funding is forthcoming or not. If matching government funding is not available, will UNICEF cease raising further private funding that might be available; whether in large amounts from corporates or the much smaller amounts that might be mobilised from very large numbers of people (given the power of the internet these days)? Neither of these groups would have any interest in changing UNICEF's character. Would UNICEF, in those circumstances be prepared to forego such private funding and compromise the possibility of doing much more for children around the world in order to maintain some untested illusory balance between government and private funding? These questions are not rhetorical nor trivial. They go to the core of some issues that UNICEF and its member governments need to explore further, and consider very carefully in a rational, thoughtful manner without resorting to categorical *ex cathedra* assertions about a government-private funding balance that may not hold much intellectual water. In fact, the nature of UNICEF as an intergovernmental organisation, given its enormous potential for mobilising resources from non-governmental channels, begs an urgent strategic review of its future corporate and governance structure if that potential is to be realised.

*Second*, the increases that UNICEF aims at in its funding strategy with a target of US$1.5 billion in total income by 2005 implying (in UNICEF's estimation) a growth rate of 7% annually from an estimated base of about US$1 billion in 2000. Taking that base into account the growth rate is actually 10% in nominal terms and probably 7% in real terms. But the annual target itself is not based on a build up of serious country-by-country programming requirements as much as on a contrived derivative based on questionable reasoning. In that sense, the case made by UNICEF for the US$1.5 billion annual income target in 2005 is not a convincing one. It is as weak as UNDP's case for US$1.1 billion in core funding requirements based on a false peak reached in 1992. UNFPA's case for its funding scenarios is much stronger; and indeed perhaps even too conservative, coloured by pessimism about political support for its activities.

The point being made here is not that the US$1.5 billion annual UNICEF target is too ambitious. Given the resources raised in 2000 (more on this later), it seems eminently attainable. Indeed a country-by-country assessment of needs for spending on children may well result in a much higher figure of around US$2-3 billion by 2005 although that target would strike most member governments of UNICEF as excessively ambitious and over-reaching. The point being made instead is that if institutions are to make a case for a funding target it must be based on credible premises and not on numbers justified by questionable intellectual rationale. This issue is taken up later.

*Third,* it is difficult to reconcile UNICEF's desire to maintain the *voluntary* nature that characterises funding of the DFPs with its strident desire to achieve better *burden-sharing* among donor governments. Discussions with most of the larger donor countries (other than Nordic governments and like-minded countries such as Canada and Ireland) suggest that it is a contradiction to stipulate that *voluntary contributions* should be based on strict or even partial *burden-sharing*. They believe that the concept of burden-sharing applies more to *assessed* rather than to voluntary contributions. Under a voluntary system, these donors believe it is up to them to decide what to contribute to any particular DFP or, for that matter, to the UN development system as a whole. They feel it is appropriate to base their voluntary contributions on their respective budget capacities. They prefer not to have their contributions being driven by more generous (in relative rather than absolute terms) donors who find it easier politically to meet the 0.7% ODA/GNP target than they do. They are distinctly disinclined to respond to the pretext of burden-sharing or even to accept the view that it is a valid concept to apply in practice in the DFPs.

To an extent, the argument of such donors may have some validity in theory but they merit further scrutiny. In the MDFs, for instance, donor contributions are also, in the strictest sense, voluntary. They are not legally or charter-bound to contribute amounts relative to their shareholding in the MDBs or their weight in the world economy. In the replenishments of these multilateral funds, the practice of burden-sharing has become time-honoured by tradition rather than by legal requirement. Of course, once their respective contributions to a replenishment have been negotiated, they do become legally binding but not before. If such a tradition can be established in the MDFs, why can this not be done in the case of the UNDFPs as well? That is a question that donors need to be asked again, although some of the likely answers are probably as obvious as they are disingenuous and unconvincing.

To some extent, the UNDFPs have become hostage to a contra-precedent with MDFs that limits the capacity of donors to exercise as much discretion over their annual multilateral aid budgets as they would like because of the MDF (and in the case of European donors the EDF as well) "lock-ins". Large donors are in no mood to tie themselves down in similar fashion to binding commitments and burden-sharing principles for the only remaining line-item in their budgets (i.e. contributions to DFPs) on which they have any flexibility.

*Fourth*, large donor countries genuinely believe that replenishments based on burden-sharing in the DFPs that result in them having to make binding commitments would, even if they were possible, lead to waste and resource diversion. This is because they still believe the DFPs are less efficient and effective than the MDBs - a questionable and regrettable belief that has the force of religious conviction. They also believe that the agenda of DFPs is controlled by programme countries whose majority vote does not give the donors the same control over DFPs as they have over the MDFs.

# 3 Past and Future Funding of the UN Development Funds and Programmes

This chapter reviews the trends and issues that have affected the funding of UNDP, UNFPA and UNICEF since the last Nordic-UN Project was undertaken in 1996. It examines the efforts being made by these agencies and their Executive Boards to: adopt a multiyear funding framework (MYFF), and the outcome of this process in achieving consensus about the focus of their programmes and to secure firm commitments for medium-term funding.

It goes on to examine the response of donors by way of multiyear pledges for 2000-2003 and evaluates whether the shift to MYFF is yielding the expected results. Specifically is MYFF resulting in both: (a) increasing the volume of funding? and (b) making it more predictable and assured? As in the previous chapter, the analysis is undertaken on an agency-by-agency basis to provide depth and focus.

## 3.1 UNDP: Decrease in Core Funding but the MYFF May Result in More Funding through Focus on Results

### 3.1.1 UNDP Funding for 1996-1999

The resource and expenditure pattern for UNDP between 1996-1999 is shown in the table below.

*Table 3:1 UNDP Income and Expenditures for 1996-1999 (millions of US$)*

| | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|
| *Income* | | | | |
| Regular Resources | 848 | 760 | 746 | 681 |
| Cost sharing | 801 | 941 | 1,275 | 1,177 |
| Other Contribution | 10 | 11 | 8 | 9 |
| Misc. | 100 | 74 | 107 | 109 |
| **Total Income** | **1,759** | **1,786** | **2,137** | **1,977** |
| *Expenditures* | | | | |
| Programme | 1,231 | 1,529 | 1,764 | 1,632 |
| Programme and Agency Support Costs | 53 | 53 | 49 | 50 |
| Programme Support and Development Activities | 43 | - | - | - |
| Support to the UN Operational Activities | 45 | - | - | - |
| Biennial budget | 215 | - | - | - |
| Biennial Support Budget | - | 302 | 299 | 333 |
| Misc. expenditure | - | - | 8 | 2 |
| **Total Expenditures** | **1,587** | **1,884** | **2,120** | **2,017** |

Source: UNDP, DP/2000/23

Table 3.1 illustrates the funding pattern that has prevailed in UNDP during the 1990s. *Regular resources* hit twin peaks of US$1,102 million in 1990 and US$1,178 million in 1992, but then declined precipitously in 1993 to US$891 million. They have kept declining annually since right up to 1999 when regular resources amounted to only US$681 million. Paradoxically, while regular resources have declined the total amount of resources available have increased right through the 1990s. The switch from core to non-core resources has been dramatic. In 1995, regular resources in UNDP accounted for US$900 million equivalent or 46% of total contributions. This proportion fell by 8% in 1996 when regular resources accounted for only for 38% of total contributions. Between 1997-1999 that low share has declined even further from 35% to 28%. Regular resources are now becoming virtually marginal in UNDP. At the same time, the upsurge in supplementary funding which UNDP has experienced during the 1990s is beginning to dominate the nature of the institution. In 1992, supplementary funding accounted for some 35% of the total amount of contributions compared to today where it accounts for 72%.

The fall in regular resources accompanied by an increase in supplementary resources is resulting in UNDP’s core programme becoming de-linked from regular resources. On the face of it, one conclusion that might be reached is that donors prefer to exercise an indirect form of conditionality. By reducing regular funding, while increasing supplementary (tied) funding, donors may indirectly be introducing their own sense of direction in UNDP’s programmes and focus, rather than leaving them to be determined by management or the Executive Board.

Both programme and donor countries appear to be aware of what is happening. A key Board document recently observed: “The funding received through cost-sharing and trust funds arrangements, however significant, cannot replace vital regular resources, which are the bedrock of UNDP and essential to maintaining the multilateral nature of its work".[5] This line of reasoning seems to be supported by continued dissension over the breadth and diffuse content of UNDP's amorphous mandate. It is so general and unfocused that what UNDP actually does and achieves in the developing world remains very difficult to communicate to the public concisely and succinctly (as for instance in UNICEF's case where no such difficulty exists). For that reason it is also very difficult for UNDP to attract funding from private sources (i.e. the public at large, corporates, and philanthropic foundations of the Turner and Gates variety) in the way UNICEF (and more recently UNFPA) have been able to. Oddly enough the World Bank has as broad and diffuse a mandate as UNDP. What that institution actually achieves in the developing world is equally open to question. But those issues do not seem to influence the World Bank in as negative a fashion, or call into question its raison d'être, while the same issues are effectively crippling UNDP. That anomaly bears further understanding.

If donors are putting UNDP on a short leash, has the decline in regular resources from OECD-DAC donors been offset by an increase in supplementary funding from them? As indicated in the previous chapter, a large part of the increase in supplementary funding is attributable to large amounts of government cost sharing being channelled through UNDP in five Latin American countries. Third party cost sharing from traditional OECD-DAC donors has increased, but not by so much as to offset the decrease in regular resources. If donors are trying to indirectly exercise greater implicit control over UNDP's activities by switching from regular to non-core resources they are not doing so to the degree that a quick glance at the numbers might suggest.

To what extent are regular resources needed for UNDP to have sufficient core capacity (at HQ and in the field) for mobilising supplementary resources effectively for its core programme? In the current situation, with regular resources being so scarce, a disproportionate share of core funds are now being expended for mobilising supplementary funding. Obviously, that diverts time and effort from core (demand-driven) country programmes. Supplementary resources are primarily mobilised in the field. UNDP's country offices therefore end up spending time tracking the preferences of particular donors and trying to support activities in areas that are in fashion and for which funding from bilateral ODA budgets can be mobilised. It is difficult to believe that such an outcome (in diverting UNDP staff time and effort from programme management to ambulance chasing) would actually be intended by any donor. Yet there can be no escaping the fact that attention is being diverted from implementing approved country programmes because regular resources are not available to carry them through. To justify UNDP's presence in a programme country, it is only natural that its representatives would shift their efforts to raising enough resources to make UNDP's volume of activity in a country meaningful and worthwhile.

But things are more complicated than that. Country offices do not decide to undertake field-level resource mobilisation or fund raising efforts simply by themselves as a knee-jerk response to a shortfall in core resources. Their motive does not lie simply in self-aggrandising efforts to maximise the size of their individual

[5] UNDP, DP/2000/CRP.6

programmes. Country representatives are urged and encouraged to mobilise supplementary funding because doing so has become an urgent institutional priority at HQ. The performance of many representatives is judged on their ability to raise resources locally from the embassies of donor countries. The clear signal being sent out by UNDP's top management is that supplementary resource mobilisation is an important activity that all country offices should devote time and energy to in order to avoid compromising UNDP's "reach" and reducing its overall "output". Thus, the obsession with supplementary funding that now permeates the organisation is a coping strategy resulting from too few regular resources being available to implement an agenda at the country level that may perhaps be too wide, diffuse and ambitious.

The adverse consequences of the sustained shortfall of regular resources have not yet been quantified by UNDP in a way that can be easily understood by donors or by the public. UNDP has not been able to develop a global picture of the consequences (in terms of compromised or unachieved results and outcomes) of "what did not happen" because the needed resources were not available. As shown below, such a "consequences exercise" has been conducted by UNFPA based on its very focused mandate.

A preliminary and limited attempt to do that in a representative sample of countries was undertaken during the work of the Ad-Hoc Open-Ended Working Group on Funding Strategy. That Group tried to assess the consequences at the country level of a shortfall in resources that led management to extend the 1997-1999 programme cycle by one additional year without any additional funding because the anticipated inflow of regular resources for the 3-year programme period did not materialise. Resources originally meant for a three-year period were stretched to cover four years, resulting in an estimated 32% reduction against the planning figure. This exercise also included an attempt to assess what might have been achieved with a 45% higher level of resources. That "notional increment" in 1998 was the equivalent to the level of resources that would have been available had UNDP obtained its peak level of funding of US$1.1 billion. During the work of the Ad-Hoc Open-Ended Working Group, the consequences of stretching out 3-year funding over 4 years was described for Haiti, as shown in the box below.

*Box 3.1 UNDP: Consequences of the Shortfall of Resources in Haiti*

More than three years after the international intervention in Haiti, social instability and the extreme poverty of most of the population continue to threaten democratic rule and to undermine efforts to build national consensus.

UNDP is responding to this situation through support to national programmes aimed at remedying the absence of basic services and of income-generating opportunities affecting the most vulnerable groups of the population. For example, the UNDP-supported Emergency Drinking Water Programme aims to improve access to safe drinking water through rehabilitation and extension of existing infrastructure worn out by years of neglect, and by reactivating and strengthening community maintenance systems.

Funding reductions forced cancellation of plans to extend the programme to provide safe drinking water to 38,000 people in rural areas and 170,000 in urban areas. With respect to income generation, funding reductions forced the cancellation of a new microcredit programme in Haiti, thus eliminating the opportunity to create the 8,000 jobs that were expected to result from the programme (2,000 directly and 6,000 indirectly). In addition, training in community formulation of development projects had to be eliminated for 1,200 people, and 2,400 more had their training discontinued in mid-course. By denying opportunities to the most disadvantaged parts of the Haitian population, such cutbacks weaken attempts to advance social stability and democratization.

Source: Input for the Ad-Hoc Open-Ended Working Group on a UNDP Funding Strategy (1998)

Given the absence of a narrow focus (as is the case with UNICEF and UNFPA), it is more difficult for UNDP to quantify what would not be achieved because of a shortfall in resources. Nonetheless, it should be possible to use the SRF as a basis for analysing what might not happen in each of the five programmatic areas if the funding target of US$1.1 billion is not reached by 2003. This would demonstrate in a very tangible and clear way what the consequences are of the serious decline in regular resources.

### 3.1.2 UNDP's Multiyear Funding Framework (MYFF)

The move towards results-based management in UNDP began with the Change Management Process initiated in 1997. That emphasised the need for UNDP to shift from an *entitlement-based* to a *results-based* culture for resource allocation; and hence to results-based management of its country programmes.

The Executive Board's decision 98/23 on a UNDP funding strategy specifies explicitly the need to develop a multiyear funding framework (MYFF) as an integrated part of an overall operating-cum-financial strategy aimed at increasing the inflow of core resources on a predictable, assured basis. The Board was concerned that, without measurable results that could be communicated clearly to the public and donor governments, it was unlikely that UNDP would get more regular resources. The Board's decision 98/23 emerged as an outcome of discussions that took place in the Ad-Hoc Open-Ended Working Group on a UNDP Funding Strategy. That Group considered, and discussed intensively, the many aspects of what constitutes a funding strategy, including, *inter alia*, how to measure what UNDP's fair share of ODA budgets should be, how to establish funding targets, how to deal with burden-sharing etc.

As a part of the consensus among programme and donor countries leading towards the adoption of decision 98/23, it was agreed that the MYFF should not change UNDP's priorities, nor introduce conditionality, nor change the current basis for resource allocation. The additional resources mobilised through the introduction of the MYFF should be reserved for programming purposes only: i.e. not for administration. Furthermore, the decision stressed the following generally accepted features concerning a UNDP funding strategy:

- Affirms that core resources are the bedrock of UNDP and are essential to maintaining the multilateral nature of its work
- Reaffirms the need to reverse the downward trend in regular resources and to establish a mechanism to place UNDP regular funding on a predictable basis
- Recognises the importance of non-core resources, including cost-sharing, trust funds and non-traditional sources of funding, as a mechanism to enhance the capacity and to supplement the means of UNDP
- Recognises that over-dependence on a limited number of donors carries risks for the long-term financial sustainability of UNDP
- Emphasises the link between an increase in regular resources and an effective information and communications strategy
- Adopts an annual funding target of US$1.1 billion

Under the MYFF, and contrary to previous practice, this new process requires donors to announce their voluntary contribution to UNDP regular resources in April each year as a firm pledge for the current year. That is to be accompanied by a firm or indicative pledge for the following year and an indicative pledge for the third year. These pledges are all compiled in a payment schedule which is made public to provide transparency and assert peer group pressure on donors that are unwilling to enter into binding long-term funding commitments.

In order to minimise the impact of exchange rate fluctuations on contributions made in donors' local currencies, the MYFF requires firm payment schedules to be agreed between UNDP and each donor so that the organisation knows when individual contributions are likely to arrive. This enables the organisation to protect itself against unforeseen exchange rate fluctuations through appropriate hedging instruments.

**How does the MYFF work?**
The MYFF basically consists of: a *strategic results framework* and an *integrated resources framework*. The SRF operates at: (i) the corporate level in specifying goals and areas of support; and (ii) the operational level in terms of defining results and outcomes. Iterative adjustments between these two levels are supposed to occur continuously.

Seven major *core business areas* have been identified at the corporate level for UNDP. Goals to be achieved in each of these areas are derived primarily from the goals universally agreed and endorsed at the various major UN global conferences. Specific sub-goals are outlined to enunciate and emphasise UNDP's particular contribution within each area. For each sub-goal, several strategic areas have been identified as offering potential for UNDP involvement, building on its comparative advantages and focus. Working from the bottom-up, country offices then: identify the specific outcomes and results that they expect to achieve to meet these overall corporate goals; establish targets for each; and report on actual accomplishments (outcomes) compared to originally intended results. Box 3:2 below serves to illustrate UNDP's established goals and sub-goals. Goals 1-5 relate to programme activities while Goals 6 and 7 are non-programme related. Achievements within each sub-goal are supposed to be related to results and outcomes have to be measured by accompanying indicators.

*Box 3:2 Goals for the UNDP Strategic Resource Framework*

1. ***To create an enabling environment for sustainable human development***
   - Promote national, regional and global dialogue and co-operation to widen development choices for sustainable and equitable growth
   - Strengthen capacity of key governance institutions for people-centered development and foster social cohesion
   - Promote decentralisation that supports participatory local governance, strengthens local organisations and empowers communities
2. ***To eliminate extreme poverty and reduce substantially overall poverty***
   - Promote poverty-focused development and reduce vulnerability
   - Promote the livelihoods of the poor, particularly poor women, through access to assets and resources
3. ***To protect and regenerate the global environment and natural resources asset base for sustainable human development***
   - Promote the integration of sound environmental management in the national development policies and programmes
   - Contribute to the protection and regeneration of the environment and promote access to natural resource assets on which poor people depend
4. ***To achieve gender equality and advance the status of women, especially through their own empowerment***
   - Ensure gender equality in the decision-making process at all levels
   - Ensure full enjoyment and exercise of human rights, including security and freedom from violence
5. ***To prevent or reduce the incidence of complex emergencies and natural, environmental, technological and other human-induced disasters, and to accelerate the process of sustainable recovery***
   - Mainstream disaster reduction (including technological disasters) into national capacity-building, including policy-making, planning and investment; and restore the capacity of national institutions and civil-society organisations to advance human security
   - Assure an effective link between relief and development that promotes the sustainable recovery and rehabilitation of affected populations and enhances their own coping mechanisms, particularly with regard to the displaced and refugees

6 ***To provide effective UNDP support to the United Nations Agenda for Development***
   - Provide effective and integrated follow-up to United Nations global conferences within the context of sustainable human development
   - Enhance coherent United Nations operational activities for development

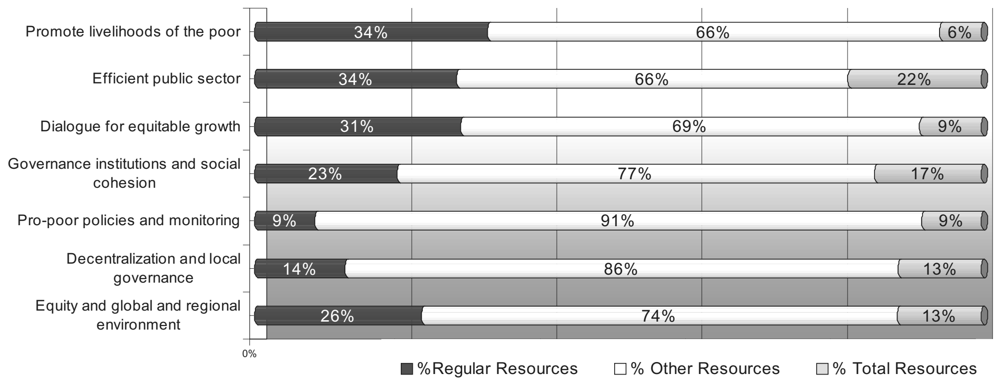
7 ***To achieve excellence in the management of UNDP operations***
   - Manage a results- and resource based organisational strategy
   - Ensure effective human resource management
   - Ensure cost-effective management of financial resources
   - Strengthen learning and accountability
   - Become a client-oriented organisation

The indirect linkage between corporate HQ and the operational (country) units is intentional given the vast variety of country projects and programmes. Introducing the same seven goals in all country programmes would result in putting each country into a "one-size-fits-all" straight-jacket. Such an approach would not be able to accommodate the specific focus of each country programme nor the unique blend of activities required in each individual country case. Different country programmes thus emphasise certain goals more strongly than others.

The *integrated resources framework* unifies the SRF with programme funding, programme support, management and administrative costs, and support to the United Nations. In the MYFF resources are not shown as being allocated on a thematic basis. But the results-oriented annual report (ROAR) presents the corporate outputs and outcomes, based on inputs from operational units, on precisely such a basis.

The substantive range of the goals enunciated by the MYFF is wide and diverse. To many donors they only serve to confirm the impression that UNDP still has perhaps an unmanageably wide and unfocused mandate. But it turns out that in 1999 the majority (52%) of resources were expended for the first goal "Creating an enabling environment for SHD", i.e. focused on governance-related activities. Based on information from the first ROAR, the following seven areas account for expenditures of US$1,681 million representing 89.7% of total UNDP estimated expenditures for 1999.

*Figure 3:1 Goals and sub-goals which account for the majority of UNDP expenditures in 1999*




Source: UNDP, DP/2000/23/Add.1

### 3.1.3 Experience with the MYFF in connection with Resource Mobilisation for 2000-2003

Given the major investment that has been made in the MYFF process - in the belief that it was essential to do so to generate the necessary regular resources to fund its programme - the question remains whether the MYFF will actually deliver what was intended, by way of more predictable and assured inflows of a larger volume of regular resources.

As an integral part of the MYFF, the annual funding session of the Executive Board was held for the first time in April 1999 and again in April 2000. In 1999, twenty-seven countries increased their contribution to regular resources. Of these

11 were OECD-DAC donors (i.e. half the DAC group) and 16 were programme countries. In April 2000, 9 OECD-DAC donors pledged increased contributions as did 10 programme countries. Twelve countries increased their contribution by 20% or more in local currency. Eight used the funding session to make a pledge for 2001 at the same level of their 2000 pledge. Of these, four countries also made a pledge for 2002. Hence, notwithstanding the fundamental idea behind the MYFF - to encourage firm multiyear pledging - only 38% of the OECD-DAC group actually made such a pledge for 2001, totalling US$252 million only.

*Table 3:2 UNDP Multiyear Resource Requirement (millions of US$)*

| | **2000** | **2001** | **2002** | **2003** |
|---|---|---|---|---|
| Regular resource target | 800 | 900 | 1,000 | 1,100 |
| Multiyear Pledges | 682* | 252*** | 50*** | - |
| Shortfall | 118 (14.75%) | 648 | 950 | 1,100 |
| **Shortfall as % of target**** | **15%** | **72%** | **95%** | **100%** |

* Estimate. May change due to exchange rate fluctuations; ** Necessary increase from a starting point of US$670 million; *** Preliminary estimate according to the pledges made at the funding session of April 2000

Source: UNDP

As noted in the previous chapter, exchange rate fluctuations have a significant impact on the value of contributions in US dollars. The decline in the value of the Euro against the US dollar has been sufficiently large to reduce the level of regular resources in 2000 by 6%, if the official UN exchange rates as of 1 March 1998 were applied, and 7% if 1 March 1999 rates were to be applied. As indicated elsewhere in the Study the impact of such variations could be dampened by switching to using the SDR as a basis for programme management.

As indicated in Table 3.2 above, the trend in regular resources does not seem to suggest that the intent of the MYFF is being realised. The proposed funding target of US$1.1 billion is highly unlikely to be achieved by 2003 with the collapse in the inflow of regular resources in 2000 (hitting a nadir of US$682 million according to UNDP’s management). As indicated in the Table above, achieving a US$1.1 billion target by 2003 would require donors to increase their contribution by an average of 24% annually from 2001 to 2003. This is clearly not realistic. Although it is a positive sign that several donors have increased their contributions in 2000 in local currencies, their efforts are being partly vitiated by exchange rate fluctuations. Even if the Euro strengthens against the US$ before the funding session in April 2001, the gains will in the very best case constitute some 10-15%, which still leaves the European donors with the burden of increasing contributions by at least 10% in local currency. Prospects for sustaining that level of increase in 2002 and 2003 seem equally difficult. Yet, an increase of around 10-12% per annum might be justified, if successive ROARs show that results-based management in UNDP is delivering the goods, and is making a visible, positive difference in programme countries that can attract wider popular support.

It is to be hoped, as more experience is gained with MYFF and ROAR, that the evidence of tangible, quantifiable results will make a sufficiently convincing case for donors, as well as programme countries, to increase contributions to UNDP’s regular resources significantly. So far, however, the signs are not encouraging in suggesting that the MYFF will yield the amount of regular funding needed.

UNDP, however, strikes a note of perhaps misplaced optimism (DP/2000/CRP.6) by noting that:

"….the tendency for countries that made multiyear pledges in 1999 to use this as a minimal base for a further increase in 2000 is a positive trend and manifestation of commitment to rebuilding the regular resource base. It is important that in 2001 an even greater number of countries commit to multiyear pledges of this nature…." .

On the basis of conversations with donors, very few seem to be in a position to deliver any more than what they have already committed themselves to. As major contributors, the Nordic countries seem to be uncomfortable with the lack of proper burden-sharing in UNDP at the moment and, therefore, are not likely to provide the proposed increase, if other larger countries do not follow suit. A "funding crunch" seems, therefore, to be the best characterisation of what UNDP presently confronts.

## 3.2 UNFPA: Loss of Impact Due to Continued Decrease of Funding

### 3.2.1 Funding for 1996-1999

The funding and expenditure pattern that has materialised for UNFPA between 1996-1999 is shown in the table below.

*Table 3:3 The Resource and Expenditure Picture for UNFPA, 1996-1999 (millions of US$)*

| | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|
| Pledges for regular resources | 302.5 | 287.2 | 269.2 | 250.0p |
| **Regular Resources Received** | **308.8** | **292.5** | **277.0** | **250.0p** |
| Supplementary Financing | 19.1 | 30.3 | 32.3 | 34.0p |
| **Total Resources Available** | **327.9** | **322.7** | **309.3** | **284.0p** |
| Total Expenditures | 300.3 | 303.6 | 304.1 | 310.0e |
| o/w M&A + Programme Support | (58.1) | (63.8) | (71.3) | (74)e |
| o/w Field Office Costs | (27.6) | (29.7) | (31.2) | (35.0)e |
| Memo: Exchange Gains/Losses | n.a. | (13.0) | (15.0) | (12.0) |
| Surplus (deficit) Carried Over | n.a. | 19.1 | 5.2 | (26.0)e |

Source: UNFPA

As indicated in Chapter 2, from a period of growing annual resource inflows between 1984-1995, UNFPA was affected by serious reversals when regular resources began declining from a peak of US$328 million in 1995 to a nadir of US$250 million in 1999. Although the inflow of supplementary resources compensated to a small degree for the shortfall up to 1997, non-core funding was unable to offset fully the declines in regular funding that occurred in 1998 and 1999. These reductions are dramatic for what is still a relatively small programme when compared to the size of the challenge that the world community confronts in reducing fertility rates and population growth, especially in the poorest regions of the world, i.e. Africa and South Asia.

The concerns of the Executive Director of UNFPA and the management team about this situation have already been alluded to earlier. A partial correction appears to be occurring in 2000 when UNFPA hopes to receive the full amount of pledges totalling US$275 million thus reversing the declines in regular core funding over the previous four years. But that amount is still 10% below the average annual amount of US$305 million in core funding that UNFPA had available between 1994-1996 and well below the US$340-350 million that it has projected in its medium-term plan and its multiyear funding framework (MYFF).

The evidence available suggests that the declines in UNFPA's programmes may be a proportionate reflection of reductions in overall resources allocated to population activities (bilateral aid from donors as well as local government spending in programme countries) on the specific priorities highlighted in the Cairo ICPD. The consequences of such reductions have been illustrated by UNFPA (in *Meeting the Goals of the ICPD: Consequences of Resource Shortfalls up to the Year 2000*; DP/FPA/1997/2 dated 10th July 1997). Of the three scenarios considered, the resource shortfalls in UNFPA between 1996-1999, seem to suggest that a scenario even worse than the "worst-case" assumed by UNFPA has actually materialised between 1995-2000. Its consequences are perhaps best judged by illustrations of the worst case, which suggested the following outcomes:

*Box 3:3* *Consequences of Resource Shortfalls for Meeting ICPD Priorities (amounts in millions)*

| **Outcomes in Developing Countries** | **Impact in 2000** | **Cumulative Impact 1995-2000** |
|---|---|---|
| Increases in unintended pregnancies | 76 | 230 |
| Increases in induced abortions of UIPs | 31 | 92 |
| Increases in unintended births | 36 | 110 |
| Increased Maternal Mortality | 0.18 | 0.54 |
| Increased Maternal Morbidity | 2.3 | 7.0 |
| Increased Infant Mortality | 2.2 | 6.5 |
| Increased Child Mortality | 0.80 | 2.4 |

Source: UNFPA

### 3.2.2 UNFPA's Multiyear Funding Framework for 2000-2003

The first MYFF, presented to UNFPA's Executive Board at its second regular session in April 2000 (DP/FPA/2000/6 dated 6th March 2000), was developed in close consultation with Board members including, in particular, the donor countries. It builds on institutional reforms that have been implemented (see Box 2:3), programme activities and priorities that have been agreed, and an approach to results-based reporting that is in train. The main purpose of the MYFF, as its name suggests, is to make a case for UNFPA's resource requirements for the next two biennia that the Board accepts and that all members implicitly agree to play their respective parts in delivering. The MYFF has been undertaken at the urging of UNFPA's membership to provide a platform for more predictable and secure funding of its programmes and budget over the four-year period.

The programming content and build-up of resource requirements in the MYFF are based on a review of existing country programme log-frames as well as the inter-country programme for 2000-2003. It comprises a programme-results component and an accompanying resource-requirement component. These components are abbreviated and highlighted in the boxes and tables shown below.

*Box 3:4 UNFPA: The Programme-Results Component of the MYFF for 2000-2003*

| Programme Areas & Activities | Progress Indicators | Goals/Results |
|---|---|---|
| **Reproductive Health** | Unmet Family Planning needs | Decreasing Trend |
| - training service provider | Maternal Mortality Rates | Decreasing Trend |
| - improving care infrastructure | Proportion of Assisted Births | Increasing Trend |
| - policy support for sector reform | Adolescents giving birth | Decreasing Trend |
| - provision of contraceptives | HIV incidence among 15-24s | Decreasing Trend |
| - country studies | Infant Mortality Rates | Decreasing Trend |
| - safe motherhood programmes | Incidence of Sexual Violence | Decreasing Trend |
| - programmes for adolescent-females | Genital Mutilation | Rapid Decrease |
| - RH in emergency/refugee situations | | |
| - Prevent HIV/Aids transmission in births | | |
| - RH effects of FGM | | |
| **Population & Development** | Male/female Life Expectancy | Increasing Trend |
| - studies on ageing | Annual Population Growth | Decreasing Trend |
| - migration issues | Fertility Rates | Decreasing Trend |
| - capacity-building | | |
| - global, regional, local conferences | | |
| **Advocacy & Empowerment** | Fem. education enrolment | Increasing Trend |
| - issue-based studies | Gender Gap in enrolment | Decreasing Trend |
| - information dissemination | Adult Literacy | Increasing Trend |
| - goodwill ambassadors | Female Adult Literacy | Rapid Increase |
| - gender equality awareness | Female Participation in society | Increasing Trend |

In the priority areas, UNFPA has launched an intensive effort to measure both the outputs and results of its actions and programmes through an exhaustive set of appropriately constructed indicators that are measurable. Together with WHO and other partners inside the UN system, UNFPA is working towards achieving consensus on a core set of normative universal standards for user-friendly reproductive health care services and indicators to monitor compliance and performance at the policy-making, sector management, and community levels. For its first MYFF cycle, UNFPA intends to rely on four-linked strategies: advocacy; national capacity-building; knowledge-networking; and partnership-strengthening. These strategies are, of course, the rage in all development institutions and reflect the new language of development that is emerging. Whether it implies anything new that has not happened before, under different and perhaps less evocative labels, remains to be seen.

The programme-results component of the MYFF sets the stage for the accompanying resource-requirement part that is again abbreviated and shown in simplified form below. Based on its past experience, UNFPA has calculated resource requirements between 2000-2003 under two scenarios. The first represents a 15% increase in resources between the 1996-1999 period and 2000-2003 while the second represents a 29% increase. The second scenario would permit full implementation of country programme needs while the first would permit only partial fulfilment. Neither of these scenarios seems excessively ambitious. In fact, given the global operations of UNFPA, annual allocations for country programmes rising from US$150-223 million between 2000 and 2003 under Scenario I, and from US$175-255 million under Scenario II, appear to be exceedingly modest. Spread across some 150 countries that yields an average of between US$1-1.5 million per country under the first scenario and between US$1.2-1.7 million under the second. Given the population challenges faced throughout the developing world, it is extraordinary that UNFPA is able to achieve so much with so little. But its resources operate in tandem with, and help to support and exert leverage over the resources of others; not least that of the programme countries themselves. Developing countries are now estimated to be putting in far more (over 73%) than the share that was agreed they would contribute (65%) for expenditure on population activities in their countries at the Cairo ICPD.

*Table 3:4 UNFPA: Resource Requirements for 2000-2003 (millions of US$)*

| **Scenario I: 15% Increase over 1996-1999 Resource Envelope** | | | | | |
|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **Total** |
| **Regular Resources** | | | | | |
| Country Programmes | 150 | 165 | 185 | 223 | 723 |
| Inter-Country Programmes | 30 | 33 | 38 | 41 | 142 |
| Technical Advisory Work | 20 | 22 | 27 | 26 | 95 |
| *Sub-Total:* | *200* | *220* | *250* | *290* | *960* |
| Net Support Budget | 60 | 64 | 67 | 71 | 262 |
| Miscellaneous | 15 | 17 | 19 | 21 | 72 |
| *Sub-Total:* | *75* | *81* | *86* | *92* | *334* |
| **Total Regular Resources** | **275** | **301** | **336** | **382** | **1,294** |
| *Supplementary Resources* | *30* | *33* | *37* | *40* | *140* |
| **Total Resources** | **305** | **334** | **373** | **422** | **1,434** |
| **Scenario II: 29% Increase over 1996-1999 Resource Envelope** | | | | | |
| | **2000** | **2001** | **2002** | **2003** | **Total** |
| **Regular Resources** | | | | | |
| Country Programmes | 175 | 200 | 225 | 255 | 855 |
| Inter-country Programmes | 30 | 33 | 38 | 41 | 142 |
| Technical Advisory Work | 20 | 22 | 27 | 26 | 95 |
| *Sub Total* | *225* | *255* | *290* | *322* | *1,092* |
| Net Support Budget | 61 | 66 | 70 | 75 | 272 |
| Miscellaneous | 20 | 23 | 25 | 28 | 96 |
| *Sub-Total* | *81* | *89* | *95* | *130* | *368* |
| **Total Regular Resources** | **306** | **344** | **385** | **425** | **1,460** |
| *Supplementary Resources* | *30* | *33* | *37* | *40* | *140* |
| **Total Resources** | **336** | **377** | **422** | **465** | **1,600** |

Source: UNFPA

In the above tables, the global figures for the four-year period shown in the MYFF have been annualised, using reasonable assumptions, by the authors of this Study. Under *Scenario I,* the overall UNFPA programme rises at a rate of between 10-12% annually in nominal terms (7-9% in real terms) from a consolidated base of US$275 million in 2000 to a level of US$382 million for regular resources contributed by member governments by 2003. That represents only a small increase over the peak of about US$305 million in regular resources achieved in 1995. Even so, the 15% growth in the 2000-2003 envelope over the actual amount of resources that materialised in the 1996-1999 double-biennium is likely to give donors pause. The reaction may be that most donors do not see their ODA or multilateral budgets rising at that rate. Nor are they likely to see their multilateral budgets – in which contributions to UNDFPs are presently derived as a residual – growing at near those rates.

Annual growth rates averaging 5-6% across all donors (allowing for lower growth rates in some and higher rates in others) are likely to be perceived by donor governments as more realistic to use for UNFPA's planning and programming purposes. Using such growth rates would result in the type of scenario shown below. Although it may appear more realistic from the viewpoint of donors under prevailing circumstances, such a scenario would result in a resource level in 2003 that is below - *in real terms* - the resource level that UNFPA had in 1995.

*Table 3:5 UNFPA: Most Likely Scenario for Resource Availability for 2000-2003 (millions of US$)*

| **Scenario Zero: 5% Nominal Increase over 1996-1999 Resource Envelope** | | | | | |
|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **Total** |
| **Regular Resources** | | | | | |
| Country Programmes | 150 | 158 | 171 | 186 | 665 |
| Inter-Country Programmes | 32 | 33 | 34 | 35 | 134 |
| Technical Advisory Work | 18 | 19 | 20 | 21 | 78 |
| *Sub-Total* | *200* | *212* | *225* | *240* | *877* |
| Net Support Budget | 53 | 58 | 63 | 68 | 242 |
| Miscellaneous | 15 | 16 | 17 | 18 | 66 |
| *Sub-Total* | *68* | *74* | *80* | *86* | *308* |
| **Total Regular Resources** | **275** | **289** | **303** | **318** | **1,185** |
| *Supplementary Resources* | *30* | *32* | *34* | *36* | *132* |
| **Total All Resources** | **305** | **321** | **337** | **354** | **1,317** |

Source: UNFPA

### Exchange Rates

One important factor that could change the picture significantly is *exchange rate movement*. If the Euro corrected its slide against the US dollar and climbed back to the levels that prevailed at the time it was launched, then UNFPA's resources in US dollar terms may well increase by a further 7-10% depending on the extent of the correction that takes place in the USD-Euro (US$:E) exchange rate. The Euro hit a low of US$0.88 in mid-May 2000 from a level of US$1.17 at its launch at the beginning of 1999. In mid-June, the Euro was retracing its losses and had reached a level of US$0.93. Most observers in foreign exchange markets attach a probability of 0.75 that it could climb back to the US$1.05 to US$1.10 trading range by mid-2001 when a long overdue correction in the overvaluation of the USD should be underway. That correction has already begun and, in the case of GBP (£ sterling) is accelerating. This factor is of crucial importance to the UNDFPs as about two-thirds of their resources are contributed by European donors with currencies linked to the Euro. To an extent, that currency's weakness in the late 1990s has adversely affected their income. A reversal in values should have the opposite effect.

However, it would be risky and unwise for any DFP to factor currency movements into its programming plans rather than tracking movements in order to take defensive hedge positions designed to minimise risk rather than attempt to capture speculative gains. In this connection, it is noteworthy that the UNDFPs have not considered switching to the SDR as their operating numeraire for financial management and programming purposes. Such a switch (which IDA made a long time ago along with some other regional MDFs) would have the effect of moderating the impact of currency swings since the SDR represents a mixed basket of the major currencies that fluctuate against one another.

When this point has been raised in discussions with the DFPs, donors and programme countries, the response has been that a switch to the SDR would be difficult for the DFPs to undertake until the UN had decided to make that move. To all those with whom this issue has been discussed, the prospect seemed to involve too much complexity. That is a fallacious argument to make. Regardless of the currency that the UN chooses to use for its own accounting purposes, it is entirely possible for the DFPs to utilise SDRs as a "guide currency" in their programming and financial decisions. That does not mean that they would need to account in SDR or make expenditures in SDRs or anything of the sort. It would simply mean that they would value their income in SDR for management purposes and would make their programming and budget decisions taking those values into account. Doing so would not be particularly complex and would help to reduce the risk of management decisions being subject to unnecessarily high volatility. It is a measure that should be carefully considered to avoid DFP annual operations being influenced by large currency swings.

### 3.2.3 Experience with the MYFF in connection with Resource Mobilisation for 2000-2003

This year (2000) has been the first in which the MYFF has been used as a platform by all three DFPs to secure resources on a more firm, secure medium-term (i.e. multiyear) basis. *What has the experience been*? In the case of UNFPA it appears to have been a rocky start given the resource shortfalls encountered in 1999. Prospects for 2000 appeared somewhat better in mid-year. A major donor has indicated it would return to the fold although that may only offset the significant reduction in contribution announced by another large donor.

In its *Report on Voluntary Contributions to UNFPA General Resources for 2000-2003* (DP/FPA/2000/CRP.4 dated 31st March 2000) UNFPA reported that it had, at the beginning of the year, sent out letters enclosing a multiyear funding commitment form to 187 Permanent Missions of the UN. It requested members to announce their firm pledges for 2000 and their indicative pledges for the years

2001-2003. In response, a number of countries had indicated that they were not as yet in a position to make pledges. UNFPA's funding target for core resources in 2000 is US$275 million. Present indications are that this target will be met. That is the figure used for establishing the regular resource baseline in 2000 as the starting point for the MYFF. UNFPA is also seeking non-core supplementary resources from members of around US$35 million in 2000 but estimates that it may receive up to US$40 million. The table below indicates the level of indicative multiyear pledges received compared to the resource levels programmed under various scenarios for forward years in the MYFF.

For the year 2000, about 45 countries have pledged support for funding UNFPA's core regular resources. Ten OECD/DAC donors and eight programme countries have indicated that they will increase their levels of core funding (in their local currencies). The US, as a returning donor, has already paid in full its contribution of US$21.5 million. Early payments to UNFPA have also been made by: New Zealand, Norway and Sweden.

*Table 3:6 UNFPA: Multiyear Pledges vs. Resource Requirements Projected in the MYFF (millions of US$)*

| | 2000 | 2001 | 2002 | 2003 | Total |
|---|---|---|---|---|---|
| **Scenario Zero: 5% Increase** | | | | | |
| Regular Resource Requirements: | 275 | 289 | 303 | 318 | 1,185 |
| Multiyear Pledges Received | 275 | 112 | 87 | 55 | 529 |
| *Shortfall* | *0* | *177* | *216* | *263* | *656* |
| As % of Resource Requirements | 0% | 61% | 71% | 83% | 55% |
| **Scenario One: 15% increase** | | | | | |
| Regular Resources Requirements: | 275 | 301 | 336 | 382 | 1,294 |
| Multiyear Pledges Received | 275 | 112 | 87 | 55 | 529 |
| *Shortfall* | *0* | *189* | *249* | *327* | *765* |
| As % of Resource Requirements | 0% | 63% | 74% | 86% | 59% |
| **Scenario Two: 29% Increase** | | | | | |
| Regular Resources Requirements: | 306 | 344 | 385 | 425 | 1,460 |
| Multiyear Pledges Received | 275 | 112 | 87 | 55 | 529 |
| *Shortfall* | *31* | *222* | *298* | *370* | *931* |
| As % of Resource Requirements | 10% | 65% | 77% | 87% | 64% |

Source: UNFPA

The above table shows very clearly that, in this early first round, the purpose of the MYFF - from the viewpoint of making resource planning for the DFPs easier and securing medium-term resources on a predictable, assured basis - is **not** being met. That conclusion is obvious from a cursory glance at the above table. In the current year, pledges bear a close relationship to resources requested (although in 2000 the amount of US$275 million is far below what is actually needed). But that relationship breaks down with each successive year. For the last year, the level of indicative pledges received are so far removed from resource projections under the MYFF that they are almost meaningless.

As the Table shows, the shortfall between indicative pledges and resources required for the coming years grows rapidly. Expressed in percentage terms, the shortfall grows from between 0-10% for the current year to between 61-65% for

2001; 71-77% for 2002; and 83-87% for 2003. Those shortfalls, between indications of likely future resource commitments and the resources required under the MYFF, make the utility of the MYFF as a multiyear resource mobilising device quite suspect. They also raise questions about whether the time, effort and resources that donors have required the DFPs to put into the MYFF, are worthwhile. Its only utility may prove to be in achieving changes that donors wish to see in the priorities and management of programmes. Hopefully further pledging rounds held over the rest of 2000 will yield more promising results in firming up multiyear funding. If they do not, the MYFF may prove to serve no useful purpose in securing from donor countries their end of the implicitly understood MYFF bargain – i.e. predictable and assured resources in future years, in amounts that approximate the resources that the MYFF indicates are needed.

UNFPA’s target for 2000 is to involve at least 100 countries in providing core funding. So far, 45 countries have indicated that they will provide UNFPA with core funding. This impressive number notwithstanding, the first MYFF exercise in resource mobilisation has not yet yielded results that suggest a wider sharing of the funding burden across a larger number of countries. In 1999, the top 14 donors provided 98% of UNFPA’s regular resources. Three donors (Denmark, Japan, and the Netherlands) accounted for over 50%. From UNFPA’s estimates for contributions to core funding in 2000, it appears that the same three large donors will again account for over 45% of core resources. The top 15 donors will provide over 97% of core funding. UNFPA intends to exert major management efforts during the year to mobilise higher levels of support from developing countries, from economies in transition, and from private foundations. It is having some success with the last. But, as yet, as far as government contributed core funding is concerned, the MYFF has had no real impact on improving burden-sharing either.

It may simply be too early to tell, at this nascent stage, whether the MYFF will deliver what it is intended to. The early signs are that MYFF related processes are sharpening programme focus and inducing greater attention on outcomes and results. A word of caution is, however, necessary. It is invariably tempting for donor countries (and especially new, young, enthusiastic representatives from them) to ask DFPs and MDBs what seem to be perfectly reasonable questions about justifying their requests for funding with concrete evidence about performance, outcomes and results. In the last instance they now want irrefutable evidence attributing outcomes and results to particular programmes and interventions by the DFP or MDB concerned. But in reality this is a bear trap. As many veterans with long years of experience in the “aid industry” who have gone around those particular blocks will testify, some of the questions while seemingly reasonable are not really answerable in any practical manner that is convincing.

Attribution of outcomes and results to specific programmes and interventions in particular is, in most cases, impossible. A balance needs to be struck, and situations avoided in which donor representatives in capitals or on Executive Boards ask for the impossible. They need to appreciate what expenditures of resources and time might be involved for the DFP concerned in coming up with the answers. Sometimes the cost-benefit ratio is simply not worthwhile. Seemingly innocuous requests often require over-stretched institutions with no extra management or staff capacity to divert resources from high-priority operational programmes (often being implemented in highly charged emergency situations) to cope with navel-gazing of an absurdly trivial nature.

Occasionally these questions are asked because well-trained diplomats on Executive Boards are unfamiliar with the economic or operational aspects of the issues involved, or with the cost implications of the burdens they innocently impose. Some defensive capacity needs to be incorporated in Executive Board processes using peer group pressure at Board level (because the management of DFPs is usually defenceless in these instances) to prevent such excesses – well-intended though they may be - from getting out of hand. It would also help if member countries (both donor and programme) had in their Missions at the UN more representatives who understood the core businesses of the DFPs sitting on their Executive Boards.

## 3.3 UNICEF: Appealing Mandate may Attract More Funding

### 3.3.1 Funding in 1996-1999

The resources vs. expenditure picture for UNICEF is shown below:

*Table 3:7 UNICEF Funding between 1996-1999 (millions of US$)*

| | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|
| ***Regular Core Resources*** | | | | |
| Governments | 364 | 358 | 344 | 349 |
| Private Other | 187 | 189 | 221 | 225 |
| *Total* | *551* | *547* | *571* | *574* |
| **Supplementary** | | | | |
| Governments | 162 | 139 | 178 | 236 |
| Private Other | 127 | 104 | 101 | 93 |
| Total | 287 | 243 | 279 | 329 |
| Emergency | | | | |
| Governments | 81 | 98 | 81 | 114 |
| Private Other | 25 | 14 | 35 | 85 |
| *Total* | *106* | *112* | *116* | *199* |
| **Total Resources** | **944** | **902** | **966** | **1,102** |
| **Total Expenditures** | **936** | **919** | **878** | **1,029** |
| Supplies & Equipment | 262 | 245 | 219 | 291 |
| Cash and Other Assistance | 422 | 428 | 425 | 502 |
| *Total Programme Operations* | *684* | *673* | *644* | *793* |
| Mgt. & Administration | 83 | 91 | 82 | 92 |
| Programme Support | 154 | 149 | 140 | 141 |
| *Total Mgt. Overhead* | *237* | *240* | *222* | *231* |
| Write-off/Ex. Losses etc. | 15 | 6 | 12 | 3 |

Source: UNICEF

From a high of US$1,011 million in total resources in 1995, when governments contributed over 65% of the total, UNICEF’s income - like that of UNDP and UNFPA - saw a decline between 1996-1997. But, unlike UNDP and UNFPA, those ill-fortunes were reversed in 1998 with resources increasing again in 1998-

1999; reaching another high of US$1,102 million in 1999. In response to fluctuations in its resources, UNICEF's annual expenditures have also had to be adjusted. These reached a high of US$1,022 million in 1995 when there was a sharp rise in emergency expenditures. There was a reduction of US$86 million in 1996 followed by further reductions totalling US$58 million in 1997 and 1998. But with the necessary lags that take place in such adjustments, UNICEF's expenditures exceeded income in 1995 (when they overshot by US$11 million) and again in 1997 when the overshoot was US$17 million. Similarly, expenditures were significantly below income in 1998 and 1999 (a total of US$161 million in both those years).

Volatility between the peak of 1995, the trough in 1998 and the renewed rise in 1999 (and probably again in 2000) has been in the order of 15% of the total programme and around 25% of the operational assistance delivered, in either direction. Some, but not all, of the volatility is caused by unavoidable fluctuations in programme expenditures for emergencies that, by definition, arise unexpectedly. The remainder is caused by fluctuations in the volume of resources provided by governments whose values may also be affected by exchange rate movements. For example, total government contributions between 1995-1999 have fluctuated by +/- 10% around a mean value of US$650 million. Government contributions to *core funding* on the other hand have fluctuated much less - i.e. +/- 2% around a mean value of US$350 million showing an element of stagnation. Funding from all non-governmental sources lumped together has shown variations of +/- 17% around a mean value of US$350 million between 1995-1999.

Total programme volatility of +/- 15% is difficult to accommodate in an agency like UNICEF. Special arrangements need to be made for winding up and winding down operations quickly in responding to emergencies. Sizeable liquidity cushions and reserves (in UNICEF's case these would need to be in the order of US$100 million) need to be built up to accommodate such volatility. That in turn might raise awkward questions about leads and lags between resources provided and resources delivered to protect the interests of children in the developing world. When UNICEF's operating levels rise from around US$1 billion annually to US$1.5 billion by mid-decade, greater financial sophistication in liquidity management, the introduction of exchange equalisation reserves, and a liquidity buffer fund for emergency expenditures will become indispensable. It is not too soon to begin to put these arrangements in place.

### 3.3.2 UNICEF's Medium-Term Plan and Multiyear Funding Framework for 2000-2003

Of the three DFPs scrutinised by this Study, UNICEF appeared to have the most comprehensive, thorough approach to building up its MYFF from existing modular elements. They comprised: its MTP, its biennial support budgets for the 1996-1999 period, the Executive Director's detailed, transparent annual reports, a paper on resource mobilisation strategy, previous Board discussions on resources, and papers indicating the positions of various governments on pledges for core funding and supplementary contributions. Of the three DFPs it has the most sophisticated resource mobilisation functions in tapping both public and private resources. The MTP and MYFF bring out the programme priorities and their associated outcomes, results and targets shown in the Box below.

*Box 3:5 UNICEF: The Programme-Results Component of the MYFF for 2000-2003*

| Programme Areas & Activities | Progress Indicators | Goals/Results/Targets |
|---|---|---|
| **Child Mortality/Morbidity** | | |
| ARI Control Activities | Immunisation Coverage | Measure/Increase Coverage |
| Diarrhoea, Measles, Malaria | Increase Supply/Use of drugs | Measure distribution/use |
| Perinatal Infections | Monitor deliveries, treatments | Declining Trends |
| Transmission of HIV/AIDS | Testing, Counselling, Treatment | Decline in incidence rates |
| Malnutrition | Use of salts/vitamin supplements | Declining incidence |
| Polio, Typhoid Immunisation | Immunisation Coverage | Coverage/reduced occurrence |
| Hygiene/Water/Sanitation | Infrastructure provision rates | Increase coverage/practices |
| **Early Childhood Care** | | |
| Integrated Mgt. Of Child Diseases | Programme Expansion rates | Reductions in incidence |
| Integrated ECC programmes | Programme Expansion rates | Increase in healthy children |
| Integrated Health/Nutrition actions | Increased supply: drugs/nutrients | Reduction in malnutrition |
| Lactation Management | Improved nutrition/maternal hlth | Reduced mortality/morb. |
| Community Social Mobilisation | | |
| **Childhood Disability** | | |
| Micro-nutrient supplementation | Expand supply and distribution | Reduction in incidence |
| Iodised Salt use | Increase supply, consumption | Reduced malnutrition |
| Special Education Services | Increase supply, access | Increased participation |
| Special Community Care | Increase supply, access | Increased awareness |
| National Disability Surveys | Coverage, analytical depth | Improve policies/actions |
| Special Training for Employment | Expanded coverage | Increased participation |
| Reading Programmes for Impaired | Increase supply of tapes/braille | Increased literacy |
| Landmine Bans & Recovery | Intensify efforts/programs | Reduced amputations |
| Mine Awareness Programmes | Intensify programmes | Reduced deaths/amps |
| **Basic Child Education** | | |
| Curriculum Reform; Life Skills | Improved quality of education | Improved functionality |
| Textbooks and Infrastructure | Increase books, classrooms | Increased access/literacy |
| Sector Development Programmes | Coverage, analytical depth | Improve policies/actions |
| Female Enrolment Access | Expanded coverage | Increased participation |
| Prevention of Dropouts | Savings of education resources | Reduced dropout rates |
| **Focus on Adolescent Development** | | |
| Reducing Impact of HIV/AIDS | Testing, Counselling, Treatment | Decline in incidence rates |
| Violence, Trafficking, Abuse | Laws/Enforcement/Counselling | Decline in incidence rates |
| Prevent TB, Depression, Suicides | Symptom monitoring/tracking | Decline in incidence rates |
| Adolescent parenthood programs | Counselling, treating, preventing | Reduction in ad. parents |
| Adolescents in wars/conflicts | Use of children as soldiers | Reduction in numbers |
| **Protection from Exploitation** | | |
| Child Labour Issues/programmes | Monitoring Dimensions | Reduction in numbers |
| Commercial Sexual Exploitation | Monitor, Counsel, Treat, Enforce | Reduction in numbers |
| Protection of Children in Public Care | Track, monitor numbers | Reduction in abuse |
| Training of police and social workers | Quantitative Indicators | Increase numbers |
| Care/protection of orphans | Policies, Programmes, Care | Increase quality care |

(continued on next page)

| UNICEF: The Programme-Results Component of the MYFF for 2000-2003 | | |
|---|---|---|
| **Programme Areas & Activities** | **Progress Indicators** | **Goals/Results/Targets** |
| **Maternal Mortality/Morbidity** | | |
| Female Genital Mutilation | Quantitative Indicators | Reduction/Elimination |
| Correcting Maternal Malnutrition | Quantitative/Qualitative Indices | Reduce incidence |
| Maternity Hospitals Programme | Quantitative/Qualitative Indices | Increase quality hospitals |
| Pre-natal/Peri-natal care Training | Quantitative/Qualitative Indices | Reduce natal problems |
| Equipping Referral Systems | Assessments; Improvements Increase quality/quantity | |
| Maternal health programmes | Quantitative/Qualitative Indices | Increase quality/coverage |
| Training Community Mid-wives | Quantitative/Qualitative Indices | Increase quality/quantity |
| Obstetrics Care Savings schemes | Number of schemes/coverage | Increase numbers/quality |
| Health Insurance for mothers | Policies, legislation, access | Universal insurance |
| **Gender Issues** | | |
| Legislation for Women's Rights | Changes in Discriminatory Laws | Equal treatment/access |
| Violence against Women | Monitoring, Laws, Enforcement | Reduce/eliminate incidence |
| Help for victims of Acid Attacks | Follow-up care, surgery, rehab. | Increase rehab rates |
| **Partnerships & Advocacy** | | |
| Promotion of Children's Rights | No. of nations legislating/enforcing | Universal acceptance of CR |
| Law Reform; Policy Action | Change monitoring; innovation | Continual reform |
| Participation rights for children | Access to opportunities/services | Universal access |
| Consensus on Child Labour | - No. of nations agreeing/enforcing Universal norms/standards | |
| 20/20 Initiative | Tracking changes in public budgets | Universal acceptance |
| Basic Social Services access | Monitoring increase in access | Universal access |
| Peace & Security for Children | Monitoring effects of conflicts | Global norms of protection |
| National Immunisation Days | Quantitative indicators | Reduction in ARI/diseases |
| Publications and Outreach | Quality/Quantity/Impact | Awareness; Action |
| UNICEF Website | | |
| **Improving Measurement** | | |
| Country Situation Analysis | Increase/universalise coverage | Improved Policy Making |
| Capacity-Building for data | Needs assessments/actions | Universal data norms/stds. |
| Multiple Indicator Cluster Surveys | Increase/universalise coverage Improved Policy Making | |
| **Management & Operations** | | |
| Human Resource Development | Skills, Turnover, Productivity | Maximise HRD potential |
| Supply Function Management | Costs, Response, Availability Optimise costs vs. Distbn | |
| IMIS | Quality of Mgt. Decision-Making | Real-time management |
| IT Network Development | Costs, Access, Availability | Real-time info exchange |

Source: UNICEF

As this Box spread over two pages suggests, UNICEF's programme agenda as outlined in the MTP and MYFF is transparent, exhaustive and detailed. In fact, it is so thorough that the above represents substantial abbreviation and consequent loss of richness in contextual fabric. UNICEF is pursuing a highly attractive, child-focused agenda that easily commands universal attention, applause and moral/financial support. It would be obtuse to disagree with it. If UNICEF's programme priorities raise any concerns, it is an uncomfortable sense of "mission creep". There has been a deliberate decision on the part of UNICEF to stray from its child-focused mandate and foray into UNFPA and UNIFEM terrain. The MTP suggests a substantial shift toward advocacy on gender issues and direct programme support for maternal health, mortality, morbidity elements that raise questions/concerns about duplication and overlap with UNFPA. Both DFPs assured the authors that their activities in these areas were necessary, well coordinated and entirely appropriate. The challenge in the gender and maternal health arena was so large that UNFPA could not possibly handle it on its own (nor for that matter UNICEF). Nor would it wish to establish monopoly rights within the UN system in this domain. There was room for everyone to get involved and make a difference.

On the face of it, given the political correctness and substantial political, NGO and public support in donor countries for the aggressive pursuit of these issues, those arguments seem valid enough. But they do raise two issues for donors and programme countries on the UNICEF and UNFPA Boards to contemplate. *First:* Is there a danger of applying dual standards where inter-institutional duplication and overlap are encouraged in certain instances, especially insofar as pushing donor priorities are concerned, but discouraged in other areas (such as broad based policy assistance) to which programme countries might attach a higher priority? Can duplication be good in these instances and bad in others? Or should the same standard be applied universally for the sake of order and consistency (a much overrated quality in the view of many)? *Second*, is there a danger - as UNICEF drifts into areas that invite the same kind of political contentiousness between "pro-life" and "pro-choice" lobbies that UNFPA has to contend with in pursuing its reproductive health agenda - that UNICEF's brand equity and image may actually suffer? Might this drift not have an adverse and perhaps irreversible long-term impact on its reputation and its resource mobilisation capacity?

These are difficult questions for the member governments of UNICEF to ponder. This Study has no easy answers. But, these questions need to be raised and addressed before UNICEF's drift into non-child areas is accentuated and becomes so entrenched as to be irreversible. Clearly the issue of duplication and overlap needs to be seen pragmatically. Neither programme countries nor donors require duplication to be avoided in the MDB universe. In many instances they encourage overlap between what the World Bank does and what the RDBs do in the same countries. Often they encourage co-financing between the two for the same projects. But, on the other hand, donors have tended to uphold the primacy of the IFIs over the RDBs when it comes to imposing conditionalities in core macroeconomic policies. They appear to prefer having matters of policy, adjustment and debt to be handled by IFIs that they control, rather than by RDBs in which they may have less influence.

Thus, an implicit divide across a blurred boundary has in fact emerged between IFIs exerting eminent domain over key policies (fiscal, monetary, trade and exchange rates) while the RDBs remain focused more on sectors and projects. Nor are donors as concerned, as they perhaps should be, with adverse "reputation effects" on the institutions concerned when things go wrong (as with the debt debacle, or with adjustment in Africa). But then neither the IFIs nor the MDBs, nor indeed other DFPs, have the same kind of brand equity that UNICEF possesses.

It is a rare asset that needs nurturing, protecting and building upon rather than risking dilution or deterioration of.

### 3.3.3 UNICEF's Funding Plans and Prospects for 2000-2003

Using the programme priorities and the double-biennium budgets as its basis for establishing resource requirements, UNICEF's projected resource requirements and the commitments it has received from the pledging round of 2000 are depicted in Table 3:8 below. Regrettably, unlike UNFPA no clear figures were available for the whole 2000-2003 period. UNICEF's last MTP-1998 covered the period 1997-2001. There has been a more recent revision of the MTP in 1999 (as reported in the Executive Director's most recent Annual Report of April 2000). Some of the figures have changed marginally. But, as the full revision was not available to this Study, it has adhered to the figures provided in the MTP-98. They suffice for the purposes of this Study. Taking the figures available from MTP-98 for 2000-2001 as a baseline, and taking the funding target that UNICEF has adopted of reaching an annual income level of US$1.5 billion by 2005, the figures for 2002-2003 have been extrapolated. An effort has been made to retain the proportionality of government-to-private funding across regular (core), supplementary, and emergency financing for 2002-2003 in the same pattern as for 2000-2001. The extrapolated figures are, therefore, contrived and may differ from the internal planning figures UNICEF now has; but they are nonetheless indicative for the purposes of this Study.

*Table 3:8 UNICEF: Multiyear Pledges vs. Resource Requirements Projected/Extrapolated in the MTP-1998 and MYFF (millions of US$)*

| **Regular Core Resource** | **2000** | **2001** | **2002** | **2003** | **Total** |
|---|---|---|---|---|---|
| Governments | **350*** | **357*** | **394*** | **432** | **1,533** |
| Private Sector | 212 | 233 | 257 | 282 | 984 |
| Other Sources | 28 | 28 | 30 | 30 | 116 |
| *Total Regular Resources* | *590* | *618* | *681* | *744* | *2,633* |
| Pledges from Governments | 310 | 119 | 86 | 0 | 515 |
| *Shortfall* | 40 | 238 | 308 | 432 | 1018 |
| As % of GRCR Requirements | 11.4% | 66.7% | 78.2% | 100% | 66.4% |
| **Supplementary Resources** | | | | | |
| Governments | 194 | 200 | 220 | 242 | 856 |
| Private Sector | 110 | 110 | 120 | 130 | 470 |
| Other Sources | 0 | 0 | 0 | 0 | 0 |
| *Total Supplementary* | *304* | *310* | *340* | *372* | *1,326* |
| **Emergency Resources** | | | | | |
| Governments | 94 | 96 | 106 | 116 | 412 |
| Private Sector | 20 | 20 | 23 | 28 | 91 |
| Other Sources | 0 | 0 | 0 | 0 | 0 |
| *Total Supplementary:* | *114* | *116* | *129* | *144* | *503* |
| **Total Income** | | | | | |
| Governments | 638 | 653 | 720 | 790 | 2,801 |
| Private Sector | 342 | 363 | 400 | 440 | 1,545 |
| Other Sources | 28 | 28 | 30 | 30 | 116 |
| *Total Income* | *1,008* | *1,044* | *1,150* | *1,260* | *4,462* |
| **Funding Target** | **1,078** | **1,154** | **1,270** | **1,410** | |

Source: UNICEF

The Report of the UNICEF Executive Board on the Work of its First Regular Session of 2000, (E/ICEF/2000/(Part I) dated 29th February 2000) indicated that pledges made by members amounted to a total of US$309.51 million at the end of January 2000. Fifty-two governments had made pledges by then. By the end of February 2000, a further 15 had pledged support although they had not indicated any firm amounts at the time. Of the nearly US$310 million pledged, US$264 million represented firm pledges while the remaining US$76 million represented indicative pledges. Of the 67 governments that had indicated support, 28 had announced increases in local currency, 32 had maintained their contributions while 7 had decreased the amount of their contribution. A number of other representatives hinted that their countries would increase contributions in 2000 although further precision was not possible. Of these countries, 8 had provided precise payment dates for their contributions; 7 countries had made tentative pledges for 2001 and 6 for 2002.

As the above Table suggests, commitments for the current year show only a small shortfall from the expected level of government contributions to regular resources; the shortfall is slightly larger if the revised projection of US$363 million for 2000 is taken into account. As a percentage of the projected amount the shortfall is over 11% (or 15% if the revised figure is taken into account). But after the current year, as was the case with the other DFPs, the notion of MYFF's providing a solid platform for firming up multiyear pledges on a predictable assured basis breaks down. Shortfalls between pledged and projected amounts expressed as a percentage of the latter escalate from just under 70% in 2001 to 100% in 2003 although the last figure is misleading because no donor was asked to make pledges beyond 2002. In any event, even if they had been asked, it would have been surprising if more than 2 or 3 donors had been able to make pledges for 2003 and probably for an insignificant amount compared to the target for raising core resources from member governments.

Thus, available evidence does not suggest that the MYFF is yielding either predictability or assured multiyear funding as was hoped. In saying that, the same caveat must be expressed as in the case of UNDP and UNFPA; i.e. it may simply be too early in the cycle of experience with MYFF's to reach any firm conclusions on that score. If the MYFF process in this early, nascent stage has yielded neither predictability nor assuredness of resources for the MYFF period, has it had any impact on inducing better (fairer) patterns of burden-sharing? Again, not yet. Of the countries that had made pledges for 2000, the top 7 donors (all members of OECD-DAC) accounted for over 90% of total pledged contributions. Another four countries (also members of DAC) contributed over 8% resulting in just 11 members contributing over 98% of UNICEF's core resources from governments.

Although expectations of the MYFF resulting in the firm multiyear funding commitments have not yet been met, the situation in terms of forward planning and programme volatility/vulnerability is not as dire for UNICEF as it is for the other two DFPs. That is because, although UNICEF cannot get commitments from its National Committees and from other private contributors, the resource inflow streams from these sources for regular and supplementary resources are reasonably robust. Together with what is known about government pledges out to

2002, these non-governmental sources of funds are likely to assure UNICEF of at least 40-50% of its outer year programme being protected at the very worst. UNDP and UNFPA have no such cushion to fall back on.

In looking at future fund raising prospects two other issues need mentioning. The first is that UNICEF may actually achieve its annual income target of US$1.5 billion in 2005 a year or even two earlier. Based on the US$1.1 billion in total income that UNICEF had in 1999 and an expectation of raising about US$1.2 billion in the current year, it is hardly inconceivable that UNICEF might reach its funding target by 2004 or even 2003. But reaching that target will, in all probability, mean relying on a steadily increasing proportion of private funding. In looking at the 1999 base, however, one feature needs to be pointed out. The US$200 million increase from a nadir of just US$902 million in 1997 represented a remarkable turnaround. But US$87 million of that increase was accounted for by increased resources for emergencies.

The second issue, alluded to earlier, concerns the US$1.5 billion target as a figure around which Board consensus has been built. Remarkably, the rationale for it is extraordinary and indefensible. In UNICEF's own words:

"……. UNICEF has recently estimated that developing countries and donors will have to increase current expenditure on basic social services at the global level by approximately 60 per cent to reach universal coverage .. "

"….. Using a target increase of about 60 per cent in global spending on basic social services to achieve universal access, the UNICEF funding level is targeted to increase by the same magnitude. This means that annual income is targeted to increase from the projected figure of US$942 million in 1998 to approximately US$1,500 million by 2005. ….. The average increase in income of 7 per cent per year is relatively modest ….."

Such a rationale for justifying a funding target, for an institution such as UNICEF, stretches credibility. It is surprising that its Executive Board accepted it. Had UNDP or UNFPA attempted to use a similar type of rationale to justify their funding projections, it would have been interesting to speculate on what the reaction of donors might have been. In scrutinising UNICEF's rationale, four points arise immediately:

- The 60% calculation is UNICEF's own crude estimate. It is not an independently established benchmark, although other UN agencies and the World Bank were involved in formulating the 20/20 Initiative. At best it is a crude guess largely because the data needed to make an educated guess of how much spending would need to increase by do not exist.

- The prospect of basic social service provision reaching universal coverage by 2005, as implied by UNICEF using it as its beacon, is a fiction. Government spending on basic social services, resource diversion from amounts indicated in budgets, and national/local capacity in the developing world in 2000 is such that achieving 20/20 proportionality in the foreseeable future would require a vivid imagination.

- Tying UNICEF's income target to basic social service provision implies a distortion of its mandate. It misrepresents its charter which is to focus on improving the welfare and condition of children and meeting their needs. Universal provision of basic social services serves only a small part of that objective. Universalising access to basic social services (a good and unarguable thing in its own right) in the developing world would do far more for improving the lot of adults than of children; unless changes are being assumed in behavioural patterns of the poor that are not going to occur quickly. Thus, using the basic social services argument as the bedrock for justifying UNICEF's resources seems odd. It implies that doing so is the only thing that is important to improve the welfare of children in the developing world. It does not take much education to see the fallacy of such thinking.

- A simple back-of-the envelope calculation would reveal that using the numbers in MTP-98 would require an annual growth rate of 10% (not 7%) to achieve an income level by 2005.

The problem with the use of such a rationale is that it trivialises a case for supporting UNICEF when the real case is more powerful and compelling than the argument put forward by UNICEF would suggest. A funding rationale, based on a country-by-country build-up of the costs involved in delivering even a minimum-package composite of the kind depicted in Box 3:5 above in each programme country, would be far more credible and justifiable. It would result in UNICEF's establishing beyond any doubt that real funding needs by 2005 might be a multiple of the contrived target it has sought to build consensus around. It could then convince donors to settle for between US$1.5 billion to US$2.0 billion as representing a minimum fraction of the resources really needed.

With those issues out of the way, the chapter cannot avoid articulating the obvious conclusion that, useful though MYFF's may be as a discipline for focusing and managing programmes better, they seem unlikely to provide the basis for delivering multiyear resources on a predictable or assured basis. At least, they are unlikely to do so if early experience is anything to go by. Nor are MYFF's going to provide the basis for achieving fairer burden-sharing across the donor community. As suggested earlier, it is perhaps too early in the cycle to be definitive or assertive about these conclusions. It is just that the early portents are not encouraging. With that in mind, the next chapter reviews previous attempts to secure funding for the UNDFPs on a predictable and assured basis and attempts to judge where present initiatives are likely to lead, on the basis of accumulated experience.

# 4 Changing the Basis for Funding the UNDFPs: Options and Prospects

## 4.1 Introduction

As the previous chapter suggested, early signs are not encouraging that the MYFF process is leading toward achieving greater predictability of multiyear resource availability on a more secure (firm commitment) basis. But, as already observed, it may simply be too soon to reach any definitive judgement. More time may be needed for MYFF-ROAR (results oriented annual reporting) implications for resource mobilisation to sink in fully across the membership of the DFPs; particularly among donors.

It was the apparent prematurity of reaching judgements on the resource-yielding outcomes of the MYFF-ROAR processes, that led some of the larger European donors (and two non-European ones) to express reservations about the timing of this Study. They emphasised that they remained open-minded about considering any constructive proposals. However, they wondered why - given the outcome of previous Nordic initiatives on the same issues, the indecisive outcome of the Open-ended Working Group exercise in UNDP, and the fact that the MYFF approach was just being introduced - this Study needed to be done at this time.

Some European donors expressed concern that the Study might divert G-77 and DFP-management attention from pursuing the reform agenda that had been embarked upon. They felt it might raise questions prematurely about the obvious imbalance between "progress on reform" and "progress on funding" when, in their view, reforms still had some way to go. They felt that such a Study, might influence relationships between G-77 countries and donor countries on the Executive Boards of the DFPs in a negative way at a time when a delicate *modus vivendi* appeared to have been reached. It might raise recriminations and acrimony about the donors not having kept fully to their end of the "reform-resources" bargain. One donor expressed concern about the findings of this Study being presented at the forthcoming ECOSOC meetings and deliberations when it was not on the agenda.

The response in each case was to explain the timing and content of the Study by alluding to the forthcoming major high-level consultation on Financing for Development (FfD) scheduled in 2001. It was pointed out that the Nordic countries, individually among the largest donors to UNDP, UNFPA and UNICEF, and collectively the mainstay of the system, had launched a series of initiatives since 1989 focused on reform of the UN. Though early reactions to those initiatives had been just as sceptical, the Nordic countries had been persistent in engaging the attention of UN members on the need for reforms. With the appointment of the new Secretary General, reforms had ranked high on the UN agenda. Slow but steady progress was being made across a number of fronts in the UN Secretariat, the SA's and the DFPs. Though the journey had started and progressed, there remained a long way to go.

At the end of a decade of effort, and at the threshold of a new century, the Nordic countries (and Sweden in particular in initiating this effort) felt it was appropriate to keep reforms on track. There was now an emerging imbalance between "reform of programmes and institutions", on the one hand, and the "reform of funding" on the other. A case could be made that a sense of symmetry between mutually reinforcing reforms on both fronts needed to be restored. Reforms in DFPs were unlikely to be sustained, or yield desired results, if the funding they needed to deliver on agreed programmes was not forthcoming. Given the inconclusive nature of various recent initiatives to engage major donors on this issue it seemed opportune to raise the question again with this Study and, perhaps, to have it addressed more thoroughly at the high-level consultation on FfD. This explanation appeared acceptable to the donors visited; but it did not necessarily allay or ameliorate their underlying concerns.

In undertaking this Study visits were made to a number of donor capitals (Canada, Denmark, France, Germany, Ireland, Sweden, and the UK) and to the Permanent Missions to the UN of two others (Japan and the US). The Study took into account a useful report by the Minister of Development Co-operation of the Netherlands to its Parliament explaining her government's rationale for funding various UN organisations. In a similar vein, recent statements on the same subject by her counterparts from the UK and Germany, and a report of French parliamentarians on the UN, were also reviewed to understand the perspectives and inclinations of these donors further. The Study has benefited from the views of delegations to the UN from Brazil , Egypt and Pakistan. Regrettably, the time and budget constraints that applied precluded both visits to several programme country capitals and coverage of a larger number of Permanent Missions to the UN representing a wider range and regional mix of the developing country universe. The discussions held with donors and programme countries explored the questions raised in Chapter 1 and the ToR.

This Chapter reviews briefly the previous efforts at raising consciousness about reforming the funding basis of the UNDFPs, the options considered, and prospects for their adoption/implementation. Respecting its Terms of Reference it then focuses again on the "replenishment option" and assesses the prospects for that option being seriously reconsidered by the membership of the DFPs. It also considers what kind of approach, strategy and tactics might be required for such an option to be accepted eventually; perhaps over a longer time-frame than is necessary or desirable.

## 4.2 Previous Nordic-UN Initiatives

These two initiatives (NORUN-1 and NORUN-2) have already been alluded to in previous chapters. They embraced a much wider range of issues than those dealt with in this Study. This chapter focuses only on those aspects and recommendations of each that are relevant to reforming the funding of the UNDFPs. The Study eschews going further back than NORUN-1 in looking at the plethora of studies and calls for reform that have characterised the UN systems since the mid-1950s. These have already been catalogued and acknowledged in NORUN-1 at some length. That coverage makes it unnecessary to go over the same historical terrain again in this Study.

### 4.2.1 Nordic UN Project 1990-1991

The key observations and findings of the Nordic-UN Project of 1990-1991 that remain relevant to this Study ten years later, are pulled together and abbreviated below using the original language of the earlier report to the extent possible:

1. The UN system consists of hundreds of organisations, committees, commissions, conferences, programmes and funds. The fragmentation of the organisational set-up of the UN development assistance system, both at headquarters and at field level, has disabled it from reaching a critical mass in financial, staff and research capabilities. The "system" has evolved by default rather than by rational design, often reflecting the relative bargaining strengths and prevailing philosophies of different groups of members at different moments, from the time of creation. Co-ordinating various parts of the system has remained a problem ever since.

2. The UN's operational activities for development are carried out by a large number of organisations, programmes and funds. Together they amount to a fragmented, disparate structure, with an array of organs and activities arranged in a cobweb pattern. There is a need for a more clear-cut and rational organisation structure with sufficient critical mass to tackle the broad development issues.

3. In order to give the UN's operational activities the critical mass needed for economy and efficiency, it has been argued that the various organisations involved, both at headquarters and in the field, should become fully integrated. In essence, they should aim at becoming one organisation. This would offer the advantage both to recipient and donor countries of dealing with only one UN organisation for development. It would permit the excessive duplication of high-level administrative and management resources, devoted to running small disparate programmes, to be rationalised and properly directed. Such an organisation would have consolidated resources of between US$3-4 billion annually and a strong combined professional staff capability at headquarters and in the field. A unified career-based personnel system, for all the organisations concerned, would facilitate systematic, modern efficient human resources management. Consolidated financial management would go a long way towards increasing efficiency and accountability. Joint offices of differ-

ent DFPs in the field under a single Resident Co-ordinator would optimise management, logistics and overhead costs.

4. UNDP should be at the centre of such an organisation. It should become a more effective, full-fledged programme by concentrating more on the areas where its comparative advantages lie. This would give UNDP a role that goes beyond being a funding mechanism. UNDP has not been able to mobilise the necessary resources to maintain its share of multilateral development co-operation activities. Special purpose funds earmarked for expenditure in particular countries or sectors, often in tandem with bilateral aid programmes, seem to have increasingly led donors away from the general-purpose, recipient controlled UNDP core programmes. UNDP's narrow and weak funding base, with annually pledged voluntary contributions in national currencies, has never permitted it to live up to its role as the UN's central funding organisation for technical co-operation.

5. The UN system, unlike the MDBs, uses funding mechanisms that do not result in sufficient volume, predictability, stability and fair burden-sharing. Voluntary funding of UN operational activities for development is not just unequally shared. It depends too much on the short-term preferences and changing priorities of donors. A basic question, therefore, is how to match multilateral funding and recognised international needs in a way that achieves predictability, stability and fair burden-sharing. A new approach must be adopted in tackling these issues with a revision of the present funding system for the UN's development activities.

6. A stronger and more effective development role for the UN must be built on the basis of the joint responsibilities of its members. The sharing of funding among the member states must reflect their ability to pay. Contributions from the small "like-minded" countries have now attained such a high proportion of the total budget of many UN organisations that their multilateral character is now in jeopardy. This applies to the UNDP, UNFPA and UNICEF. The burden-sharing issue has been analysed and discussed at considerable length in various multilateral fora with no conclusive consensus or outcome.

7. UN programmes that rely on voluntary funding should broaden their funding base. They should combine three sources: (a) *assessed contributions* from all members; (b) *negotiated pledges* made on a basis similar to the replenishment exercises of the IFI "soft windows"; and (c) *voluntary contributions* additional to the other two. The strength of the replenishment process is that volume is related to defined and agreed objectives, and that burden-sharing is negotiated in a unified context.

8. The perennial crisis of funding at the UN during the 1980s and since has, to a large extent, centred on the problem of striking a balance between influence deriving from financial contributions and influence deriving from voting power.

9. The multilateral organisations that have benefited are those that have accommodated greater donor influence through weighted voting power. The

funding of the UN is unlikely to be increased without a revision of the procedures relating to governance and greater accountability in management and expenditure. Yet a constitutional change to bring about weighted voting would have serious implications for the universal character and concept of the UN.

10. It would be a great loss to the world in general and the developing countries in particular, if the vast UN system for development co-operation were allowed to slide into becoming marginal. The world would lose a pool of experienced, knowledgeable development staff, a functioning network of field offices covering all developing countries, and a conduit for untied, impartial development co-operation. The developing countries would have a more limited choice of development assistance.

11. Financing and reform of the UN are intimately linked and ought to be considered in the same context. “Performance must pay” in terms of both the performance of the UN agencies and the end use of resources by recipients. Unless that happens, there is a clear risk that the UN system, afflicted by stagnant multilateral ODA flows, will be further crowded out by donors increasingly focused on longer-term replenishment demands from the MDBs.

### 4.2.2 The Nordic UN Project in 1996

The eleven key points recorded above resonate as if they had been written in the context of this Study being done now, rather than having been written a decade ago. That sense of *déjà vu* emerges from the *1996 Nordic-UN initiative* as well; as the following paragraphs clearly indicate:

1. The major strength of the UN lies in its legitimacy, which derives from a universal and democratic structure. But, its structure encompasses too many overlapping mandates and functions among DFPs; a duplication of debates; and dispersal of authority between different layers of intergovernmental organs. The UN suffers from a discrepancy between its ever-increasing tasks and its dwindling resources, as well as a crisis of confidence between North and South over the future of the UN.

2. Greater coherence is needed between the UN’s normative and operational activities. There is a need for more effective delivery of development services by the UNDFPs. Such services need to be linked more closely to the UN’s normative functions, with a clear division of labour between the development services provided by the UN and those more appropriately provided by other organisations (i.e. IFIs and WTO).

3. The UN has suffered from a decline in voluntary core contributions to its development activities, resulting in a widening gap between the demands on and tasks of the UN, on the one hand, and its resources and capacity, on the other.

4. During the 1990s, the UN has contributed decisively to the formulation and global adoption of a more integrated approach to *human* and *social* development. The UN has the responsibility, and is well placed, to translate these priorities and other global norms into action by people and their governments world-wide. At the same time, the UN has an obligation to assist developing countries in their development endeavours. In such efforts, emphasis on local ownership and capacity development is essential.

5. UNDFPs need to develop more effective capability for delivering emergency relief, long-term development assistance, and smooth the transition path between the two.

6. To maximise the impact of UN development activities, it is necessary for the UN development system to concentrate its resources through *unification of its presence at country level* into one UN office; with common premises and administration, and with harmonised programming, budgeting and priority-setting. Such field-level integration should not jeopardise immediately the *identities* of individual DFPs.

7. At HQ level the primary task is to support the integration of development services and advice provided by a system unified at the country level. Functional integration of UN funds and programmes at HQ level is needed to ensure that messages channelled from UN headquarters are coherent and supportive of field operations.

8. HQ-level consolidation should be undertaken in three phases: (a) first, an assessment of needs for coming together to support operations at the country-level; (b) second, harmonisation/integration of planning and administrative processes; and (c) third, structural organisational consolidation where necessary to achieve maximum impact in the field. Integration at the field level would draw upon the specialised expertise and capacities of the individual DFPs as well as those of the specialised agencies.

9. The UNDFPs should implement recent ECOSOC decisions calling for joint meetings of Executive Boards. The intermediate goal should be a unified governing body for a consolidated UN development system as an intermediate step on the road to achieving the long-term option of a single UN development agency

10. The UN can only undertake its country-level and headquarters-based activities effectively if *adequate and predictable funding* is provided. The proposed unification and consolidation of the UN would enable it to transfer resources from administrative services to operational activities and often from HQ to the country-level. That might attract more stable core funding to the UN's DFPs.

11. The funding of the UN system's economic and social activities has evolved over time into a complex arrangement of assessed budgets, extra-budgetary funds, recipient country contributions, pledges and financial support raised from non-governmental sources. This diversity is one of the system's

strengths. But there are many aspects of current funding arrangements that hinder the effectiveness of the system and threaten its sustainability. These include: over-dependence for finance on too few countries; instability caused by unpredictability and the absence of sanctions or binding commitments that can apply in securing the flow of resources; and fragmentation of resource mobilisation across far too many types of funds (core, supplementary, emergency, non-governmental etc.) and across too many small agencies thus losing out on focus, perspective and economies of scale in resource mobilisation.

12. Reforms in the funding of the UNDFP should meet the following criteria: (a) assuring resources on a predictable and continuing basis; (b) creating an agreed linkage between volume of financing and how it is to shared across members; (c) universalising contributions by all countries; (d) creating a sense of shared responsibility for financing across all member states. Work should be continued to combine the present system of voluntary contributions with negotiated pledges and assessed contributions from all member states.

Again, these twelve points highlighted in NORUN-2 invoke echoes of the notes struck by its predecessor. But there is a subtle distinction. Whereas NORUN-1 opened up the possibility of unifying the UN development assistance system into one organisation, NORUN-2 takes a more pragmatic, calibrated and phased approach. It treats total consolidation of the system as a long-term goal on which no immediate consensus exists and for which a groundswell of support will need to be orchestrated over time.

So it suggests bringing all the disparate parts of the system together in a phased manner. The first step involves bringing them under one umbrella by getting them to support field unification of all development services at the country-level and tinkering a bit with HQ level co-ordination to support that goal. The second is to get them to become comfortable with one another as they seek joint shelter from the common external storms they face. The only unacknowledged problem here is that every time this has been attempted some large institutional and individual egos have kept getting in the way of amicable inter-institutional "give-and-take" postures being struck. The third step, assuming the other two succeed, is to attempt cold fusion of the DFPs at HQ level.

That strategy, and the tactics associated with it, has the advantage of being more palatable and a more practical way forward than attempting to force total unification in one go. Whereas the latter is sufficiently threatening to institutional and individual agenda to invite firm resistance through both open and guerrilla warfare, the more gentle, phased approach seems reasonable enough to coax different institutions along; even if they do not buy into the longer-term objective. It is just that the goal is sufficiently far removed as not to threaten individual agendas. The only difficulty that such a graduated sensible strategy raises is whether the reforms that are necessary will be undertaken fast enough by the DFPs, and will be sufficiently acceptable to unconvinced donors, as to result in the required loosening of donors' purse-strings quickly enough to sustain and encourage the reform process.

Experience over the last few years, and more recently with the MYFF-ROAR approach, suggests that - although significant reforms have been made by the DFPs (though they are still quite a distance from what was being advocated by NORUN-2), and programme countries have reluctantly accepted changes in programmes and agendas that they felt were inimical to their interests - the resource picture really has not improved very much. Neither has the inclination to accept fairer burden-sharing responsibility. That reality brings the argument back to the age-old question: *What are the Options*?

## 4.3 Options for Funding the UNDFPs

After NORUN-2 was completed, the UNDP Executive Board requested the *Ad Hoc Open-Ended Working Group on Funding Strategy* (OWG) to undertake a review of various financing mechanisms as well as other options for UNDP core resources to achieve the elusive objectives of predictability and assuredness of multiyear flows. That Group looked into the advantages and disadvantages of: voluntary contributions; negotiated multiyear pledges; assessed contributions; replenishments on the IDA model; and mixed funding mechanisms. Each of these is considered briefly below.

### 4.3.1 Voluntary Contributions

This approach remains the mainstay of core-funding for the DFPs. It respects the notion of being “voluntary” thus absolving donor governments of the pressures involved in responding to influences other than internal budgetary considerations and changing domestic preferences about ODA. It does not oblige them to calibrate their contributions to what other countries do. As one donor official put it, the present system relieves governments in less generous or in “fiscally-disabled” donor countries from the “oppressive tyranny” of burden-sharing arguments put forward by countries that have stronger domestic political mandates for development assistance and more accommodating ODA budgets. The advantages and disadvantages of voluntary contributions seen from the point of view of a DFP, are the opposite mirror images of what a donor country would see: i.e. an advantage from the viewpoint of a DFP would be perceived as a disadvantage by a donor. The presentation below (and throughout) looks at these aspects from the viewpoint of the DFP and, therefore, from the contra-viewpoint of a donor.

*Box 4:1 Voluntary Contributions: Advantages and Disadvantages*

| Advantages | Disadvantages |
|---|---|
| ▪ No ceilings established<br>▪ Can accommodate donor preferences<br>▪ Uncontentious; no burden-sharing<br>▪ Responsive, flexible<br>▪ Suited to multi-bi supplements<br>▪ Suited to emergency financing | ▪ Volatile; no binding commitments<br>▪ Inconducive to firm plans/programmes<br>▪ Vulnerable to lobby pressure on donors<br>▪ Vulnerable to sudden budget pressures<br>▪ Unsuitable for burden-sharing; unfair<br>▪ No incentive for steady annual increases<br>▪ Can divert core programme agenda<br>▪ Can mismatch programmes vs. resources |

### 4.3.2 Multiyear Pledges

This idea has been raised frequently in the past as the most promising alternative funding mechanism for the UNDFPs. It is at the core of the MYFF process if it is to succeed. As the previous chapter has shown, experience up to now with the MYFF suggests that there are serious practical difficulties in many donor countries with making forward budget commitments for 3-4 years. That usually becomes possible only under a treaty or replenishment legislation that obliges governments to make commitments and keep them. Of course, even when such commitments are binding, they are not always kept. They are certainly not always kept on time. But the degree of embarrassment that donor governments face in defaulting on binding obligations is of a different order to the relative and temporary discomfort of not keeping a non-binding pledge.

*Box 4:2 Multiyear Pledges: Advantages and Disadvantages*

| Advantages | Disadvantages |
|---|---|
| ▪ Can assure medium-term core funding<br>▪ Greater predictability/stability; multiyear<br>▪ Match between programmes and resource<br>▪ Conducive to limited tailoring/ adjustment<br>▪ Conducive to better planning/ programming<br>▪ Conducive to better overall management<br>▪ Avoids “ambulance-chasing” for funds<br>▪ No burden-sharing acrimony | ▪ Not binding therefore still uncertain<br>▪ Weak peer pressure to maximise funding<br>▪ Lowest common denominator risk<br>▪ Difficult for governments to confirm<br>▪ Residual risk difficult to manage<br>▪ Halfway-house |

### 4.3.3 Assessed Contributions

The seeming simplicity of automatically assessed contributions, and the underlying notion of this being an "international tax" equivalent that, once agreed, puts future resource-raising on "auto-pilot" - leaving only the annual volume to be agreed - makes it an attractive proposition for proponents of global taxation logic. For the same reason, it is anathema to governments and parliaments in most donor countries. They see it as undermining discipline as well as their sovereign decision-making independence in determining contributions to what they believe are institutions constitutionally prone to profligacy. The majority that has the controlling vote in these institutions does not bear the burden of financing them.

Assessments are also seen to violate the principle of "voluntariness" in making contributions. That principle is held as sacred by some donors as the notion of *universality* is by programme countries. For these reasons, this option is sometimes portrayed by donors as "taxation without fair representation" in agencies they do not control. Experience with the UNO and some specialised agencies (ILO, WHO, UNESCO etc.) suggests that donors reluctant to be bound by assessments invariably raise problems about both: (a) the basis and formulae used for assessment; and (b) the annual budget for the DFP concerned. At the extreme, donors fall into prolonged arrears on assessed contributions. With assessments, a built-in incentive is provided for some donors to minimise the volume of resources made available and put a choke-hold on their expenditure unless such contributions serve a clear self-interest. For donors already contributing far more than their "assessment" there would be an incentive to reduce payments or at least go for zero growth for a long time till others catch-up.

*Box 4:3 Assessed Contributions: Advantages and Disadvantages*

| Advantages | Disadvantages |
|---|---|
| ▪ Agreed formulae for assessments | ▪ No guarantee that assessments are paid |
| ▪ Mechanically determined burden-sharing | ▪ Incentive to minimise volume |
| ▪ Predictability of bulk of resource flow | ▪ Disincentive for "super-donors" |
| ▪ Contributions based on capacity to pay | ▪ No incentive for DFP efficiency |

### 4.3.4 The Replenishment Model

Donors and programme countries exhausted with the limitations of voluntary contributions in assuring predictability and stability of resource flows are in danger of losing their faith in the "multiyear pledge" option unless the signals sent out by the February and April 2000 pledging rounds for UNDP, UNFPA and UNICEF are quickly reversed.

There appear to be no real incentives for donors to make multiyear pledges for 3-4 years that are likely to be kept; unless they are extremely low. There are no effective sanctions applicable to donors that, for whatever reason, decide that they cannot, or do not need to, honour their pledges. Pledges for outer years simply did not amount to very much in the recent MYFF exercises for the three DFPs examined. There is no indication as yet that a majority of donor countries will soon change their positions and be more forthcoming in making firm multiyear pledges in reasonable amounts.

With the expected hostility of major donors to any form of assessed contributions in these DFPs, replenishment models based on IDA practices are being mooted as perhaps the only hope left. Replenishment exercises have, by and large, served the MDFs well. Whether they can be adapted to the DFPs remains to be seen. The decision-making structures that made them possible and viable in the MDBs/MDFs – where donors retain control – do not exist in the DFPs.

But, leaving that fundamental problem aside for the moment, replenishments - for anyone who has negotiated one or several of them - are by no means problem free. They have many disadvantages to offset their tempting advantages. But, as with assessments, donors need to agree to accepting the discipline of replenishment exercises and be bound by their mutually negotiated outcomes. They are unlikely to do that without extracting the kind of price in changing the structure of decision-making in the DFPs – whether via constitutional change or by way of binding understandings – that programme countries would not be amenable to at the present time.

Replenishments are obviously costly. But, against that cost, what should be taken into account are the substantial time savings that could materialise if DFP (especially UNDP staff in country offices and at HQ) spent less time ambulance chasing for every additional dollar of supplementary funding they could find in order to utilise available staff capacity better.

*Box 4:4 Replenishment Model: Advantages and Disadvantages*

| **Advantages** | **Disadvantages** |
|---|---|
| ▪ Negotiated agreement on programmes | ▪ Protracted negotiating cycles: 12-18 months |
| ▪ Negotiated agreement on volumes | ▪ Time and effort consuming |
| ▪ Negotiated agreement on priorities | ▪ Financially costly for DFP and donors |
| ▪ Negotiated agreement on eligibility/allocation | ▪ Imposes burdens on scarce staff resources |
| ▪ Negotiated agreement on burden-sharing | ▪ Often contentious, acrimonious, intractable |
| ▪ Binding obligations to release funds | ▪ Bureaucratically/procedurally complex |
| ▪ Relatively stable and predictable resource flows | ▪ Requires legislation and ratification |
| ▪ Built-in room for annual growth in flows | ▪ New layer of policy-making intrudes |
| ▪ Conducive to financial planning and better programming | ▪ May compromise universality principle |
| ▪ Resources matched to programmes | ▪ Will require changes in power balance |
| ▪ Conducive to disciplined management | ▪ Necessitates continuing permanent effort |
| ▪ Less time ambulance chasing | |

### 4.3.5 Mixed-Funding Mechanism

OWG also considered the possibility suggested in NORUN-1 of a mixed funding mechanism that comprised a package of: (a) *voluntary contributions* for supplementary financing; (b) *negotiated pledges* to provide core funding for programmes; and (c) *assessed contributions* to cover HQ and administrative costs. This is not so much a separate option as a combination of three that have already been discussed. It combines the best and worst of three different methods of funding. In doing so, it introduces additional complexity as a trade-off for predictability and sound management. It enables DFPs to utilise the technique of fund-raising most suitably tailored to the purpose for which funds are being raised making it perhaps easier to enhance volume as well.

It is conceptually elegant in its engineered compartmentalisation of three quite distinct sets of problems and issues that the DFPs confront. It allows a DFP's management to focus on protecting core administrative capacity, core programme content, and supplementary add-ons separately and distinctly in the way that they should. Instead, the way in which they are presently compelled to manage these issues required them to make sub-optimal trade-offs across these three elements.

Mixed funding might work if the three separate components worked and could be articulated with one another. But its weakness lies precisely in the difficulty of making each of its three separate components work. If the option of "multiyear negotiated pledges" – falling just short of a replenishment model – really worked, and could be relied upon, that would probably suffice in solving most of the funding problems that DFPs faced. Additional supplementary funding might still be provided outside the negotiated pledging framework through individually determined voluntary contributions. And there would probably be no need for raising the spectre of assessed contributions, that a few influential donors are quite hostile to, for even part of the funding of DFPs.

### 4.3.6 The Multiyear Compact

Based on an analysis of all the foregoing options, the former Administrator of UNDP submitted to the Secretary General in December 1997 *A Proposal for Multiyear Funding for UN Development Operations*. It recommended an approach culminating in the agreement of a compact with each contributor country for multiyear core contributions. The proposal's components, aimed at matching multiyear resources to multiyear programmes, included:

1) Three specific *multiyear planning frameworks* for key elements of the package:
   *Total Resources*: regular (core) and supplementary (non-core).
   *Regular (Core) Contributions*: indicating annual targets for outer years;
   *Burden-sharing*, for regular resources

2) A *multiyear compact with each member country* for making its core contributions.

The *compact* would be drawn up between the Executive Head of each DFP and the contributor countries concerned and signed as a *formal multiyear agreement* to contribute a specific amount to core resources, indicating an annual schedule of payments. It would formalise a mutual obligation on the part of a DFP and a donor country under a legally binding treaty document (which would probably need parliamentary ratification). The agreement would bind the particular donor to making its agreed core contributions on schedule regardless of the behaviour and actions of other donors. The compact would aim at ensuring that a donor's contribution to the UNDFPs was no longer just a subordinate "amorphous residual" of a country's multilateral ODA budget; determined only after treaty obligations and MDF replenishment obligations had pre-empted the bulk of such resources.

Instead, the compact would ensure that core contributions to UNDFPs would be put on the same footing as other obligatory commitments leaving governments with no "wiggle-room". On the other side of the coin, the compact would be drawn up in a fashion that did not result in a country's contribution "disappearing" into a common pool. Although core contributions would not be earmarked for particular purposes, the DFP would provide documentation to show the parliamentarians, auditors and NGOs of each country what that contribution would be used for in subscribing to the overall goals of the DFP.

The *multiyear* frameworks for core contributions, and for burden-sharing, would be discussed and negotiated in the Executive Boards. These would take into account prior discussions and negotiations with all concerned countries, whether represented on the Board in that particular year or not.

The *multiyear core contributions framework* would elaborate targets that donor countries would commit themselves to meeting. It would be an international commitment enshrined in an explicit Executive Board decision. Since not all country co-operation frameworks or country programmes are approved simultaneously, a rolling framework adjusted annually would need to be developed.

The compact would be based on a country's agreed share in the burden-sharing formula, made explicit in a *multiyear burden-sharing framework*. It would indicate the percentage share of each donor country for each year in a neutral fashion reflecting present realities ("what is") rather than desirably equitable arrangements ("what should be"), without value judgements about the fairness of the burden-shares agreed. Such agreement would have to be a compromise reached after protracted political negotiations of alternative burden-sharing patterns.

As a baseline, it was proposed by UNDP that the burden-shares implied in the previous 5-year historical average of contributions should be taken as a starting point. That would address one anomaly that might arise: e.g. if some countries (e.g. the Nordics and the Netherlands), that had been contributing far more than their "fair" burden-share, might want to reduce their contributions, when others that had been "under-performing" historically, might find it difficult to increase their shares to close the gap that would arise.

The proposed *compact* tries to get around the discipline and rigours of a replenishment exercise. It attempts to achieve almost the same thing in practice. But it may require as much effort as a replenishment yet result in a desultory outcome. The compact approach tries to avoid the intrusion of "Deputies" as an intermediate layer of policy-making – an inevitable consequence of replenishments. But it is naïve in the belief that donors would permit the political negotiations involved to be undertaken by representatives on the Executive Boards of the DFPs. It attempts to avoid the trauma of negotiations on burden-sharing in the DFPs. Yet it acknowledges that they cannot really be avoided.

It also tries to avoid the same penetrating discipline and scrutiny applied to programme priorities, use of funds, eligibility and allocation criteria, and country/sector allocations that a replenishment exercise typically incorporates. The concern is that discussions of such issues in a forum dominated by donors would trigger intractable reactions on the part of programme countries. They would raise questions about whether the principle of universality was being compromised and cause controversy about measures that might result in conditionalities being applied by DFPs.

Implicitly acknowledging all these problems, the proposal goes on to argue that as a way of easing into the habit, the compact might at first be negotiated alone with individual donors without the other three elements actually being in place. It makes this suggestion on the grounds that:

> "Politically, negotiating only a compact with individual contributors would be far easier than trying to reach agreement among a group of countries on the other three concepts".

"Burden-sharing would be expected to evolve with each successive *multiyear* programming period, with pressure on both traditional donors who could contribute more and the more prosperous developing countries to increase their shares. …. Burden-sharing would be implicit in the size of each compact but would not be the object of explicit multilateral negotiation on a total framework for burden-sharing".

In brief, the compact idea is basically fudge. It is based on wishful thinking and an unwillingness to face reality about what would really be involved in putting such an idea into practice. Instead it dives and ducks on key issues of concern to donors that would need to be confronted one way or another rather than being cleverly and somewhat disingenuously avoided.

### 4.3.7 A Technical Solution to a Political Problem?

At the end of the day, after considering all these various options, their advantages, disadvantages and viability, the inescapable conclusion is that the UN-DFPs have a fundamentally political problem in organising their funding support. It lies in an element of disinterest, and failure/absence of political will on the part of several of the most influential members of the donor community to do anything serious or substantive about bolstering and regularising financial support for the DFPs. A political problem of that nature cannot be resolved by technical or methodological means. No matter how neat or elegant a particular approach to funding might be it will not be able to generate political will and support. If the political will can be mustered then the funding problem could be resolved even with inelegant, clumsy funding approaches such as voluntary contributions. Acknowledging this point, a report (A/52/431) prepared as background for the Second Committee of the 52nd General Assembly observed that:

" ….. the current funding modality for core resources is not generating the contributions required to meet established programme targets. ….. Any new modality must obviously command wide political support, for the decision to contribute is clearly a political choice, which may be affected more by political considerations than the technical features of a funding modality…."

Given the limitations of voluntary contributions, the apparent early warning signs that *multiyear* pledges for the first MYFF have not yet yielded any promising results, and that the concept of a compact suggested by the UNDP is probably unworkable, the only option left to pursue is that of a replenishment. This issue constitutes the entire subject of the next chapter. But before getting to it one major issue needs to be put to bed first: i.e. *burden-sharing*. While recognising the critical importance of it, most discussions of the subject in the context of UNDFPs, and the papers on the subject that the Study has scrutinised, evoke images of dancing on eggs without risking breakage of even one. This Study departs from that practice and addresses the issues involved frontally – it deliberately breaks the eggs in an attempt to make an omelette.

## 4.4 Burden-Sharing and Funding the UNDFPs

As observed earlier, several of the large influential donor countries - excluding the Nordic group and other like minded countries - do not accept that contributions to the DFPs (whether core or supplementary) should be based on notions of burden-sharing. They adhere to the time-honoured principle that such contributions are quintessentially "voluntary". That principle is upheld with the same fervour by this group of donors as the principles of "universality" and "no conditionality" are espoused by the programme countries. That is the first political hurdle to be crossed if burden-sharing is to be introduced as a material factor in DFP funding. How does one group of donors, which feels it is bearing an unfair share of the financing burden, convince another group of much larger, more influential, as well as more financial and economically capable donors that burden-sharing must become a feature of future funding modalities for the DFPs? How does one get them to sit across a table to discuss burden-sharing based contributions to DFPs without a major political rather than technical "funding modality" initiative?

Those questions are beyond the scope of this Study to answer. A political initiative of this nature needs to be carefully built up through the OECD-DAC mechanism before it can be successfully dealt with in any UN forum. If consensus on the burden-sharing issue cannot be achieved in DAC first, it certainly will not be achieved in the UN. To succeed at DAC, the Nordic donors probably need to convince the larger and smaller European donors who are not yet convinced

(France, Germany, Italy, Spain, the UK, Portugal, Greece) through a European forum. They need to create a European consensus, before even attempting a broader donor community consensus including Japan and the US.

These bilateral and plurilateral political efforts need to be supported with orchestrated bilateral representations to the larger European donors from large, influential programme countries (India, China, Brazil, Mexico, South Africa, Indonesia, Egypt, Korea, etc.) on adopting burden-sharing principles in funding the DFPs. Similar political initiatives need to be pursued and pressure exerted by transition economies (Russia, Poland, the Ukraine etc.).

The larger donors, with major trading and mercantile interests in the developing world, need to be pressed at the highest political level, in no uncertain terms, with the message that this issue is sufficiently important to the larger developing countries for them to put at stake certain mercantile and geopolitical bilateral interests of the larger European countries and of the US and Japan. Such political initiatives also need to be supported by direct political action by NGOs within the reluctant donor countries (in Europe, Japan and the US) that are playing an increasingly (if not disconcertingly) influential role in driving the politics of aid. They also need to be supported by business communities that play a role in funding politics in these countries.

The stakes need to be raised if the poker game on injecting a burden-sharing dimension in funding the UNDFPs is to be played out. In the absence of such political pressures, the larger donor countries are unlikely to shift their present disinterested stance. At present, most of these countries would be content to say (although perhaps not out loud) that if the Nordic and like-minded countries feel they are doing far more than their share then let them do less.

The other donors are certainly not pressing the Nordics and other like-minded countries to contribute as egregiously as they are doing. That pressure comes from DFP managements and programme countries to which the Nordic countries and their cohorts are responding positively. If they chose to do less, the implication is clear – the victims would be the DFPs and their clients, not other donors. Unilateral reductions in contributions by the like-minded group would be unlikely to have the effect of embarrassing or shaming the other donor countries into doing more. It would probably result in the kind of overall reductions in the budgets and programmes of UNDP and UNFPA that would make them fall well below "critical mass" and perhaps trigger their imminent shutdown. UNICEF would be protected from any fallout because of the broad-based political and public support that its mandate and image attracts. It is an institution in which the larger donors do not have any reluctance to make significant contributions except when they feel that top management is falling out of line. That leaves the Nordic countries and their like-minded cohorts in a classical prisoner's or hostage dilemma – how do they move from first base on changing the basis of funding the DFPs without risking the potential demise of the institutions they are trying to support?

Given its ToR, it would not suffice for this Study to leave it at that. Instead it must assume that somehow that political problem can be resolved and must then look at the core burden-sharing issues themselves.

Having considered very carefully the funding patterns of the UNDFPs, and the concerns about unfair burden-sharing raised repeatedly by those countries providing much more than their fair share, the core problems are as follows:

First, burden-sharing issues in UNICEF, on the one hand, and UNDP/UNFPA, on the other, need to be looked at differently. In UNICEF there is no real problem with the US or Japan being willing to bear their fair share of the burden. The problem lies more with the larger and some small European donors. The second problem is that any discussion of burden-sharing in UNICEF is bound to raise issues concerning contributions from National Committees and the private sector in some donor countries vis-à-vis others. Many donor countries that do not seem to be providing enough by way of government contributions are, in fact, contributing substantial amounts from the private side. Should such contributions be taken into account in burden-sharing considerations? What are the implications of doing so? If they should not be taken into account, why not?

Second, should burden-sharing considerations be applied only to core contributions or to supplementary contributions as well? To the extent that supplementary contributions are driven more by donor objectives, priorities and preferences that often impose collateral administrative burdens on DFPs, and risk diverting their core programmes, is it appropriate to include them in burden-sharing composites?

If these questions can be resolved, the next set of questions that arises concerns the formulae for determining fair shares of different donor countries in the UNDFPs. A vast array of arguments can (and will) be made for donor countries to derive percentages for their own shares that suit their own convenience. Perhaps the fairest and most appropriate anchors to use are the formulae used for assessed contributions to the UN-core or the formulae used in deriving shares for IDA replenishments that are also global in nature. The problem with using IDA shares is that they are heavily influenced by the relative shareholding of donors in IBRD. They are influenced by richer developing countries not yet making as large a contribution to IDA as they might be able to afford. They get no "credits" for doing so by way of commensurate increases in their IBRD shareholdings since the present pattern of at least a 60% shareholding for OECD/DAC members in IBRD is regarded as inviolable and sacrosanct.

Taking all the usual arguments and reasoning into account, perhaps the fairest, most neutral starting point is to use smoothed out shares in global GDP although a question arises about whether this should be valued at market or PPP exchange rates? Other indicators such as share of world population and share of world trade as well as share of global reserves might be taken into account. Assuming that these four indicators are used as the basis for determining shares, what should their respective weights be? Across its membership what burden-sharing strategy should the DFPs pursue? Should shares be based entirely on these indicators? Or should there be exemptions or absolute limits for the poorest countries

– say those with per capita income of below US$500 in 1998? Should these exemptions apply only to small poor countries or include countries like China and India - that are major regional powers - as well? These questions need deeper consideration and more thoughtful resolution than has been possible in this Study which has looked at the burden-sharing exercise from an illustrative rather than deterministic viewpoint.

As a starting point, key burden-sharing indicators could be considered by applying different weights to different indicators on a per-country grouping basis as shown in Table 4:1 below. In shaping burden-sharing strategy and tactics, the contributing countries that need to be focused on fall into the following eight categories:

- United States
- Japan
- European Union (large economies, Nordics, like-minded, others)
- Arab OPEC countries
- Newly Industrialised Rich Countries
- Transition Economies
- Large Programme Countries that are littoral powers
- Other Programme Countries.

Each of these categories needs to be looked at from the viewpoint of their normative shares that would arise by applying the four indicators (using appropriate weights) above. What such an analysis would indicate could be outlined in the following manner.

*Box 4:5 Shares of Countries and Major Groups of Countries in the UNDFPs*

| Present vs. Fair Shares | UNDP | UNFPA | UNICEF |
|---|---:|---:|---:|
| United States | Too Low | Too Low | High/Fair |
| Japan | Low | High | Low/High |
| Large EU Economies | Too Low | Low | Low/Fair |
| Nordics & Like-minded | Too High | Too High | High/High |
| Small Euro-economies | Too Low | Too Low | Low/Fair |
| Arab OPEC countries | Too Low | Too Low | Too Low |
| Newly Industrialised Countries | Too Low | Too Low | Too Low |
| Transition Economies | Fair | Too Low | Too Low |
| Large Programme Countries (littoral powers) | Too Low | Too Low | Too Low |
| Other Programme Countries | Too Low | Too Low | Too Low |

*Table 4:1 Possible Burden-Sharing Indicators for the Funding of UNDFPs (amounts in %)*

| | World GDP | World Population | World Trade | World Reserves |
|---|---|---|---|---|
| United States | 25.69 | 4.61 | 26.98 | 8.30 |
| Japan | 16.09 | 2.19 | 13.67 | 11.65 |
| Canada, Australia, New Zealand | 3.63 | 0.84 | 9.59 | 2.32 |
| **Sub-Total** | **45.41** | **7.64** | **50.24** | **22.27** |
| Germany | 8.23 | 1.42 | 17.65 | 6.11 |
| France | 5.39 | 1.01 | 10.38 | 2.94 |
| Italy | 4.23 | 1.00 | 8.64 | 3.64 |
| United Kingdom | 4.01 | 1.02 | 10.27 | 2.41 |
| Spain | 2.03 | 0.68 | 4.30 | 3.29 |
| **Sub-Total** | **23.89** | **5.14** | **51.23** | **18.40** |
| Denmark | 0.61 | 0.09 | 1.80 | 0.76 |
| Norway | 0.55 | 0.08 | 1.69 | 1.39 |
| Sweden | 0.88 | 0.15 | 2.79 | 1.08 |
| Finland | 0.43 | 0.09 | 1.29 | 0.39 |
| **Sub-Total** | **2.47** | **0.41** | **7.57** | **3.62** |
| Netherlands | 1.37 | 0.27 | 6.37 | 2.05 |
| Switzerland | 1.03 | 0.12 | 3.45 | 3.57 |
| **Sub-Total** | **2.40** | **0.39** | **9.82** | **5.62** |
| Other European | 2.84 | 0.75 | 11.72 | 5.08 |
| Arab/OPEC Group | 1.36 | 3.97 | 2.29 | 1.66 |
| Newly Industrialised Countries | 4.85 | 3.22 | 22.49 | 14.28 |
| Transition Economies | 3.22 | 6.80 | 8.69 | 4.39 |
| Large Programme Countries | 10.63 | 53.73 | 17.46 | 15.03 |
| Other Programme Countries | 2.42 | 15.73 | 6.12 | 4.36 |

Source: World Development Indicators, World Bank 1998 (1996 figures)

As the matrix in Box 4:5 indicates, there is an imbalance in burden-sharing across these different country groupings and it varies depending on the DFP concerned. There is a clear problem in UNDP with all major donors other than the Nordics and like-minded group contributing far too little to core resources. That may stem from continued confusion or disaffection over UNDP's very large remit and amorphous mandate that still remains problematic, despite the boiling down and extrusion that has taken place in the MYFF process. It may also reflect some concern and scepticism about whether UNDP is really equipped to “move upstream” or whether its anxiety to do so before the institution is geared (in terms of staff and management capability) to accommodate such a move successfully will result in further problems rather than successes.

There is also a problem with the low shares of the larger European economies in DFP contributions. It is not the intent of this Study, nor would it be appropriate, to single out individual countries in this group and comment on their motives, proclivities, orientation and posture in individual DFPs. However, their positions, judged by their contributions and actions, are obvious from the record. Of the large European donors, the UK is perhaps recovering the most lost ground with an increase in contributions to all DFPs resulting from its enlarged ODA budget consequent to the change of government in 1997. If its ODA budget increases in line with the election promises made by the present government, it should continue to be a beacon of increasing contributions in an otherwise bleak environment.

Germany has an acute budget problem that it has had some difficulty grappling with in the aftermath of unification, EMU, and the need to reduce taxes and create greater structural flexibility in the fiscal system to bolster competitiveness. That resulted in some uncomfortable trade-offs by way of sharply diminished contributions to UNDFPs – reflecting that they were the only fungible component of the multilateral ODA budget from which cuts could be made without defaulting on legally binding obligations to other multilateral institutions. Other large European donors have faced similar problems though not to the same degree and their relatively low proclivity to contribute needs to be subject to scrutiny. That is also true of Canada which hopes to bottom out and return to a more normal situation in coming years.

The Nordic donors and other like-minded European countries (the Netherlands and Switzerland) have been bearing a much larger share of the DFP financing burden than is reasonable. Only if private contributions from other countries are included do the shares of these countries in UNICEF appear to be moderated toward better balance.

Among the smaller European economies, Ireland intends to stay on track to reach a 0.7% ODA/GNP target in the not too distant future. With a relatively small bilateral programme it expects to increase significantly its contributions to multilateral institutions including the DFPs. Luxembourg apart, other smaller members of the EU could perhaps pull more weight in the generosity of their contributions.

Beyond these groups, virtually every other grouping of potential contributor countries is playing an insufficient part in supporting international institutions that are part of a global system from which they derive considerable benefit. Clearly when the GLOC contributions of programme countries are taken into account they are seen to contribute a large share of UNDP's overall programme costs. But such contributions are entirely self-serving and do little to contribute to UNDP's core capacity. All these other groupings could and should do much more to make contributions to core funding that approximate their weight in the global economy as suggested by the indicators used.

In looking at the burden-sharing challenge from this perspective, a series of questions arise for the shaping of burden-sharing strategy. For example, would OECD/DAC donors be more inclined to increase contributions to core funding if their aggregate contribution was limited to a gradually diminishing percentage of the total core resources being raised. Could, for instance, a bargain be struck and understandings reached of mutually acceptable shifts in the proportions paid by different country-groups over time based on the following patterns of burden-sharing across these groups?

*Table 4:2 Shifting Maximum Percentage Shares in Total DFP Core Contributions made by Governments over time (%)*

| | 2000 | 2004 | 2008 | 2012 | 2016 | 2020 |
|---|---|---|---|---|---|---|
| United States | 15 | 16 | 16 | 16 | 15 | 14 |
| Japan | 12 | 13 | 14 | 14 | 13 | 12 |
| Large EU Economies | 25 | 27 | 27 | 25 | 24 | 23 |
| Nordics & Like-Minded | 42 | 30 | 23 | 20 | 18 | 17 |
| Small European Economies | 3 | 4 | 5 | 5 | 5 | 4 |
| **Total OECD-DAC** | **97** | **90** | **85** | **80** | **75** | **70** |
| Arab OPEC countries | 1 | 2 | 4 | 5 | 6 | 6 |
| Newly Industrialised Rich Countries | 1 | 3 | 4 | 6 | 8 | 9 |
| Transition Economies | 0,5 | 2 | 3 | 4 | 5 | 6 |
| Large Programme Countries (littoral powers) | 0,5 | 2 | 3 | 4 | 5 | 7 |
| Other Programme Countries | 0 | 1 | 1 | 1 | 1 | 2 |
| **Total non OECD-DAC** | **3** | **10** | **15** | **20** | **25** | **30** |

If the notion of such a time-shift could be accepted, it might be an attractive incentive to put the burden-sharing issue on the table as an agenda item for discussion not just among the OECD-DAC donor countries but across the entire memberships of the DFPs. The DFPs' funding would probably be secured and anchored if non-OECD/DAC members could be persuaded to contribute rising proportions of total core contributions (which the donors see more as institutions controlled by the non-OECD countries) to successive replenishment until by 2020 a 70:30 ratio of contributions by the OECD: Non-OECD groups was established and stabilised. Agreeing to such a pattern of contributions with a time-shift built in would also match the majority voting “rights” that programme countries have in these DFPs to the “obligations” of funding them more meaningfully.

The prize of genuinely fair burden-sharing across both DAC and non-DAC countries might be so worth winning that traditional donors with different views about how voluntary their contributions are within OECD might be persuaded to rethink their positions and look again at the burden-sharing issue. At the same time, with programme countries agreeing to bear an increasing proportion of the core funding burden might become more realistic about the rate at which core funding should be increased. The win-win potential of such an approach is considerable if all countries (reluctant donors as well as programme countries) could be persuaded of the merits of such a proposal after overcoming what is certain to be an initial shock at being presented with it.

Once burden-sharing is accepted as a principle, then other things begin to fall into place. It becomes much easier to contemplate binding *multiyear* pledges or fully-fledged replenishments if those are deemed more desirable and viable.

In short, as far as the over-burdened countries are concerned, the way to get to fairere burden-sharing involves a political rather than technical approach. The three main burden-sharing distortions in funding the DFPs are that:

- Except in UNICEF, the US is disinclined to contribute to the level of its "fair share" as indicated by traditional burden-sharing indicators in DFPs or MDFs (an issue discussed further in Chapter 6). That leaves a "gap" of 8-10% in filling any replenishment geared to indicator-based burden-sharing. But in UNDP and UNFPA the gap is even larger (about 15%) and needs to be narrowed.

- As a whole the large European economies, with the exception of the UK, are under-performing in meeting fair burden-sharing obligations where DFP funding is concerned. One way of circumventing that problem is by making a European contribution to the DFPs based on the same assessment formulae as for the EDF. Indeed, taking that thought one step further, the current situation facing the EU is one of two problems that might be solved through lateral thinking. The EDF and European aid programme is today the most over-funded but under-administered programme in the global aid industry. In contrast, UNDP has global aid machinery and capacity that is being under-utilised because of a chronic, endemic core funding shortage. In the short and medium term, the resources of EDF could be married to the capacity of UNDP to serve the interests of the ACP countries under an imaginative framework agreement. This idea is worth considering by all European countries at least as a short and medium term solution to the DFP funding problem. But it has collateral advantages that go beyond simply solving UNDP's funding problem or achieving fairer burden-sharing for financing the DFPs within the EU.

- The non-DAC and programme countries now need to be engaged in fairer burden-sharing as well. These countries (especially in PPP terms) now represent nearly half the output of the world. They are significant players in the global trading system accounting for over 30% of world trade. They are significant holders of the world's international reserves. It is true that the OECD world with about 850 million enjoys a per capita income averaging US$22,000. The non-OECD world with 5.15 billion people has an average per capita income of about US$2,000. But that disparity by itself cannot justify, on the basis of any fair burden-sharing indicators, the non-OECD world providing just 3% of core DFP funding. A compact needs to be entered into whereby as part of their global obligations the non-OECD countries agree to increase gradually their share of the DFP funding burden from 3% to 30% by 2020. This will require considerable political effort but it is an objective that should be put before the high-level consultation on FfD in 2001 as a major agenda item for agreement.

### 4.4.1 The Burden-Sharing Discount for the USA

Most burden-sharing discussions in MDF replenishments, assessed contributions for the UNO and SA's, and for other multilateral development funding operations (with the exception of UNICEF) have often floundered on the disinclination of the US to contribute the amounts indicated by traditional notions and formulae for "fair burden-sharing". There is a long history to this issue that is not worth reiterating here. Nevertheless, it colours all multilateral funding negotiations.

The reluctance of the US to accept what Europe and Japan think is a “fair” share of the multilateral development financing burden is rooted not just in legislative difficulties with obtaining Congressional authorisations/appropriations for the multilateral aid account. It also relates to US concerns that Europe and Japan do not take sufficient account of the other “burdens” that the US finances more than its fair share of.

The point is often made that the US bears a *global security and defence* burden that no other country matches to the same degree. This, however, stems from a preference on the part of the American public to associate (in ways that are not entirely clear or transparent) their own security with that of the rest of the world. Moreover, although this is often asserted, and it is almost certainly true, there is no credible estimate available of the precise net additional burden that the US actually does bear on behalf of the rest of the world. There is no clear indication of whether European, Japanese and Korean bilateral offset payments made to shelter under the US’ safety umbrella have been accounted for in the assertions made. For this issue to be put to bed once and for all, a study needs to be done in the OECD-DAC framework on estimating exactly what the net additional costs of the global security burden being borne by the US actually are. Instead in implicit acknowledgement of this probability, a de facto “discount” of between 8-10% applied to its development financing share has now become an axiomatic feature of the multilateral financing system.

Similarly, the US often asserts that it bears a much larger burden of keeping open the soft infrastructure that permits most of the world’s physical, service and electronic commerce to take place. It bears the burden of keeping its labour and agricultural markets, as well as its markets for goods and services more open than either Europe and Japan and therefore does more for the cause of genuine development than would be implied by the simple financing of aid. It also does much more by way of private investment and commercial flows to developing countries as well as reverse flows of remittances. The cost to the US has been to run sustained and growing balance-of-payments deficits that have converted its status from the largest net creditor nation in the world to the largest net debtor nation.

Whether these “costs” (or burdens) to the US are offset against the gains that accrue to it in terms of reverse portfolio flight from developing countries to the US and the seigneurage gains from foreign holdings of cash dollars is unclear. Also, all of these costs have associated benefits. For example, while the US may well bear a disproportionate burden of immigration from the developing world, the US probably benefits more than any other nation from the “brain drain” effect that is so costly to many developing countries. Again, all of these arguments (and their net/gross implications) resonate meritoriously. However, it is as difficult as with the “security burden” assertion to judge their financial value to the developing world in terms of an “aid equivalent” similar to a “grant equivalent” concept. They too merit a serious study in the OECD-DAC context to determine, in rough orders of magnitude, how much more of a burden the US actually bears than other donors and whether it needs to be taken into account in burden-sharing negotiations.

In effect what these arguments amount to is that traditional, time-honoured ways of looking at burden-sharing and deriving indicator based formulae may be a partial and ineffectual way of capturing the genuine elements of burden-sharing in financing development. That, however, raises the danger that widening the framework of burden-sharing to include all of the indirect and direct costs/benefits involved, would introduce a level of complexity that would probably result in a breakdown of any sensible, comprehensible way of arriving at reasonable conclusions on "fair" burden shares.

The reason for dwelling on this point is that the net effect of the de facto US position on burden-sharing in the DFPs (excluding UNICEF) will be to leave a "hole" of 8-10% of the overall resource envelope that other donors have to agree to, and find ways of, filling. In the DFPs, that "hole" of 8-10% created by the US is widened by a further 20-27% "gap" created by non-DAC countries in the DFP membership. It is clear that if a replenishment is resorted to for the DFPs, the DAC members will need to engage in a serious dialogue with non-DAC members and arrive at a workable "bargain" or interim *modus vivendi* on burden-sharing; while, at the same time, defining the path to achieving "balance" within an acceptable, mutually agreed time bound target date.

# 5 A Replenishment Model for the UNDFPs

Chapter 5 reviews the requirements of a replenishment mechanism and analyses the various implications in order for the mechanism to be adopted by the UNDFPs. Further, a simulation is undertaken for UNDP and UNICEF in order to access the consequences of adopting a replenishment mechanism.

## 5.1 Introduction: The Replenishment Period

In discussions about mobilising resources on a more secure multiyear basis, reference has frequently been made to a replenishment model as being a more promising basis for funding the UNDFPs than voluntary contributions, multiyear pledges or assessed contributions. The belief is that replenishments would make the inflow of financial resources more predictable and assured over a number of years because they would integrate a number of negotiations on key aspects from programmes to resources and make the agreed commitments of contributing countries legally binding.

In the case of the DFPs, the most appropriate replenishment period would cover two biennia. One biennium would be too short; three too long. The typical replenishment period of three years for the MDFs, appears to be preferred by most donor governments. It is the optimum period over which they can confirm outer year commitments with any degree of certainty under rolling budget frames. But in the DFPs it would cut across the middle of the second biennium. Unless, therefore, the DFPs shifted to an annual budgeting framework within a 3-5 year rolling budget basis as the MDFs do, the period of two biennia for a replenishment would make the most sense from a multiyear planning and programming point of view under the MYFF.

Chapter 4 alluded to the two Nordic-UN Initiatives suggesting the possibility of the DFPs adopting a modified replenishment model for future funding. The present system of voluntary contributions confirms the need for moving to a better system. Desultory outcomes of attempts in 1999 and 2000 to make multiyear pledging work in the DFPs point in the same direction. Many donors are inclined to argue that multiyear pledging needs to be given more of a chance through at least another annual cycle to see if better results can be achieved. Many donor governments claim they have structural impediments in making firm commitments for outer years. They also claim to have difficulty with making such commitments binding under their existing legislative regimes. Conveniently, they forget to mention that such regimes can be, and have been changed when the political will has existed to do so.

These somewhat disingenuous ploys on the part of donors - in claiming an absolute disability to do for the DFPs what they already do for the MDFs - do not hold out too much hope that multiyear pledging will yield the results anticipated earlier. That stands in contrast to their enthusiastic advocacy for the MYFF approach as indicated in Chapter 2. Nor does the insufficiency of political will across the most influential part of the donor community - to support the DFPs as they should be supported - portend well for the future success of multiyear pledging. The specific advantages, disadvantages and consequences of replenishments vis-à-vis other options for funding have been elaborated upon at length in Chapter 4. This chapter now explores how a replenishment might work in the case of the UNDFPs.

The extensive discussions undertaken in the course of this Study with senior officials of various UN agencies and donor representatives indicate that there is perhaps a need to enhance understanding of what the concessional multilateral development fund replenishment model (MDF-RM) comprises and how it actually works. The model focused on in this chapter is patterned on the World Bank's soft-window affiliate: i.e. the International Development Association (IDA) replenishments. In the case of all the main global and regional concessional funds (IDA, FSO, AsDF and AfDF), the "model" and its constituent elements are modified to suit the particular circumstances of each institution. In every case they are refined (sometimes they are made unnecessarily and unproductively complex) with each successive replenishment. The same experience will evolve in the DFPs if they eventually do shift to replenishment-based funding.

The brief exposition encapsulated in this chapter attempts to capture the main defining characteristics of the MDF-RM to establish a conceptual baseline from which essential modifications and deviations might later be contemplated to accommodate the unique features and peculiarities of individual UNDFPs.

## 5.2 How a MDF Replenishment Works

The essential elements of how a replenishment model works are summarised in the box below.

*Box 5:1 Summary of Steps to be taken in a Replenishment Model*

1. Review of the use of funds under previous replenishments
2. Negotiations on the volume of the Replenishment
3. Operational programme priorities
4. Eligibility and allocation criteria
5. Conclusions of negotiations
6. Post agreement funding arrangements

**Key Elements of the MDF Replenishment Model**

The main features of the MDF-RM, depicted in deliberately simplified stylised form, involve the following sequential steps:

A. *Review of the* ***Use of Funds***: Negotiations for each MDF replenishment usually begin with an overall appreciation and evaluation of the *deployment*, *effectiveness* and *outcomes* of funds committed and disbursed under previous replenishments. Particular emphasis is placed on funds provided under the immediately preceding replenishment. This is an essential prelude to establishing a consensus among donors (and between the MDF management and the collective donor community) about the *need* for the replenishment being negotiated and the *intended use of funds* across activities and countries. In the MDFs, this step is preceded by a series of internal papers that explain estimates for country-by-country and region-by-region concessional resource needs over the coming replenishment period. Such forward estimates take into account prevailing operational priorities and mandates, and any special circumstances that may demand extra resources. Papers on the subject are exchanged across all operational units and the resource mobilisation unit in the MDF concerned. Sometimes such papers are synthesised and discussed in the Board of Executive Directors of the MDB/MDF after informal consultations with individual EDs from key donor and recipient countries have been held. Board discussions usually result in an institutional position being taken on what target range needs to be established in defining the MDF's management/board position on the next replenishment size.

B. *Negotiations on the* ***Volume*** *of the Replenishment*: Following the review described above, the focus of negotiations shifts to the *quantum* of funds needed under the current replenishment period. These negotiations invariably start with the MDF concerned putting on the table for donor consideration a target that represents the "minimum necessary" for desirable development outcomes to be achieved. Donors usually react to such targets (almost in a knee-jerk ritual that has become part of the replenishment game as it unfolds) as being excessively ambitious and unrealistic. They suggest that *realpolitik* requires a lower target to be set, if negotiations are to be concluded in a conscionable span of time. In the negotiations that ensue before a replenishment size is finally agreed, donors demand a flood of detailed information on the estimated development benefits and outcomes, as well as the imputed costs and consequences, if the target amount is not forthcoming, of different replenishment scenarios. Usually these range around +/- 25% of a notional "base-case" scenario. The estimates of "negative consequences" made by the MDFs are based on sophisticated (but suspect) simulations of different funding and allocation scenarios rooted in past development, investment and growth experience on a country-by-country basis. In particular circumstances (e.g. during the debt crisis of the 1980s which devastated much of Africa) the need for fast-disbursing adjustment loans may be factored in. As is always the case in trying to judge anything counter-factual, the estimates are inevitably sensitive to the assumptions used. MDFs of course use the most convenient assumptions to support their proclivity to *maximise* replenishment size. Ostensibly this is done to serve their recipients. But in reality it is aimed at increasing their annual commitment levels of soft funds and maintain a growth trajectory of at least around 4-5% *in real terms* to protect their institutional sense of self-worth. With equal enthusiasm, donors contest the credulity of these assumptions until both sides agree on a replenishment figure that, oddly enough, usually approximates the base-case scenario.

C. ***Operational Programme Priorities***: Part and parcel of the negotiations on volume is an accompanying negotiation among donors (and between donors and the MDB concerned) on the specific *operational and programme priorities* (i.e. activities and themes) to be accorded to the use of funds provided under the replenishment. Such negotiations are invariably focused on changes (whether evolutionary or revolutionary) from the priorities emphasised under the preceding replenishment and the justification for such changes. Ostensibly, shifts in priorities are supposed to be based on material changes perceived by donors in the conditions and circumstances of recipient countries. More often than not, however, they reflect changes in donor preferences resulting from their own domestic political compunctions and pressures. Such pressures are exerted most forcefully and effectively by politically active, single-issue lobby groups (and coalitions of them) that have become increasingly influential in determining, or occasionally derailing, MDF activities and development outcomes. Sometimes, more justifiably, changes in priorities from one replenishment to another may reflect seminal shifts in development thinking and the emergence of new concepts (e.g. the importance of human and social capital) relevant to development thinking that emanate from academic and applied research.

D. ***Eligibility & Allocation Criteria***: After replenishment volume and priorities have been broadly agreed, an often complex negotiation among donors, and between donors and the MDF concerned, ensues on *eligibility and allocation criteria*. These concern the rules to be applied in determining the amounts that specific countries (if they are very large e.g. India and China) or regions (e.g. Africa, the Caribbean etc.) to be assisted under the current replenishment should receive. Negotiations usually focus on changes in such criteria from the previous replenishment, modalities of their application, and allowances/justification for specific exemptions (e.g. for all small states and/or small island economies). This aspect is usually accompanied by a synoptic preview of the amounts likely to be allocated across eligible countries from replenishment proceeds in both relative and absolute terms.

E. ***Burden-Sharing***: The traditional approach to MDF replenishments has been to establish in principle the various parameters referred to above before donors and the management of the MDF in question are prepared to broach the most difficult part of the replenishment exercise. In-principle agreements on replenishment parameters are, of course, reached without prejudice to the eventual position that any donor country might take about the absolute amount of its contribution until all negotiations are finally concluded; in particular, the negotiations on *burden-sharing*. These negotiations are guided by *objective quantitative indicators* reflecting the relative size, weight and importance of each donor country in the global or regional economy and its relative shareholding in the parent-MDB of the MDF concerned. That is what is supposed to happen in theory.

What materialises in practice is different for particular reasons noted below. It is also different from indicator-based burden-sharing because donor contributions to succeeding replenishments are, more often than not, based on budget baselines (*in local currency*) established in the previous replenishment. That is invariably the case unless tectonic shifts have occurred in the budgetary positions of particular donors. Sometimes a particular political compunction may drive a donor's contribution up or down significantly. It may be driven by a compelling desire on the part of a particular donor government to increase its shareholding in the parent MDB to reflect properly its weight in the global or regional economy. Or the shift may reflect different aid priorities of a new government (as is the case with the UK now). Sometimes, less justifiably, a donor country may increase its contribution to secure the appointment of one of its nationals to a senior management position.

What started out in early replenishments as fairly simple and straightforward indicators – numbering no more than five or six – have become more numerous and complex. About 30 indicators have been used under the twelve IDA replenishments that have been negotiated so far. Sophistication based on too many indicators is often spurious and not very helpful. It obfuscates more than it illuminates. When donors ask for unreasonably large numbers of burden-sharing indicators it is usually to defend the indefensible – i.e. an unconscionable reduction in share from the previous replenishment that is being sought by a country for whatever reason, but is not justified by the simpler and more transparent indicators of a country's weight in the global economy and its capacity to pay for maintaining a multilateral system that is ostensibly in everyone's interest.

Burden-sharing discussions for IDA usually revolve around five major sets of indicators: (i) share in the global economy; (ii) share in global population; (iii) share in global trade; (iv) share of global reserves; and (v) proportionate shareholding in the capital of the IBRD. In other MDF-RMs similar indicators are modified to suit the circumstances in question (e.g. regional shares instead of global). To some extent, the indicators reflect the basis on which the relative position of a country is decided in the shareholding of the associated MDB.

Such indicators provide a starting point for suggesting what the shares of particular donors might be in any given replenishment. They allow for changes that may have taken place in the relative economic standing of donors with the passage of time. But actual negotiations are moderated by arguments that revolve around other issues. These may include, for example : (a) the share of a particular donor country in procurement expenditures under both MDB and MDF loans and credits over the previous 5-10 year period; (b) current budget capacity and especially recent declines or increases in a particular country's aid budget; (c) prevailing monetary constraints affecting the tightness or laxity of monetary policy influencing the government's borrowing costs; (d) movements in exchange rates affecting competitiveness and the current valuation of a particular country's share against the replenishment *numeraire* (i.e. whether dollars or SDRs or Euros); and (e) trends in current account positions that may be putting pressure on the government's fiscal, monetary or exchange rate stance at a particular moment in time. Some countries may take into account the number of their own nationals in leadership and senior management positions in the institutions concerned, or their particular foreign policy interests (e.g. in particular parts of Africa) in determining their contributions. In theory, these non-objective factors should not play any rational role in determining burden-sharing in the strictest sense. In practice, however, they may be more important than the objective indicators in deciding a particular donor's eventual contribution to a particular replenishment. Their importance depends on the kinds of arguments that a donor government feels it has to make in order to convince its public and parliament of the justification for its contribution to a particular MDF. In the average democracy, governments usually feel under pressure to relate, in some fashion (usually spurious), their contribution to a particular MDF or UNDFP to the overall economic and/or political cost/benefit accruing to that donor country from making it.

F. ***Conclusion of Negotiations*****:** It is only when agreement is reached on burden-sharing that final adjustments are made on volume to accommodate the aggregate amount derived from the positions of donors. The replenishment negotiations are wrapped up in a final document reflecting agreement on all the elements enumerated above.

G. ***Post-Agreement Funding Arrangements***: After a replenishment has been agreed, donor countries usually get such agreements ratified by their parliaments within a specified period of time (usually between 3-9 months) before annual *commitment authority* under the replenishment can be provided to the MDF concerned and before *disbursements* can begin. Once parliamentary ratification is obtained, the funding commitment made by a donor country under that replenishment becomes *legally binding*. In most countries, parliamentary systems do not separate powers between the legislative and executive branches (i.e. where the party or coalition with a majority in parliament is the party or coalition that forms the government). In these countries governments have little difficulty in obtaining, as a matter of course, the annual budgetary appropriations needed to disburse against their commitments to replenishments once parliamentary authorisation has been obtained. In the United States, where there is a separation of powers between the legislative and executive branches of government, and where the party controlling the Executive Branch may not control either of the houses of Congress, the authorisation process and the appropriations process follow two distinct and separate tracks with uncontrollable and unpredictable outcomes. The executive branch in the US cannot always rely on obtaining approval from the legislative branch for its authorisation or appropriation requests in the same way that most European and the Japanese governments can. Authorisation is a necessary condition for appropriation. By itself, it is not a sufficient condition. For that reason, the US government usually has more legislative difficulty and complexity than most donors in obtaining authorisation legislation and separate approval for appropriations under its annual budget legislation. Commitment authority is released by donor countries through annual *Note Deposits* over three or four years (depending on the replenishment period). It is against these notes that cash amounts are drawn down to meet the MDF's disbursements (allowing for a pre-agreed liquidity cushion) against the credits funded by the replenishment on a back-to-back basis.

H. ***The Commitment vs. Disbursement Distinction under MDF Replenishments***: Credits funded by MDF replenishments are committed over a period of 3 years. In almost all the MDFs, donors have had difficulties in ensuring that the US (given its unique legislative difficulties in authorising and appropriating funds for multilateral institutions) makes note deposits at the same time as themselves in the appropriate proportionate amounts. Consequently, most donors now link their releases of annual commitment authority to proportionate releases of commitment authority by all other donors on a *pari-passu* basis. Such arrangements can (and often have) resulted in volatility in the annual levels of MDF commitments when all donors do not take the necessary action, obtain parliamentary approvals and make their note deposits at the same time. In practice many (but not all) donors provide some flexibility in pre-releasing their own commitment authority ahead of other donors to avoid sharp annual fluctuations in the annual amounts of credits committed by the MDFs. *Cash disbursements* made under these credits are usually over 8-10 years in the case of projects, and 2-3 years in the case of structural or sectoral adjustment programmes. Hence, the actual cash cost of a replenishment to donors is spread out over ten years and distributed along a bell-shaped curve. Disbursements usually hit a peak about 5-6 years after the replenishment has been agreed. When a number of successive replenishments have been agreed over time, the annual disbursements on all of them cumulatively begin to approximate the average amount of the annual commitments and note deposits that donors make. Every year, donors find themselves making disbursements against note deposits for the previous 3-4 different replenishments. The distinction between commitment authority spread out evenly (or in gradually rising fashion) over the replenishment period, and disbursements occurring over a much longer period in the MDFs, does not apply in the case of UNDFPs. Disbursements under their country assistance programmes are likely to be made within 12-15 months of being approved or committed. For that reason, if the UNDFPs were to contemplate adopting a replenishment model for raising resources, donors would need to make annual note deposits at the beginning of each year and allow encashment of those notes over no more than 4-6 *quarters*.[6]

## 5.3 Applying a Replenishment Model to the UNDFPs

Chapter 4 outlined in abbreviated form the advantages and disadvantages of DFPs taking the replenishment route to fund raising. Some of these are sufficiently obvious to require no further explanation. Others need to be elaborated on in some detail to ensure that DFPs and their interlocutors appreciate what is involved. In considering whether a replenishment model might be appropriate for individual UNDFPs, the factors that need to be taken into account include: economies of scale; the staff and budget burdens imposed on the institutions concerned and whether these are proportionate or affordable relative to the ostensible benefits to

[6] Even under the present system of voluntary contributions and annual pledges, it should be possible for DFPs to convince donors that their pledges should be in the form of binding note deposits made at the start of each donor's budget year and disbursed over the next 4-6 quarters. That would introduce an element of "surety" and discipline in making the pledging process more formal and less loose than it presently is.

be derived; the homogeneity of the resources being raised; clarity and simplicity of mandate; the political acceptability or popularity of mandate; and the possibility of a new and intrusive extra-constitutional layer of policy and decision-making.

### 5.3.1 The Costs of Replenishments

As the foregoing outline of a typical MDF resource mobilisation negotiation suggests, replenishments are time-consuming and expensive for the institutions concerned and donors alike. In the MDFs they usually take place over a cycle of 12-18 months depending on how far the donors are apart in their initial views on replenishment size and burden-sharing. Some replenishments have taken longer to conclude. The last IFAD replenishment took five years; but that was an exceptional case. Replenishment exercises impose severe burdens on the institutions concerned in terms of staff time and budget cost in preparing a series of papers that need to be presented to their Executive Boards before they are presented to the officials from donors governments (often called Deputies) actually involved in the negotiations. They also involve considerable time and costs in organising between 4-6 (sometimes 7-8) major meetings of government officials at which the various issues outlined above are negotiated. Replenishments are also expensive for donor governments in terms of staff time and travel costs.

However, against these costs, a balancing item that has to be considered, are the savings that would result in DFPs from less time spent on chasing every dollar of supplementary funding needed to avoid crippling core programme delivery.

### 5.3.2 Implications for Governance of the UNDFP

One factor that needs to be considered particularly carefully in the case of the UNDFPs is the intrusion of a new layer of donor officials becoming involved in establishing the agenda and guiding the operations of the DFPs. In all the MDFs, the replenishment model of resource mobilisation has resulted in the intrusion of the Deputies as perhaps the most influential layer of policy-making in the MDFs. Their role in determining operational priorities, as well as eligibility and allocation criteria, has often been more decisive than the role of resident Boards of Executive Directors or the Boards of Governors. Indeed, via intra-institutional osmosis, their role in MDF agenda and priority setting has permeated from the soft-window MDFs into the hard-window MDBs themselves; although the role of the Deputies is not legally connected to the latter.

If the MDF replenishment model is applied in the UN system, it is likely that a new layer of policy and decision-making in the DFPs *may* also be introduced. It is unlikely that donor governments will be content to let the officials, who now represent their countries' interests in the executive boards of the DFPs, negotiate and make firm commitments of resources under a replenishment on their behalf. That is more likely to be done (as it is in the MDFs) by heads of multilateral or UN departments in the capitals of donor countries; in ministries of foreign affairs, development assistance, or (in some instances) finance. In meetings of Deputies aimed at discussing replenishment issues, special mechanisms may need to be devised to enable adequate participation of programme countries on policy and operational matters; even if they are not involved in negotiations concerning burden-sharing. Such mechanisms are likely to pose more problems in designing, agreeing and regulating in UN institutions that are governed by unweighted voting systems than those governed by weighted voting systems (i.e. the MDFs) in which the donor countries already have a majority say.

The possible intrusion of a policy-making and governing layer of donor Deputies, as one of the prices to be paid for the relative security of adopting a replenishment model of funding for the UNDFPs, triggers the awkward question about whether such a governance mechanism can be reconciled with the principle of universality. In the UNDFPs, the developing countries have adhered to this principle as being an uncompromisable bedrock of their charters. To them it is of paramount importance to retain the integrity and character of the UNDFPs as institutions governed by democracy among sovereign states (i.e. one state, one vote) and avoid the risk of their becoming clones of the IFIs in being governed by the democracy of dollars (i.e. one dollar, one vote or something roughly to that effect). To counter that view, donors assert that the funding problem of the UNDFPs arises precisely because of donor discomfort with a lack of democratic accountability; although when all the ingenuous arguments are stripped down, even the donors have to acknowledge that what they are really uncomfortable with is lack of absolute control. Donors who provide 97% of the funds have less than 20% of the votes in the UNDFPs. They cannot expect to secure approval in their parliaments for funds that will be spent with them having very little say (if voting majorities prevailed) as to "for what" and "how efficiently". Donor countries therefore feel that they are suffering from the UN equivalent of “taxation without sufficient representation”; with the term representation being loosely interpreted as insufficient weight in decision-making to reflect even partially their weight in core and total funding. The issue is how these two contrasting positions can be reconciled in a way that does not compromise either the integrity or the funding of these institutions.

On the face of it, a truthful, straightforward answer to the question, of whether the intrusion of a layer of donor Deputies would be compatible with universality, would have to be in the negative. A policy-making layer of Deputies intervening between ECOSOC as the governing body and the Board of Executive Directors of a particular UNDFP in directing its Management on policies, strategies and broad operational directions and priorities would not be compatible with any commonly held notion of universality; particularly if the Deputies comprised exclusively the representatives of OECD donor countries. If, however, the Deputies were to compromise a sufficient number of representatives from programme countries (which this Study suggests should become increasingly prominent donors over time) to assure a sense of balance and perspective in terms of responsiveness to the development agenda and priorities of the programme countries (and not the development policy agenda and politically correct priorities of donors and NGOs), while also securing accountability and transparency, then the nature of the question, and the answer to it, changes. With that type of inclusiveness (which some donors may see as vitiating the point of having Deputies in the first place) sharp distinctions between black and white positions, give way to softer shades of grey on the universality issue.

As matters stand, the establishment of an Executive Board for each UNDFP already contains, if not exactly compromises, how the principle of universality is applied in operating practice. If the Rubicon has been crossed on the Executive Board being seen as an acceptable operational mutation of the universality principle, it does not take much imagination to go a step further and accept that a new policy-making layer of Deputies could be seen as a second-derivative mutation as well. For that to happen, how the Group of Deputies is constructed and how it functions as a group - and vis-a-vis ECOSOC, the Executive Boards and the Management - will be crucial in determining whether it can be made sufficiently acceptable within a framework of "universality". The devil will be in the detail. But it would be sanguine for donors to believe that they could introduce Deputies into the governance structure of the UNDFPs as easily as they have been able to in the MDBs, and to have the Deputies "take over" policy-making in those institutions. This issue will require an enormous amount of preparatory political groundwork to be done, protracted negotiations to be conducted, and innovative compromises to be made before programme countries bring themselves to agree that such a layer might be acceptable. For that to happen donor performance on secure and enlarged multiyear funding would need to be assured and "front-loaded"; especially in light of what has happened with MYFF being oversold as the answer to the funding problems of the DFPs, creating unrealistic expectations, and then not delivering very much by way of secure additional resources on a multiyear basis.

### 5.3.3 A Pooled Approach to Cover all UNDFPs?

Another consideration that arises in the case of the UNDFPs is whether a replenishment model might be more suitable, if resources were to be raised by UNDG in a single pool for all the UNDFPs rather than individually for each one. The advantage of such an approach would be for the UN development system to benefit from the economies of scale that would result and to reduce the costs of negotiating replenishments for the funds and programmes concerned as well as for donor governments. The disadvantage would be a blurring of highly individual institutional images, mandates and purposes. That might result in diluting the brand image and resource mobilisation potential of some institutions (e.g. UNICEF), if their needs are co-mingled with those of other DFPs that may not command the same public or governmental support. There might also be difficulties in reaching agreement among the individual DFPs themselves on sharing the proceeds from a joint pooled replenishment.

The problem with considering replenishments for individual DFPs is that several simultaneous negotiations for all the different DFPs would overload the circuits in almost all donor governments unless replenishment cycles were dovetailed one after another for different agencies. That issue of timing, however, might pose difficulties in mobilising resources for the same two biennia in the case of each DFP. If the MYFFs of UNDP, UNFPA and UNICEF are considered separately they each seek to raise US$3.8 billion, US$1.24 billion and US$1.6 billion respectively for the next 2000-2003 MYFF period. Taken individually, these amounts are small enough to result in serious *diseconomies* of scale, if they were each to be negotiated separately in three replenishments. In saying this, the Study is aware that IFAD's recently concluded replenishment was less than US$1 billion. Nonetheless, IFAD cannot be taken as an example of an ideal replenishment from any viewpoint.

Taken together the total volume of resources for all three institutions amounts to over US$6.6 billion for the four-year period. That is a sufficiently large amount for a replenishment exercise not only to be economical but almost to be mandatory in terms of the disciplines it imposes in tying together programmes, resources and burden-sharing. For intermediating this large amount, an aggregate volume of funds through voluntary contributions seems almost a dereliction of duty and due diligence on the part of donor governments, and indeed on the part of the UN development system as a whole. Yet, *realpolitik* suggests that it will take a considerable amount of time, and monumental efforts at consensus-building, step by careful step, before replenishments become the norm among DFPs and SA's rather than exceptions (as in IFAD and GEF).

### 5.3.4 Voluntary Contributions vs. Replenishments

The present system of voluntary contributions based on annual pledging, with an MYFF-related move towards *multiyear* pledging, has major benefits for donors in terms of flexibility in adjusting annual amounts based on changes in their budgetary situations. It also gives donors more implicit, indirect control over DFPs by keeping them on a short leash. By the same token, that system has disadvantages and imposes major costs for the DFPs and for programme countries in terms of introducing a high level of uncertainty about annual programme commitments made by DFPs being met. Such a system compels DFPs to gear themselves to raising resources on an opportunistic, exigent basis simply to keep their institutional machinery (especially at country level) ticking over. That, in turn, runs the risk of DFPs concentrating their efforts and energies on resource mobilisation for its own sake and resulting in compromising its basic mission. As one senior manager in UNDG put it, "….far too much time of country representatives and managers at headquarters is spent ambulance-chasing for every dollar they can find. That is neither an efficient nor productive use of their time. ….".

Under the present voluntary contributions system, annual or *multiyear* pledges are not legally binding. Nor are they based on consensually accepted precepts or practices of burden-sharing on an explicit or implicit basis. They are voluntary and optional; they are neither obligatory nor mandatory. For that reason, at least in theory, the annual level of resources that DFPs can rely upon to fund their operational programmes, and to retain an essential managerial core, are neither predictable nor assured. They are merely promises that can be broken expediently when a donor faces budget pressure without any attendant costs or penalties to donors, but with considerable cost to DFPs and programme countries. In practice, however, there seems to have been an unexpected stability to aggregate annual resource flows from donors although the composition of such flows is becoming increasingly non-core and conditional. Annual flows of *core or regular resources* have been on a declining trend in virtually all the DFPs.

To overcome these adverse attributes of the present basis of voluntary funding, a replenishment approach might be seen to offer some positive benefits. These may include *inter alia* :

- a more formal and disciplined mechanism for donors and programme countries to focus sharply, and agree every 3-4 years, on the mandates, operations, activities, and priorities of DFPs than the present system allows - taking into account the shift toward MYFFs;

- a framework for agreeing on eligibility and allocation criteria for the use of resources provided to the DFPs;

- a legally binding framework for ensuring that the resources pledged will be made available within a conscionable period of time;

- securing in a more robust manner predictable and assured annual resource flows over 4-year periods thus making it easier for the DFPs to design and manage their country programmes on a more sustainable footing over the medium-term;

- providing a framework under which different donor countries are encouraged to pull their relative weight in a fairer and more equitable manner through contributions to DFPs that are proportionally related to those of other donors taking into account their respective economic capacities; and

- ensuring that DFP country programmes continue to reflect programme country priorities in the development activity mix, rather than reflecting donor-country development priorities that are increasingly coming to be perceived as being prone to fads and fashions, more fickle, less relevant to achieving "real" sustainable growth and development, and susceptible to the changing preferences of politically active single-issue lobbies in donor countries.

A replenishment system may certainly offer these advantages and benefits. However, it would be a mistake to believe that it can guarantee them; as indeed several examples of near-breakdowns in the MDFs (IDA-6 and again in the case of IDA-12, FSO in the mid-1980s, as well as for many AfDF replenishments) and IFAD show. It is true that replenishments offer a framework for making the *multiyear* commitments of donor countries to the MDFs legally binding. However, it is equally true that when, for any reason, any country or group of countries choose to avoid meeting those commitments, the legal remedies are much too difficult and complicated to enforce in real time. For that reason they do not completely insulate MDFs from uncertainty or from volatility in the fluctuation of annual commitment levels.

Certainly, donor governments take legally binding commitments more seriously than those that are not binding. Under budget pressure they make greater efforts to meet binding multilateral commitments (using the legal obligation as an argument with their respective treasuries in favour of keeping commitments) while cutting back instantly on commitments that are not binding. The legally binding nature of replenishments is akin to the possession of nuclear capability. It is for deterrence, not for use. Legal obligations are useful in deterring donors from defaulting on their commitments; they are not really meant (nor designed) to be used to compel donors to meet their obligations when they have defaulted.

Replenishments, therefore cannot be seen as a quick-fix or panacea that will solve the DFP funding problem. Without the political will to support DFPs in the same way that donors are prepared to support the MDFs, replenishments may pose as many problems as voluntary contributions. The net result of forcing a replenishment solution in the funding of DFPs (assuming that could even be done) may be to have donors commit themselves to amounts of replenishment that are very low. Replenishments have a tendency to establish benchmarks of the “lowest common denominator” variety rather than the “highest common multiple”. In their anxiety to avoid creating free-rider problems other donors usually “low-ball” their contributions downward to accommodate benchmarks set by the least generous donors in relative terms. Thus the exercise may result in an even lower volume of core contributions to the DFPs than the present system provides, with all its attendant costs and uncertainties. The real risk of a downward volume trade-off in order to achieve certainty is one that needs to be kept in mind in considering a shift to the replenishment option unless greater donor support and political will are forth coming. In the absence of those two key ingredients, replenishments are unlikely to be a quick-fix or panacea that will solve the DFP funding problem. Without the political will to support DFPs in the same way that donors are prepared to support the MDFs, replenishments may pose as many problems as voluntary contributions.

Finally, DFPs confront the problem of now dealing with a variety of heterogeneous resources not all of which can be accommodated in a replenishment framework. The proportion of core public resources that they once relied on to the extent of 80-90% of total funding has now fallen to levels of 50-60%. Given their nature, and the fact that they would involve only governments, replenishments would almost certainly need to focus - especially for UNDP and UNICEF - on core resources provided from budgets. Attempting to include *supplementary* resources, that are contributed to accommodate “multi-bi” programmes, would involve too many complications that could not be satisfactorily resolved; at least not in the first few replenishments.

Nor are *emergency* resources amenable to being negotiated in replenishments. What might be accommodated in replenishment negotiations as far as emergency resources are concerned, is a form of “advance burden-sharing” in the event that such resources need to be raised very quickly. What might also be covered in replenishment negotiations is the creation of a “buffer fund” for emergencies that DFPs could draw on to be able to act swiftly and responsively, when emergencies arise. Such a fund could be topped up on a periodic basis under successive replenishments.

In UNICEF a unique problem arises in deciding how to account for core resources provided by National Committees and other private sources from particular countries. No donor government covered by the Study admitted explicitly to taking into account the amounts raised by their National Committees in deciding their level of fiscal contributions. But there can be little question that several donors (France, Germany, Italy, Japan, Spain, for example) are not embarrassed by relatively small fiscal contributions to UNICEF, often pointing to how much their private sectors contribute as a satisfactory reason for looking at the "whole picture" and not just the government's fiscal effort. Thus it might be expected that, even if UNICEF replenishments covered only core resources from governments, the level of private contributions made by particular countries would almost certainly creep into burden-sharing equations in replenishment negotiations.

One way of pre-empting the issue might be to use the average of the previous four years of proportionate private contributions from each country as a key indicator in determining the burden-sharing formula in UNICEF. That indicator would need to be given an appropriate weight in the overall formula - not one so high as to provide a perverse incentive to reduce government effort altogether, nor one so low as to dismiss completely the importance of such private contributions. The notion should be that high private contributions should not result in low government contributions; nor vice versa. Contributions from governments and the private sector should be reinforcing and result in positive motivation for each sector to match the other and contribute more to UNICEF rather than use what the other is doing as an excuse for doing less.

## 5.4 UNDFP Replenishments: Modifications and Adaptations

If replenishments were to be adopted as the funding method of choice for DFPs, they would require modifications and adaptations to avoid incurring costs (of the exercise) that are disproportionate to the benefits and to accommodate the principles of universality and "non-conditionality". The main adaptations that would be necessary would probably affect the following:

- The length of replenishment cycles for DFPs would need to be brought down to a maximum of no more than 6-9 months; with no more than 3-4 meetings for negotiations at quarterly intervals. The costs of the replenishment exercise should not exceed more than 3-5% of the total resources raised.

- Discussions on the *use of funds* would need to take account of programme country priorities rather than accommodating only the priorities of donors (i.e. those that make it easier for them to secure appropriations in parliament). Such discussions would need to bear in mind that a large part of DFP programmes are driven by the proportion of local support provided by governments in the field.

- Discussions on *volume* would need to be driven not just by typical programming and burden-sharing contributions for core resources. They would need to take into account the need for donors to provide sufficient resources under a replenishment to match the local currency cash contributions being made by programme countries for DFP programmes in-country. The more a government provides by way of local resources for prioritising DFP programmes (whether for governance, children or reproductive health), the more the DFP should be able to contribute to those programmes from its core resources rather than contributing less. Obviously this argument would need to be moderated by using appropriate pre-agreed cost-sharing proportions for programming purposes ranging perhaps from an 85:15/core:local proportion in the poorest countries to perhaps a reverse proportion (10:90) in the most affluent programme country group. In other words local currency efforts made by poor programme country governments should be rewarded through leverage and not punished through substitution in the context of replenishment negotiations.

- Discussions on programme priorities, eligibility and allocation criteria conducted exclusively in a Deputies' forum are likely to prove to be among the most difficult and contentious issues for DFPs to handle in a replenishment. These are the areas where principles of universality and non-conditionality are likely to be compromised. Replenishment negotiators (Deputies) should be content for these matters to be left to Executive Boards to decide; as they are now in the DFPs. Deputies should resist the temptation of attempting in the DFPs what they have succeeded in doing in MDFs - i.e. driving and directing the decisions of their Executive Boards on these issues by establishing the parameters and boundaries within which eligibility and allocation decisions can be made.

- Discussions on burden-sharing would need to take into account DFP-specific considerations (as outlined in the case of UNICEF above). Most donors in the OECD-DAC group would also need to take into account two other realities : (i) covering a gap of around 10% that exists in UNDP and UNFPA between the actual share of the US and the share suggested by any reasonable burden-sharing indicators - in UNICEF the US share is usually 5-10% higher than would be suggested by burden-sharing indicators; (ii) covering a gap of around 25% created by the non-OECD-DAC group of countries between their actual contributions and what the same burden-sharing indicators might suggest for their contribution to core resources. The latter deficiency could be largely offset by taking into account in the overall burden-sharing picture, the local cash currency resources contributed by programme countries to the total cost of DFP local overheads and programmes.

- Arrangements for note deposits and drawdowns would need to be different for the DFPs than they are for the MDFs. In the latter case, notes are deposited in three instalments to cover commitment authority over the succeeding years of the replenishment period. They are cashed over 8-10 years. In the DFPs, notes would need to be deposited annually in four instalments to cover each year of the MYFF. As they involve fast-disbursing grants, these notes would need to be cashed over a period of no more than 4-6 quarters.

- Finally, and perhaps most critically, the replenishment arrangements for DFPs would need to anticipate and shape a somewhat different and more muted role for the Deputies. In the MDFs the role of the Deputies has been intrusive and is resented by their full-time Executive Boards. However, it has not been checked, largely because in day-to-day working life most of the Executive Directors from OECD-DAC countries take their instructions from the same Deputies, anyway. Moreover, the donor countries control the

MDFs through a majority vote. In the DFPs the situation would be different. The constituency groupings that determine rotating seats for countries on the Executives Boards of the DFPs are based on different considerations than the constituency groupings which Executive Directors in MDFs represent. Apart from noting a probable conflict-of-interest and potential collisions between OECD-DAC and G-77 countries on this sensitive issue, the Study eschews going into detail, because its ToRs have precluded the kind of work that needs to be done before any specific recommendations can be made.

## 5.5 UNDP: Replenishment Simulation for 2000-2003

### 5.5.1 Prologue & Essential Contextual Points

In the case of UNDP, assuming that a shift to a replenishment model of funding were to be made, the volume target for regular (core) resources for the MYFF covering 2000-2003 would amount to the US$3.8 billion outlined in the integrated resources framework and the Administrator's business plan. This compares with total voluntary contributions for regular core resources between 1996-1999 of US$3,036 million. In the 4-year envelope for the 2000-2003 MYFF, annual levels of regular resources have been projected to increase steadily (but at diminishing annual growth rates) from US$800 million in 2000 to US$1.1 billion in 2003, rising by US$100 million in each intervening year. This simulation assumes that the pattern of voluntary contributions to regular resources between 2000-2003 will be about the same as the pattern of voluntary contributions aggregated for 1996-1999. The four year totals are more robust than yearly contributions that do fluctuate in a more unstable fashion.

That is not an assumption likely to be borne out in practice. However, it is the most defensible basis available to the Study in the absence of specific information to the contrary. To examine the differences that would arise between existing patterns of voluntary contributions, and what should happen under a replenishment, the simulation then applies specific percentage shares for each donor country resulting from the application of fair burden-sharing from a formula of four weighted indicators. Those two scenarios are presented to illustrate the magnitude of the "negotiations problem" that would arise if fair burden-sharing was to be attempted overnight.

The simulation for UNDP indicates (obviously and unsurprisingly) that substantial increases would be necessary for some major donor countries, offset by corresponding reductions in the present shares of Nordic and other "like-minded" countries. In retrospect, these shares are now absurdly large and almost certainly unsustainable. Unfortunately, the changes suggested by indicator-based *burden-sharing* are so large as to lie outside the range of immediate or even intermediate-term feasibility - simply from a practical ODA budget management viewpoint. A more realistic simulation for the next MYFF needs to be based on the kind of gradually shifting burden-sharing scenario indicated in Table 4.2 at the end of Chapter 4. Nevertheless, given time and budget limitations, the Study did not extrapolate a range of burden-sharing scenarios, although that would be possible to do, if the possibility of a replenishment exercise were to become a probability.

As with any simulation, the outcome rests on the assumptions used in the simulation model. As the exercise was required by the ToR for illustrative purposes, the usual sophistry involved in preparing for a replenishment has been avoided to keep the model simple. For that reason, it was not possible to do a full-scale "dress rehearsal" simulation of the entire replenishment process in a DFP: i.e. what preparatory work and papers would be necessary at each stage of the negotiating process, starting from a review of the use of funds and ending with commitment/disbursement arrangements.

Such an exercise is necessary if DFP managements and their Executive Boards are to comprehend properly what is involved in terms of effort, budget and staff costs for a replenishment exercise. A good introduction would be to arrange for a 2-3 day seminar of key managers from the DFPs, and a representative cross-section of selected Executive Board members, to go through carefully choreographed "case-studies" and guided discussions aimed at walking them through all the preparatory steps including the papers prepared; the preparatory work for each negotiating meeting; minutes of each negotiation meeting; the eventual burden-sharing negotiations; the wrap-up agreement, the implementation and ratification arrangements in each donor country. Case-studies should be focused on the last IDA and IFAD replenishments, so that those involved could get a real feel for what an MDF replenishment exercise entails, and what modifications would be necessary in a replenishment process for UNDP, UNFPA or UNICEF.

Under operative constraints the Study could not have undertaken that kind of effort. It would have involved spending considerably longer periods of time with the three DFPs and their Executive Boards in scrutinising a variety of existing processes and documentation for reaching consensus on: use-of-funds reviews; the build-up for reaching and agreeing volume targets (which by all accounts in UNDP was not seen as a validly conducted exercise by donors); the kind of work that is done by DFP staff and the oversight scrutiny that is undertaken by the Executive Board of eligibility and allocation criteria and of country programmes; the manner in which country-programmes are locally driven by governments; etc.

This Study precluded such in-depth investigations and they would, in any event, have been premature. It is already obvious, however, that the extensive documentation that has been produced in connection with the MYFF processes, and reviewed under the Study, would need to be substantially modified to meet the usual requirements of information in most replenishment negotiations. Suffice it to say, therefore, that the simulations carried out of a replenishment exercise and its illustrative outcome for UNDP and UNICEF has focused almost entirely on burden-sharing issues. Its outcomes are shown in Tables 5.1 to 5.3 below.

### 5.5.2 Timing for Introducing a Replenishment Mechanism

The simulation is focused on the MYFF for 2000-2003 for obvious reasons. However, it is essential to stress (based on what was said in Chapter 4) that it is inconceivable for a replenishment exercise to be carried out before the next MYFF for 2004-2007. The present MYFFs (2000-2003) for all the DFPs would almost certainly need to be financed on the unsatisfactory basis of *multiyear* pledging; with donors stretching that technique as far as they can to yield more productive outcomes. In theory, it may be possible to treat the 2000-2001 period as an interim biennium and redo the MYFFs for two biennia beginning in 2002, if donors felt the urgency of switching to a replenishment basis of funding. That, however, is not the case. Moreover, it would require replenishment negotiations to begin in the last quarter of 2000 for an agreement to be put in place by the end of 2001. Such a timetable would be totally unrealistic and unworthy of further consideration.

For the next MYFF (2004-2007) a replenishment negotiation would probably need to commence in the last quarter of 2002. The 24-month interval between now and then, with the high-level consultation on FfD in 2001, could be used for a major political effort at consensus-building to move in that direction in the manner suggested in the previous chapter. Assuming that agreement across the donor community could be reached on trying a replenishment at that time, the donor community would need to be extremely careful about not trying to force fair burden-sharing at the outset in the first replenishment. This is not likely to work out to anyone’s satisfaction; least of all that of UNDP.

The reason has been explained. Extant patterns of burden-sharing - the integral, but fragile backbone of any replenishment negotiation - are egregiously skewed in UNDP (and UNFPA, but a little less so in UNICEF) for historic reasons. To correct these large distortions, and return to a semblance of balance in burden-sharing patterns based on justifiable indicators, all donors involved along with the programme countries, would need to accept and agree that this could not be done overnight. It can only be achieved over a long period of time; probably over at least 4-5 replenishment cycles covering the next 16-20 years.

**Consensus on a Long-Term Goal**

For that to happen, donors and programme countries would need to reach consensus at the outset about what the long-term goal was. They would need to share a determination to accept the need for achieving a changed pattern of burden-sharing - in keeping with global changes in the evolving financial capacities of different constituencies in the international community - to achieve “balance” by a time-bound target date; e.g. 2020. The problem, however, with needing such a long period to achieve balance is that circumstances may have changed sufficiently by then to render obsolete any specific burden-sharing parameters suggested now. This is evident, if one simply compares the large changes that have occurred in burden-sharing patterns among different donors in IDA between IDA-1 in 1968 and IDA-12 in 2000. Therefore, while the table prepared at the end of Chapter 4 may still have illustrative validity, some flexibility should be permitted to accommodate the global changes that are likely to occur in the world economy over the next 20 years.

### 5.5.3 Simulation Results and Indications

The simulation exercise for UNDP was based on a crudely derived burden-sharing formula (share in world GDP at both market and PPP exchange rates). Its results are encapsulated in Table 5:1 below.

*Table 5:1 Simulated Contributions to a UNDP Replenishment of US$3.8 billion (millions of US$; Shares in %)*

| | (A) 1996-1999 | | (B) 2000-2003 | | Increase/(Decrease) (B-A) | | Share Difference (B-A) |
|---|---|---|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** | **%** |
| **OECD-DAC** | | | | | | | |
| USA | 301.4 | 9.93 | 608.0 | 16.0 | 306.6 | 102 | 6.07 |
| Japan | 369.3 | 12.16 | 532.0 | 14.0 | 162.7 | 44 | 1.84 |
| **Europe** | | | | | | | |
| France | 53.5 | 1.77 | 209.0 | 5.5 | 155.5 | 291 | 3.73 |
| Germany | 261.2 | 8.60 | 285.0 | 7.5 | 23.8 | 9 | -1.10 |
| Spain | 26.4 | 0.88 | 95.0 | 2.5 | 68.6 | 260 | 1.62 |
| U.K. | 182.4 | 6.00 | 209.0 | 5.5 | 26.6 | 15 | -0.50 |
| ***Sub-Total*** | *581.0* | *19.14* | *969.0* | *25.5* | *388.0* | *67* | *6.36* |
| Denmark | 316.4 | 10.42 | 38.0 | 1.0 | (278.4) | (88) | -9.42 |
| Finland | 47.6 | 1.56 | 22.8 | 0.6 | (24.8) | (52) | -0.96 |
| Norway | 298.9 | 9.85 | 38.0 | 1.0 | (260.9) | (87) | -8.85 |
| Sweden | 250.5 | 8.25 | 53.2 | 1.4 | (197.3) | (79) | -6.85 |
| ***Sub-Total*** | *913.4* | *30.08* | *152.0* | *4.0* | *(761.4)* | *(83)* | -26.08 |
| Belgium | 74.4 | 2.45 | 38.0 | 1.0 | (36.4) | (49) | -1.45 |
| Netherlands | 343.1 | 11.30 | 76.0 | 2.0 | (267.1) | (78) | -9.30 |
| Switzerland | 157.6 | 5.19 | 57.0 | 1.5 | (100.6) | (64) | -3.69 |
| Other OECD-DAC[7] | 63.7 | 2.10 | 38.0 | 1.0 | (25.7) | (40) | -1.10 |
| ***Sub-Total*** | *638.8* | *21.04* | *209.0* | *5.5* | *(467.8)* | *(73)* | *-15.54* |
| Australia/NZ | 30.4 | 1.00 | 76.0 | 2.0 | 45.6 | 150 | 1.0 |
| Canada | 118.4 | 3.80 | 114.0 | 3.0 | (4.4) | (4) | -0.8 |
| ***Sub-Total*** | *148.8* | *4.80* | *190.0* | *5.0* | *41.2* | *28* | *0.2* |
| **Total OECD-DAC** | **2,949.6** | **97.15** | **2,660.0** | **70.0** | **(289.6)** | **(10)** | **-27.15** |
| **Non-DAC** | | | | | | | |
| European | 3.1 | 0.10 | 38.0 | 1.0 | 34.9 | 1,126 | 0.90 |
| Arab-OPEC | 12.3 | 0.40 | 114.0 | 3.0 | 101.7 | 827 | 2.60 |
| NICs[8] | 16.8 | 0.55 | 304.0 | 8.0 | 287.2 | 1,710 | 7.45 |
| LPCs[9] | 41.8 | 1.36 | 380.0 | 10.0 | 338.2 | 809 | 8.64 |

[7] Austria, Ireland, Luxembourg
[8] Newly Industrialised Countries

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| TEs[10] | 6.6 | 0.22 | 190.0 | 5.0 | 183.4 | 2,779 | 4.78 |
| OPCs[11] | 9.8 | 0.32 | 114.0 | 3.0 | 104.2 | 1,063 | 2.68 |
| ***Sub-Total (Non-DAC)*** | ***90.4*** | ***2.85*** | ***1,140.0*** | ***30.0*** | ***1,053.6*** | ***1,165*** | ***27.15*** |
| **Total (OECD-DAC)** | **2,949.6** | **97.15** | **2,660.0** | **70.0** | **(289.6)** | **(10)** | -27.15 |
| **GRAND TOTAL** | **3,036.0** | | **100.00** | | **3,800.0** | **100.0** | **764.0** |

[9] Large Programme Countries
[10] Transition Economies
[11] Other Programme Countries

**OECD-DAC vs. Non-DAC Relative Burden-Sharing**

The simulation assumes an OECD-DAC contribution of 70% to UNDP's core resources from governments. This reflects the relative weight of DAC countries in the global economy at market prices and exchange rates. This share reduces to a range of 50-55% if world GDP is valued at PPP exchange rates (i.e. reflecting real purchasing power and economic capacity) in the burden-sharing formula. The rounded 70:30 ratio for DAC vs. non-DAC contributions is inescapable for purposes of any simulation intended to reflect indicator-based burden-sharing. The range for this ratio (one that is likely to become the core bone of contention between donor and programme countries in financing the multilateral system as time passes) could justifiably be varied from 62:38 to 77:23 depending on the indicators used and their relative weights in any burden-sharing calculation .

Ratios outside that range would be using strange indicators derived for reasons other than reflecting relative participation in the world economy. But the 70:30 scenario is, in reality, entirely implausible for *immediate* application in UNDP. The total DAC contribution to UNDP's regular (core) resources in the previous double-biennium (1996-1999) was over 97% (i.e. a 97:03 ratio). This proportion simply cannot be reduced dramatically and quickly to 70:30 in the next funding round. Any attempt to do so would be politically inept. It would be rejected out of hand by programme countries and bring UNDP to a grinding halt. Such a reduction could only be achieved slowly (in the manner indicated in Table 4:2 in the previous chapter) over several replenishments.

**Burden-sharing within DAC Countries**

Apart from the problem with reducing the overall DAC contribution to UNDP's core resource funding, there is a major unresolved issue concerning skewed burden distribution within DAC. In 1996-1999 the four Nordic and six other like-minded European countries (in particular the Netherlands and Switzerland, although this group also includes Austria, Belgium, Ireland and Luxembourg) provided nearly 53% of the DAC share. In other words, countries that, on the basis of any reasonable burden-sharing criteria, could not justifiably have been required to provide more than 11% (at the very most 15%) of the DAC share, ended up providing almost five times that much. Such out-of-kilter largesse resulted in diminishing the shares of larger EU countries (especially France, Italy and Spain, with Germany and the UK both doing marginally more than fair burden-sharing would have required). These five large European Union economies should together have financed over 26% of the DAC share. But they ended up financing just 20%.

So, ten of the smaller EU economies, with a combined economic and fiscal capacity smaller than that of Germany, contributed nearly *two-and-a-half times more* to UNDP's core resources than the five large EU economies whose combined economic capacity is almost *four times* larger than that of the smaller ten. Within DAC, the non-European "like-minded" donors (Australia, Canada and New Zealand) together contributed the proportions that fair burden-sharing might have required. Canada did more, while the other two did less. Japan's contributions to UNDP's core resources were fractionally less than would be suggested by fair burden-sharing. The share of the US was proportionately the lowest of all

DAC donors by an unjustifiable margin even allowing for a "real world discount" of 6-9% in the normative US share.

**The United States**

A significant assumption in the simulation (which makes its result no surprise) was that a significant increase would be necessary in the share (and by implication the annual budgetary contributions) of the US to restore the intra-DAC balance in funding UNDP. Normative *burden-sharing* reflecting a country's relative weight and economic/fiscal capacity in the world economy would suggest a fair share for the US of 22-25%. In the MDFs and DFPs (*excluding UNICEF*) the US has demonstrated a political inability to contribute much more than around 15-17% of the total (see Chapter 6) resources funded under any replenishment. Repeated defeat in Congress of legislation put forward by various administrations adhering to normative burden-sharing has led inevitably to executive branch fatigue. This has resulted in an unwillingness on the part of any US government to consider negotiating or asking for budget appropriations that are anywhere near the normative burden-sharing level. Taking this reality into account, the simulation for UNDP figured on a US contribution of 16% to total core resources for 2000-2003 within an overall OECD-DAC contribution of 70%. The simulation therefore assumed a US share representing about 23% of the DAC total versus 10% for 1996-1999. If the US was disinclined to move beyond that 10% share of even a reduced DAC contribution, it is highly unlikely that a replenishment framework would resolve the political burden-sharing problem that would arise.

**The Non-DAC Countries**

The largest assumption in the simulation is that non-DAC countries will contribute a normative share of 30% of total core resources. This is a substantial change compared to a total non-DAC contribution today of less than 3%. The reason for making the assumption is based on two considerations.

*First,* it represents the proper normative weight of non-DAC countries in the world economy and their fiscal capacity (their relatively lower per capita incomes notwithstanding). They can and should afford a contribution of around 30% of the total core resources required for the DFPs irrespective of GLOC or other local currency contributions that are basically co-financing elements. In a way, such local contributions are conceptually equivalent to the supplementary financing provided by DAC donors to the DFPs that are not included within the replenishment framework.

The weight of non-DAC countries in global GDP was 27% at market exchange rates in 1997 (thanks largely to the Asian financial crisis), but stood at an average of 30% between 1993-1996. Their share was nearly 47% of world output in 1997 at PPP exchange rates. Their share in global trade (over 30%) and international reserve holdings (nearly 50%) is also now quite substantial; as is their regional and global military capability.

*Second*, it is the non-DAC countries that have majority voting control in the DFPs. The perennial problem of DFPs not being sufficiently supported and under-funded (in terms of core resources) by DAC donors arises, because of the acknowledged asymmetry between control and funding. DAC members believe that non-DAC control of these institutions creates perverse incentives for programme countries (and DFP management) to be intractable, when DAC provides virtually all their funding. Moreover, it leaves the DFPs exposed to having their annual resource requirements continually driven upwards through ostensibly “demand-driven” programmes.

Non-DAC countries are seen as driving the DFPs while paying less than 3% towards their core resource costs. In today’s market-oriented world with balanced rights and obligations, this is a basically untenable situation. It is an anomaly that differentiates the DFPs from the MDFs in terms of attracting DAC support. This problem is not going to be solved by exhortation and proselytising about the importance of aid and ODA/GNP ratios or upholding the principles and tenets of multilateralism *circa* 1950. It will only begin to be solved when non-DAC countries accept that their “rights” in the DFPs will only be respected by DAC members, when they are coupled inextricably with an acceptance of corollary funding “obligations”.

In the simulation the significant shift towards increasing the non-DAC funding share by almost ten times is distributed across various non-DAC country groupings, classified not just by regional affiliation, but by similarity of characteristics and overall weight within the non-DAC community. The six main groups are: (i) non-DAC European countries (e.g. Portugal, Iceland, Slovenia etc.); (ii) the Arab OPEC countries (comprising mainly Saudi Arabia, Kuwait and the UAE); (iii) the NICs - newly industrialised countries - (including e.g. Argentina, Chile, Colombia, Hong Kong, Korea, Malaysia, Singapore and Thailand); (iv) the LPCs - i.e. the large, populous influential programme countries that provide leadership in G-77 - (Brazil, China, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, the Philippines and South Africa); (v) economies in transition, the largest of which is Russia; and (vi) other programme countries that include a mix of smaller middle- and low-income countries. The specific memberships of these groups need to be more carefully determined using rigorous classification criteria. This exercise was not possible to do in a Study of this nature. It involves a detailed technical study in its own right. Also, the last of these groups is a very mixed bag and may need breaking down further for reasons of intellectual cleanliness. However, doing so would serve no practical purpose from the burden-sharing viewpoint since its overall share, even in a substantially increased share for non-DAC countries as a whole, is minuscule.

In the normative burden-sharing formula based on the indicators noted earlier, three of these groups - i.e. Arab OPEC, NICs and LPCs - should account for just over two-thirds of the non-DAC total. These three groups are eminently capable of bearing the financial burdens that are involved even today; leave alone by 2020. Their participation would increase the credibility and underpin the universality of DFP burden-sharing exercises. They would provide the balance needed to ensure that replenishment negotiations were not used by DAC members as a means of wresting control of the DFPs from its wider membership.

This said, however, common-sense and political realism suggest that it will be impossible to get non-DAC members to jump from a less than 3% share to a 30% share in funding UNDP’s core resources in one giant leap. Instead, as suggested before, the increase can only be achieved with incremental steps taken over several replenishments. The previous chapter has suggested an increase of 5 percentage points in the non-DAC share in each succeeding replenishment until a 70:30 split (or whatever ratio is appropriate in 2020) is achieved. A gradual approach toward a long-term goal on which all members agree is, perhaps, the only way to get DAC and non-DAC contributors to “buy-in” to more sensible burden-sharing through disciplined replenishment negotiations.

The fiction that DFP contributions are inherently voluntary and must be left that way - with the costs and consequences involved - is neither logical nor appropriate where resources of the magnitude of US$5-6 billion are concerned. It is too convenient a defence on the part of defalcating donors that is invalid and needs to be dispensed with.

**Budgetary Implications for Different Contributors**

The large shifts in share between DAC and non-DAC contributors, and also within each of these groups, are sufficiently large to give pause for thought. Nevertheless, the budgetary implications thrown up by the simulation concentrate the mind even more. In coping with the shifts in share discussed above, the budget efforts (and reductions) that would need to be made to accommodate them in one swoop, would themselves destabilise the sensible management of ODA budgets in donor countries unless dealt with in a gradual manner.

In the case of UNDP, the volume of core resources being sought in 2000-2003 is 25% more than the volume contributed between 1996-1999. Most donor countries have difficulty in accepting the legitimacy of the US$1.1 billion target for 2003, or the build-up to it, in the prior three years. They believe that the target was based on a false high achieved in 1992 with a doubling up of contributions intended by the US in that single year. They feel that an average of between US$700-750 million annually, resulting in a no-growth core volume target of between US$2.8-3.0 billion is more appropriate and sufficient.

That view is rejected by programme countries (G-77). They are unequivocal about only accepting reluctantly the changes in UNDP’s leadership, in its overall programme priorities (i.e. the movement upstream and the new emphasis on governance), as well as the introduction of reforms such as MYFF and ROAR processes, as part of a bargain that would yield a higher volume of resources. UNDP’s management is equally firm in the belief that it “sold” these reforms, and the associated pain they implied, to UNDP staff, and to programme country representatives on the Executive Board, on the grounds that they were an integral part of a bargain for a higher volume of resources. The increased volume was discussed and agreed by the entire membership in the MYFF approved by the Board. Thus, both G-77 and UNDP management believe that retrospective scepticism about the volume target reflects bad faith and ingenuousness on the part of donors that are now objecting to the budget implications involved. This digression has been made to emphasise the combined budget implications of both the 25% increase in volume and a concomitant shift in burden-shares.

**Increases in DAC Budgets**
This combined effect results in budget *increases* of 102% over 1996-1999 levels for the US and 44% for Japan. It results in much higher increases for France (291%); Italy (197%) and Spain (260%) but substantially lower (and entirely manageable) increases for Germany (9%) and the UK (15%). It also implies a 150% increase for Australia and New Zealand

**Decreases in DAC Budgets**
These increases are offset by substantial *decreases* in budget contributions by the Nordic countries averaging 83%, but ranging from 52% for Finland to 88% for Denmark. They also involve decreases for the like-minded smaller European members of DAC averaging 73%; but ranging from 40% for countries like Austria, Ireland and Luxembourg to 78% for the Netherlands. The simulation also results in a very slight decrease (4%) for Canada. The overall impact for DAC as a whole is a decrease of 10% in the *dollar amount* of the DAC contribution.

**Exchange Rate Effects**
The simulation did not take either explicit or implicit account of the potential impact of exchange rate changes between the US dollar and the Euro in determining the size of these budget increases. Of course, this could be done using a variety of scenarios for likely exchange rate movements. All budget implications were calculated on a US dollar base rather than a local currency base simply because the constraints operating on the Study did not permit, nor warrant, a further degree of sophistication. However, specific donor countries would need to do further simulations for themselves of the impact of possible exchange rate changes on their contributions in local currency. The decline in the GBP:USD exchange rate already means that the budget implications would be about 7% higher at current rates than was the case two months ago. Similarly, the long expected appreciation of the Euro against the USD would require a smaller budget effort on the part of European donors.

**Increases in Non-DAC Budgets**
Increases in the budgetary contributions of the under-performing DAC donors pale in comparison to the percentage increases implied for non-DAC contributors' budgets by the simulation. In the six non-DAC groups classified above the percentage increases for budgetary effort range from a low of over 800% for the LPC and Arab-OPEC groups to about 1,800% increases for the NICs and a high of nearly a 2,800% increase for the Transition Economies as a whole. Admittedly, these percentage increases look dramatic; but they are not quite as disconcerting when the absolute dollar amounts of potential normative contributions are taken into consideration. It is the minuscule existing base of contributions from the non-DAC members that makes the percentage increases look so absurdly high.

In dollar terms, for example, the suggested increases would result in additional annual contributions of US$25 million from the Arab OPEC group as a whole. It would involve about US$85 million annually from the ten large countries in the LPC group (i.e. an average increase of US$8.5 million annually from each). They would require annually increased contributions of about US$70 million a year from the group of NICs (or less than US$10 million apiece) and of US$45 million from all of the TE’s. These amounts are well within the financial capabilities of these groups of countries to pay, if they were not trapped in a rigid time-warp of perceptions about “fairness” in funding the DFPs that bear no relation to reality in today’s world. The military and defence expenditures of these countries alone in the last two years make these small amounts equivalent to “errors and omissions”. They simply do not deserve or justify the concern that they will, nonetheless, inevitably raise.

## 5.6 UNICEF: Replenishment Simulation for 2000-2003

The preliminary comments made in the case of UNDP apply equally to the simulation for UNICEF. Many of the issues are the same although some are not. Table 5:2 below and the paragraphs which follows the table below therefore focus on the substantive results of the UNICEF simulation.

*Table 5:2 Simulated Contributions to a UNICEF Replenishment of US$1.6 billion (millions of US$; Shares in %)*

| | (A) 1996-1999 | | (B) 2000-2003 | | Increase/(Decrease) (B-A) | | Share Difference (B-A) |
|---|---|---|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** | **%** |
| **OECD-DAC** | | | | | | | |
| USA | 405 | 28.66 | 400.0 | 25.0 | (5.0) | -1 | -3.66 |
| Japan | 108 | 7.64 | 192.0 | 12.0 | 84.0 | 78 | 4.36 |
| **Europe** | | | | | | | |
| France | 25 | 1.77 | 88.0 | 5.5 | 63.0 | 252 | 3.73 |
| Germany | 24 | 1.70 | 120.0 | 7.5 | 96.0 | 400 | 5.80 |
| Italy | 40 | 2.83 | 72.0 | 4.5 | 32.0 | 80 | 1.67 |
| Spain | 8 | 0.57 | 40.0 | 2.5 | 32.0 | 400 | 1.93 |
| U.K. | 65 | 4.60 | 88.0 | 5.5 | 23.0 | 35 | 0.90 |
| ***Sub-Total*** | *162* | *11.47* | *408.0* | *25.5* | *246.0* | *67* | *14.03* |
| Denmark | 113 | 8.00 | 16.0 | 1.0 | (97.0) | (86) | -7.00 |
| Finland | 46 | 3.25 | 9.6 | 0.6 | (36.4) | (79) | -2.65 |
| Norway | 153 | 10.83 | 16.0 | 1.0 | (137.0) | (90) | -9.83 |
| Sweden | 142 | 10.05 | 22.4 | 1.4 | (119.6) | (84) | -8.65 |
| ***Sub-Total*** | 454 | *32.18* | *64.0* | *4.0* | *(390.0)* | *(86)* | -28.13 |
| Belgium | 9 | 0.64 | 16.0 | 1.0 | 7.0 | 78 | -0.36 |
| Netherlands | 112 | 7.93 | 32.0 | 2.0 | (80.0) | (71) | -5.93 |
| Switzerland | 49 | 3.46 | 24.0 | 1.5 | (25.0) | (51) | -1.96 |
| Other E-DAC[12] | 16 | 1.13 | 16.0 | 1.0 | (0.0) | 0 | -0.13 |
| ***Sub-Total*** | *186* | *13.16* | *88.0* | *5.5* | *(98.0)* | *(53)* | *-7.66* |
| Australia/NZ | 17 | 1.20 | 32.0 | 2.0 | 15.0 | 88 | 0.80 |
| Canada | 39 | 2.76 | 48.0 | 3.0 | 9.0 | 23 | 0.24 |
| ***Sub-Total*** | 56 | *3.96* | *80.0* | *5.0* | *24.0* | *43* | *1.04* |
| **Total OECD-DAC** | **1,371** | **97.02** | **1,232.0** | **77.0** | **(139.0)** | **(10)** | **-20.02** |
| **Non-DAC** | | | | | | | |
| **European** | 3 | 0.21 | 16.0 | 1.0 | 13.0 | 433 | 0.79 |
| **Arab-OPEC** | 6 | 0.43 | 40.0 | 2.5 | 34.0 | 567 | 2.07 |

[12] Austria, Ireland, Luxembourg

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| NICs[13] | 11 | 0.79 | 120.0 | 7.5 | 109.0 | 991 | 6.71 |
| LPCs[14] | 15 | 1.06 | 120.0 | 7.5 | 105.0 | 700 | 6.44 |
| TE's[15] | 5 | 0.35 | 56.0 | 3.5 | 51.0 | 1,020 | 3.15 |
| OPCs[16] | 2 | 0.14 | 16.0 | 1.0 | 14.0 | 700 | 0.86 |
| ***Sub-Total (Non-DAC)*** | ***42*** | ***2.98*** | ***368.0*** | ***23.0*** | ***326.0*** | ***776*** | ***20.02*** |
| **Total OECD-DAC** | **1,371** | **97.02** | **1,232.0** | **77.0** | **(139.0)** | **(10)** | **-20.02** |
| **GRAND TOTAL** | **1,413** | **100.00** | **1,600.00** | **100.00** | **187.0** | **13** | **0.00** |

[13] Newly Industrialised Countries
[14] Large Programme Countries
[15] Transition Economies
[16] Other Programme Countries

**OECD-DAC vs. Non-DAC Relative Burden-sharing in UNICEF**
Unlike UNDP, the simulation for UNICEF assumes an OECD-DAC contribution of 77% to core resources contributed by governments. This is because UNICEF is probably the only DFP or MDF in which the US Congress appears to have no difficulty in appropriating amounts consonant with (indeed sometimes in excess of) its normative share. For that reason the simulation assumed that this share should be maintained while the shares of all the other DAC donors except Japan (for reasons explained below) should not be reduced to compensate. Their shares were kept the same as the normative burden-sharing indications. Thus, instead of a 70:30 ratio for DAC vs. non-DAC contributions to UNICEF a ratio of 77:23 has been assumed.

However, as is the case with UNDP the immediate application of the 77:23 scenario is, in reality, also entirely implausible in UNICEF. The total DAC contribution to UNICEF's regular (core) resources in the previous double-biennium (1996-1999) was also over 97% (i.e. a 97:03 ratio). This proportion cannot be reduced quickly to 77:23 in the next funding round for reasons already stated. As in UNDP's case the requisite reduction would need to be brought about slowly over several replenishments.

**Burden-sharing within DAC Countries**
Although the reduction in the overall DAC contribution to UNICEF's core resource funding is less than in UNDP, the sharing of the intra-DAC burden is just as skewed. In 1996-1999 the four Nordic and the six other like-minded European countries provided just under 47% of the DAC share (compared to 53% in UNDP). Thus, the same countries that could not justifiably have been expected to provide more than 11-15% of the DAC share ended up providing between 3-4 times that much. Unlike UNDP, the shares of all the larger EU countries (including Germany and the UK) were significantly lower than they should have been, although the deviation was least in the case of the UK and greatest in the case of Germany.

**The Impact of Private Contributions to UNICEF on Government Shares**
It cannot just be an accident or coincidence that the very low shares of all the larger European countries (other than the UK) coincided with their being among the top six contributors of private resources to UNICEF. The same is true of Japan. Japan's private sector contribution is so large relative to that of other contributors that the simulation has justified the assumption of a lower share for Japan's government contribution in UNICEF than in UNDP (12% instead of 14%); using private contributions as an additional compensatory burden-sharing indicator in UNICEF's case. As in UNDP, even taking into account their private sector contributions, the five larger European Union economies, like the US, should together still have financed between 25-26% of the DAC share of contributions to UNICEF's core resources from governments. However, they financed only 11.5%.

Again, the ten smaller EU economies contributed *four times more* to UNDP's core resources from fiscal effort than the five large EU economies. The private sector contributions of the Nordic countries are minuscule reflecting perhaps a societal preference for financing UNICEF from public rather than private funds.

It may be that in economies whose marginal direct tax rates do not permit the same private generosity from after-tax disposable income, private contributions cannot be expected to be as high as in countries that leave more headroom for private contributions.

Nevertheless, by contrast, the private sector contributions of the other like-minded smaller European DAC donors (especially Belgium, the Netherlands and Switzerland) are, in relative terms, as high as those of Japan, given their comparative economic capacities. These three countries share the same characteristic as the US in making both large public *and* private contributions to UNICEF. Unlike the US, however, they did compensate for that to a small extent with a lower public contribution to UNICEF (totally just over 13% for all three countries) than to UNDP (to which they contributed 21%). In all these three countries, the private propensity to contribute has been partially offset by a lower public share in financing UNICEF's core resources than in UNDP; whereas in the Nordic case the share of public UNICEF core resource financing is marginally higher (32%) than for UNDP (30%).

Among the non-European "like-minded" donors, Australia and New Zealand contributed less to UNICEF's fiscally funded core resources than the proportions suggested strictly by fair burden-sharing.However, in Australia's case, relatively large private sector contributions may have been an explanatory factor. Canada did only fractionally less than its normative share even though its private sector contribution was large (if smaller than Australia's).

**The Non-DAC Countries**

As indicated above the simulation for UNICEF assumes that non-DAC countries should contribute a share of 23% of total government-funded core resources. This is substantially lower than their normative share of 30% and reflects the relatively greater flexibility of the US in contributing to UNICEF. Even so the share of 23% is still a very substantial change compared to a total non-DAC contribution today of just 3%. The reason for making this assumption is exactly the same as in the case of UNDP and all the other DFPs.

In the simulation the increase in non-DAC funding by a factor of eight is shared across various non-DAC country groupings, classified in the same way as for UNDP. As in the case of UNDP, the same three non-DAC contributor groups - i.e. Arab OPEC, NICS and LPCs - account for just over three-quarters of the non-DAC total in UNICEF versus two-thirds in UNDP. Again, it will not be possible to get non-DAC members to jump from a 3% share to a 23% share in funding UNICEF's core resources in one big leap. As in UNDP's case, the same gradual approach to achieving the right balance between DAC and non-DAC donors will need to apply for exactly the same reasons.

**Budgetary Implications for Different Contributors**

The shifts in share between DAC and non-DAC contributors, and also within each of these groups are again quite large and require to be dealt with in the same gradual manner.

The volume of government funded core resources being sought UNICEF in 2000-2003 is just over US$1.55 billion (the simulation rounds this up to US$1.6 billion for simplicity). This represents an increase of only 13% over the volume of core resources contributed by governments between 1996-1999. This compares with an increase of over 25% in UNDP. Unlike the case in UNDP most donor countries have not expressed any particular difficulty in accepting the legitimacy of UNICEF's total income target of US$1.5 billion *annually* by 2005. The annual targets implied for core funding from governments derived from this overall ambition have not generated echoes of dissent.

**Institutional Conceit**
Concerns have instead been expressed by donors about UNICEF's overall resource mobilisation strategy and priorities under the MYFF for 2000-2003. They (and many programme countries) feel that UNICEF is placing far too much emphasis on the importance of increasing amounts raised from governments for core-funding, when it has options for raising funds from non-government sources that the other DFPs simply do not have. In that sense, some large European donors see UNICEF as being a "dog-in-the-manger" and pursuing "beggar-thy-neighbour" strategies that are oblivious to the realities of constrained multilateral ODA budgets. These donors see UNICEF's management as being oblivious, unconcerned, or sufficiently calculating in being quite prepared to pre-empt (because of its relatively greater attractiveness to donors) scarce public (discretionary) multilateral ODA resources that might go to other DFPs, if it lessened the aggressiveness of its claims on them. In that sense, they do not see UNICEF thinking of itself as being a responsible institutional member of the UN family as it claims in its resource mobilisation strategy paper; instead they see it using that argument parochially to suit its own convenience.

**Increases in DAC Budgets**
The combined effect of a 13% increase in volume coupled with increased shares for Japan and the large EU donor countries, results in budget *increases* over 1996-1999 levels of 84% for Japan and a marginal reduction for the US (1%). It results in much higher increases for France (252%); Germany (400%); Italy (80%); Spain (400%) and Belgium (78%) with a lower and more tractable increase for the UK (35%) and Canada (23%). It implies an 88% increase for Australia and New Zealand.

**Decreases in DAC Budgets**
As in the case of UNDP, these increases are again offset by substantial *decreases* in budget contributions by the Nordic countries averaging 86%, for the Netherlands (71%) and Switzerland (51%). The simulation shows no increase or decreases for countries like Austria, Ireland and Luxembourg. The overall impact for DAC as a whole is again a decrease of 10% in the *dollar amount* of the DAC contribution from the previous 4-year period. As with UNDP, the simulation did not take either explicit or implicit account of the potential impact of exchange rate changes between the US dollar and the Euro in determining the size of budget increases or decreases.

**Increases in Non-DAC Budgets**

The increases in non-DAC budgets for UNICEF shown by the simulation are only slightly smaller than the magnitudes indicated by the simulation for UNDP. In the six non-DAC groups classified above, the percentage increases for enhanced budget effort range from a low of 433% for the European non-DAC members to over 1,000% for the transition economies. Intermediate increases are required of 566% for the Arab OPEC group; 991% for the NICs and 700% for the LPCs and OPCs. As explained for UNDP, while these percentage increases look dramatic, they are manageable and plausible when the absolute dollar amounts of normative contributions are taken into consideration.

In nominal dollar terms, the suggested increases would result in additional annual contributions of US$8.5 million from the Arab OPEC group as a whole. It would involve about US$26 million more annually from the ten large countries in the LPC group (i.e. an average increase of US$2.6 million from each). They would require annually increased contributions of about US$27 million from the group of NICs (or less than US$4 million apiece) and of US$13 million from all of the TE's. As can be seen, these amounts are well within the financial capabilities of these groups of countries to pay, for the reasons explained earlier.

The main conclusion that these two simulations (none was required under the ToR for UNFPA, although the implications and findings would have been almost identical to UNDP) lead to is that the shift to normative burden-sharing cannot be forced immediately. It can only be achieved over time. In that sense, the simulations confirm the slow-and-steady strategy for achieving changes in burden-sharing through replenishments over a longer term than any donor may have had in mind.

Table 5.3 below presents the combined picture for UNDP and UNICEF with the derived burden shares based on GDP on the basis of market rates and PPP.

*Table 5:3 Indicator-based Burden-sharing in UNDP and UNICEF (all shares in %)*

| | %WGDP @MXR | %WDP @PPP | Fair Share | Realistic Share | Actual % UNDP | Actual % UNICEF (Gov.) | Actual % UNICEF (Gov. + Private) |
|---|---|---|---|---|---|---|---|
| **OECD-DAC** | | | | | | | |
| USA | 27.04 | 21.30 | 24.00 | 16.00 | 9.93 | 28.66 | 18.49 |
| Japan | 14.46 | 8.44 | 12.00 | 14.00 | 12.16 | 7.64 | 16.20 |
| **Europe** | | | | | | | |
| France | 4.80 | 3.57 | 4.80 | 5.50 | 1.77 | 1.77 | 5.31 |
| Germany | 7.22 | 4.77 | 6.50 | 7.50 | 8.60 | 1.70 | 4.96 |
| Italy | 3.95 | 3.17 | 4.00 | 4.50 | 1.89 | 2.83 | 5.21 |
| Spain | 1.84 | 1.69 | 2.00 | 2.50 | 0.88 | 0.57 | 2.45 |
| U.K. | 4.44 | 3.35 | 4.70 | 5.50 | 6.00 | 4.60 | 3.12 |
| ***Sub-Total*** | 22.25 | 16.55 | 21.00 | 25.50 | 19.14 | 11.47 | 21.05 |
| Denmark | 0.59 | 0.34 | 0.55 | 1.00 | 10.42 | 8.00 | 5.14 |
| Finland | 0.41 | 0.28 | 0.35 | 0.60 | 1.56 | 3.25 | 2.19 |
| Norway | 0.53 | 0.29 | 0.45 | 1.00 | 9.85 | 10.83 | 6.68 |
| Sweden | 0.79 | 0.46 | 0.65 | 1.40 | 8.25 | 10.05 | 6.32 |
| ***Sub-Total*** | 2.32 | 1.37 | 2.00 | 4.00 | 30.08 | 32.13 | 20.33 |
| Belgium | 0.84 | 0.64 | 0.70 | 1.00 | 2.45 | 0.64 | 1.55 |
| Netherlands | 1.24 | 0.91 | 1.30 | 2.00 | 11.30 | 7.93 | 9.19 |
| Switzerland | 0.88 | 0.52 | 0.80 | 1.50 | 5.19 | 3.46 | 4.36 |
| Other E-DAC | 0.80 | 0.50 | 0.70 | 1.00 | 2.10 | 1.13 | 1.34 |
| ***Sub-Total*** | 3.76 | 2.57 | 3.50 | 5.50 | 21.04 | 13.16 | 16.44 |
| Australia/NZ | 1.58 | 1.15 | 1.50 | 2.00 | 1.00 | 1.20 | 0.89 |
| Canada | 2.10 | 1.80 | 2.00 | 3.00 | 3.80 | 2.76 | 1.91 |
| ***Sub-Total*** | 3.68 | 2.95 | 3.50 | 5.00 | 4.80 | 3.96 | 2.80 |
| **Total OECD-DAC** | **73.51** | **53.18** | **67.00** | **70.00** | **97.15** | **97.02** | **95.32** |
| **Non-DAC** | | | | | | | |
| European | 0.80 | 0.55 | 1.00 | 1.00 | 0.10 | 0.21 | 1.35 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Arab-OPEC | 0.87 | 1.28 | 2.00 | 3.00 | 0.40 | 0.43 | 0.29 |
| NICs | 5.04 | 6.12 | 7.00 | 8.00 | 0.55 | 0.79 | 1.64 |
| LPCs | 10.73 | 24.42 | 15.00 | 10.00 | 1.36 | 1.06 | 0.66 |
| TE's | 2.62 | 3.90 | 4.00 | 5.00 | 0.22 | 0.35 | 0.66 |
| OPCs | 6.43 | 10.55 | 4.00 | 3.00 | 0.31 | 0.14 | 0.08 |
| **Sub-Total (Non-DAC)** | **26.49** | **46.82** | **33.00** | **30.00** | **2.85** | **2.98** | **4.68** |
| **Total OECD-DAC** | **73.51** | **53.18** | **67.00** | **70.00** | **97.15** | **97.02** | **95.32** |
| **GRAND TOTAL** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** |

# 6 Conclusions and Recommendations

Chapter 6 pulls together the main conclusions and recommendations by grouping them around the following four main themes:

- Political will
- Functioning of the UNDFPs: reforms vs. funding
- The priorities of programme countries and donors
- A new funding mechanism for the UNDFPs

## 6.1 Political Will

An element of uncertainty, if not confusion, remains in the donor community about what kind of role the UN and its DFPs should play in facilitating the process of development in the majority of its members. Lack of clarity about their roles and mandates is an issue that affects DFPs *within* the UN system as well as the respective role of the UN system vis-à-vis the IFIs and regional development banks.

The danger exists that until greater clarity of view and a global consensus on the respective roles of the UN system versus the IFIs/MDBs emerges, the development agenda will be dominated, if not monopolised, by the IFIs. Such a monopoly creates a major conflict of interest across the various different development assistance roles that financial institutions purport to play. It diminishes the overall quality of assistance and compromises objectivity and impartiality. Nevertheless, the donor community appears to be drifting inadvertently in the direction of eviscerating the role of the UN, and continuing to build up *soft intervention capacity* in the IFIs and MDBs at the expense of the UNDFPs.

In considering this issue it might be useful for donors to recall that much of the seminal thinking about development since 1980 has emanated from the UNDFPs and not from the IFIs. It has been the interventions of the DFPs (UNDP) on issues such as “social and human development” reflecting the importance of human and social capital that have influenced the development thinking and programmes of the 1990s. In a similar vein UNICEF made a major contribution to influencing development policy with its approach to putting a human face on adjustment during the 1980s. These thoughts should introduce a sense of caution and sobriety in donor countries about the importance of maintaining if not strengthening the soft intervention capacity that the DFPs have, instead of compromising it further.

Another important issue is that of "voting rights", which in the UN are effectively de-linked from "funding obligations" leading to perceptions of a constitutionally congenital proclivity for UN institutions to be fiscally profligate. Unless voting power and funding obligations are effectively re-linked, the UN system will continue to suffer from a chronic deficit of "political will" to fix it. For that reason, one of the most important issues is that of engaging the non-DAC members more productively in the funding of the DFPs as a start to greater participation in the funding of the multilateral development financing system as a whole. If universality is to mean anything, it must apply equally to the "rights" as to the "obligations" side of the equation.

The two earlier Nordic-UN Initiatives of 1991 and 1996 were instrumental in instigating and pressing for reform of the UN system and its DFPs. Slowly but surely, their recommendations are being implemented. However, the progress on reforms made between 1995-1999 represents only the beginning of a long, challenging journey of institutional change. This process is aimed at bringing about levels (that are acceptable to donors) of efficiency, effectiveness, transparency, accountability and acceptance of responsibility for outcomes and results rather than simply for administering and rationing inputs.

The key question that needs answering is: What is the right balance to achieve between (a) retaining and strengthening soft-intervention type development capacity that already exists in the UN system (but which is at risk of being dissipated, if core resources keep dwindling) and is welcomed by programme countries and (b) building up competing similar soft-intervention capacity in the IFIs and MDBs, when it is not clear that the IFIs/MDBs are likely to do as cost-effective a job in as user-friendly a manner?

*Recommendation*

The Study recommends that separate studies be undertaken to answer this important question before it becomes possible to determine properly the resource requirements of these different parts of the multilateral system for providing essential soft interventions in support of development.

Further, the international community as a whole needs to reach a consensus on a meaningful, value added agenda for the UNDFPs - and especially for UNDP - to pursue on a consistent, systematic basis. That should be one objective of the UN Conference on Financing for Development scheduled in mid-2001. Until such a consensus is reached, it is difficult to see major donors becoming enthusiastic about increasing core funding substantially for any DFP on a firm *multiyear* basis. That will prolong, if not diminish further, the sub-optimal functioning of the DFPs. That is the Catch-22 situation that the UNDFPs presently seem to be trapped in.

## 6.2 Functioning of the UNDFPs: Reforms vs. Funding

### 6.2.1 Reform of the UNDFPs

Since the mid-1990s, wide and deep reforms have been occurring in all the three DFPs that were the focus of this Study. These reforms are resulting in the adoption of a programme approach in planning, implementing and managing their activities to achieve key priorities and results; instead of concentrating, as they did previously, on administering a compendium of unrelated micro-initiatives in each programme country. Though the intensity and pace of reform is striking in all three agencies, it is still very much a “work in progress”.

In launching and “selling” reforms to both programme countries and to agency management and staff, a tripartite bargain was struck. Programme countries agreed reluctantly to changes in DFP mandates, priorities and programmes that they were (and many still are) uncomfortable about. DFP managements committed themselves to following through on an ambitious and difficult programme of internal change despite being over-stretched. These two parties undertook their part of the “implicit bargain” on the clear understanding that “performance would pay” with donors rewarding reforms by increasing core funding and making it more predictable on a *multiyear* basis. Although some individual donors are responding positively to the reform process with incremental funding, that does not appear to be happening across the board. The asymmetry between two parties believing that they have kept their end of the bargain, while the third party (i.e. the donors collectively) has not, defines the nub of the problem that the DFPs now face.

The continued deterioration of *core funding* has been more than offset by increases in *supplementary funding* in UNDP and UNICEF but not in UNFPA. This growing imbalance, between resources that can be relied upon and resources that are exigent, is both distorting the core programme priorities of the DFPs and making the management of their programmes more difficult at the operating level. Moreover, in UNDP, of the results of supplementary funding is that the agency is becoming a *de facto* administrative sub-contractor to the IFIs for administering public programmes in specific regions.

UNDP’s mandate still remains amorphous, excessively broad, all encompassing, and somewhat loose and unclear. The lofty phrases used to describe its vision are difficult to translate into meaningful activity implications at the operational level. The intended shift in its programme orientation (the so-called move “upstream”) raises questions about whether its inherited legacy of management and staff resources are capable/qualified to meet the challenges that its new MYFF and Business Plan have enunciated.

Unresolved questions remain about UNDP attempting to compete on the same high ground of “policy” as the IFIs that appear to have longer experience in this arena. Its comparative advantages are not clear versus those of *the reservoir of soft intervention capabilities* (and the much larger funding capability behind them) that have already been built up in the World Bank and regional development banks. These issues continue to bedevil and impede the provision of donor support for core funding of a level that UNDP's management believes is absolutely crucial for "minimum critical mass" to be maintained and ensure its survival as an effective agency. Unfortunately, UNDP does not appear to have been successful in communicating that belief to the international community. It does not appear to be shared by several major donor countries.

The asymmetry between progress on reform accompanied by a sustained secular decline in funding between 1995-1999 is even more stark in UNFPA. The trend of declining core resources needs to be reversed. It is difficult to see how the smallest of the three DFPs can realise much greater efficiency at the margin through further internal cost squeezing and reform. Attempting to do so would risk contraction of its already over-stretched capacity to administer programmes in over 150 countries and having it fall below an acceptable minimum. This would put UNFPA in the trap of being seen as inefficient and ineffective.

In UNICEF, the asymmetry between reform and funding is of a different nature and a lower order of magnitude. UNICEF's access to sources of funds other than governments for its core funding does not threaten its "critical mass". Indeed the Study's findings suggest that UNICEF may not have scratched even the tip of a very large iceberg in raising resources from non-governmental sources.

UNICEF has unique "brand equity". This attribute enhances its extraordinary ability to raise non-governmental resources, and has influenced (downwards) the contributions that many governments make to its core resources. Government contributions are related (inversely) to the size of contributions by the private sector in those countries; except in the case of three or four donors that make both large public as well as private contributions.

The focus of UNICEF's resource mobilisation strategy on raising core resources from governments raises serious questions about the implications of that priority for other DFPs and for UNICEF's relations with donor governments. These questions need to be looked at more thoughtfully and answered by UNICEF's management and the donor community.

The reforms undertaken since 1995 have resulted in much greater programme transparency and priority definition in all three DFPs, although considerable difficulty remains in reaching consensus on whether there should be further focusing and rationalising of UNDP's mandate; or whether this has been overdone. In UNICEF's case, its medium-term plan (MTP) which has been integrated into the MYFF raises the issue of aggressive and deliberate "mission creep" into terrain that overlaps substantially with UNFPA's. The fact that this duplication is not challenged but widely supported raises two questions.

*First*: Is there a danger of applying dual standards where duplication/overlap are implicitly or explicitly encouraged in certain instances (which are important to the donor community) yet discouraged in others (that are more important to programme countries)? *Second*: As UNICEF moves into UNFPA terrain, is there a danger that it may be affected negatively by the political contention that assails UNFPA? Might UNICEF's "brand equity" be diminished as a result with an adverse and possibly irreversible long-term impact on its reputation and resource mobilisation capacity?

The Study did not come up with easy answers to either of these somewhat profound questions that seem, regrettably, to be swept under the carpet. There may be no easy answers. Nevertheless, the questions deserve to be asked more transparently and openly; and they need to be thought about more deeply than they appear to have been so far.

Although the MYFF has not yielded the results expected of it on the resources side of the equation, the impact of that on UNICEF is considerably less than on UNDP or UNFPA. It is possible that UNICEF may actually achieve its US$1.5 billion income target for 2005 a year or two sooner than that. However, the target will be reached because of increases in private rather than government core funding. The target itself raises uncomfortable questions about how it was derived. The intellectual rationale behind it is weak and unacceptable. It trivialises the merits of a more powerful underlying case. A funding target based on country-by-country build up of the resources required to deliver even a minimum composite package of services of the kind outlined in Box 3.5 would be far more credible and justifiable. It would probably result in establishing beyond any doubt that UNICEF's real funding requirements might actually be a multiple of two or three times the contrived target it has sought to legitimise.

*Recommendation*

For these ambitious and far-reaching reforms to be sustained, it is strongly recommended that the core funding base of key UN agencies is bolstered, regularised and made more predictable and certain over periods of at least four years to prevent the programmes of these agencies from excessive, disruptive volatility. It is also essential to prevent and reverse the demoralisation of DFP managements and staff who are all showing distinct signs of reform-fatigue without any pay-off in sight.

The mandate of UNDP clearly needs to be reexamined in order to reach a consensus between programme and donor countries on where UNDP should be positioned over the next 10 years. The term "up-stream" and what type of implications this new concept may have should be examined further in order agree on what should be UNDP's role vis-à-vis the IFIs.

UNFPA is still trying to do too much with too little. The answer does not lie in cutting back what it is trying to do but in governments increasing significantly the resources available to it.

As concerns UNICEF - with its unique brand equity - the Study recommends that the full potential for raising resources from non-governmental resources be explored further and various options be considered for its future corporate structure that would enable it to maximise non-government resource mobilisation. Its strong focus on securing more government core funding has implications for the other DFPs that need to be more carefully considered by the donor community. Overlap between the mandates of the three agencies also needs to be explored further with a view to achieving greater clarity.

### 6.2.2 Funding of the UNDFPs

Urged by donors, considerable effort and resources have been invested by all three DFPs in the MYFF process - in the belief that such a framework was needed to generate increases in predictable core funding on a *multiyear* basis. Early experience with the outcome of the first round of *multiyear* pledging (MYP) in 2000 in UNDP, UNFPA and UNICEF does not, however, provide ground for optimism about the future. It does not provide any encouragement that these processes will “deliver the goods” in terms of: increasing resources; making them more predictable and assured; or improving the egregiously skewed pattern of burden-sharing that exists today. However, it may simply be too early to reach any definitive conclusion about the success or failure of the MYFF and associate *multiyear* pledging of contributions given the fact that these initiatives are being tried out for the first time and are still nascent.

As far as *multiyear* pledging is concerned, the indications for future years received by the DFPs have been made by very few donors with most citing a procedural inability to make such pledges beyond the current year even in indicative terms. In each DFP, the shortfall between resource requirements and indicative pledges for future years grows very rapidly. These shortfalls make the utility of the MYFF and *multiyear* pledging as effective resource mobilisation devices, aimed at increasing resource availability on a more secure basis, quite suspect.

Part of the core funding deficiency has been exacerbated by exchange rate movements (especially the decline of the Euro against the US dollar) between 1996-1999. There is not much that governments can do about exchange rate effects after making suitable budgetary efforts to increase contributions in local currencies. The hedging efforts of DFPs (which are relatively unsophisticated in being limited to buying forwards) have been compromised by the uncertainty governing the timing of resource inflows. However, there is a way of dampening (though not eliminating) the volatility that has been manifest by using a composite numeraire like the SDR - at least for programme and budget management rather than strictly for accounting purposes. The arguments against this possibility have been explored by the Study and found not to hold much merit.

Although MYFF’s do not appear to be securing their aim of assured *multiyear* core funding, they are sharpening programme focus and inducing DFP managements to pay greater attention to outcomes and results. However, donors may be overdoing, somewhat unthinkingly, their emphasis and insistence on wanting firm evidence attributing results and outcomes to the specific programmatic interventions of each DFP. They are in effect asking questions that are fundamentally unanswerable. Neither the theories nor the analytical techniques to provide such answers exist as yet.

In asking for the impossible, donor representatives are placing unnecessary stresses and strains on DFP managements and staff that are entirely avoidable if a sense of proportion is restored in the “question-asking” process. The cost-benefit ratio in most such instances suggests that it is simply not worthwhile to try to accommodate unreasonable questions with impossible answers. Some defensive capacity needs to be incorporated in the Executive Board processes of DFPs, utilising peer group pressure at Board level to prevent such excesses. It would help if member countries had, in their Missions to the UN, more representatives who understood and were familiar with the core businesses of the DFPs, sitting on their Executive Boards.

It is difficult to reconcile the *voluntary* nature that presently characterises funding of the DFPs with the objective of achieving better *burden-sharing* among donor governments. Most of the donor country representatives with whom discussions were held pointed out the contradiction in stipulating (as this Study is aimed at doing) that voluntary contributions should be based on strict or partial burden-sharing. They are, at present, disinclined to respond positively to the introduction of burden-sharing precepts and negotiations in the DFP funding processes; or to accept the view that it is a valid concept to apply in practice in the DFPs.

In part, funding the DFPs has become hostage to the contra-precedent set in funding the MDFs. The legal obligations entered into under replenishment agreements for the MDFs have limited the capacity of donors to exercise much discretion over their annual multilateral ODA budgets. With these lock-ins already in place, larger donor countries appear to be in no mood to tie themselves down in similar fashion to making binding commitments, based on burden-sharing principles, for the only remaining line-item in their budgets (i.e. contributions to DFPs) on which they have any flexibility.

Larger donor countries also appear to believe implicitly that replenishments based on burden-sharing resulting in regularised core funding for the DFPs would lead to waste and resource diversion for two reasons. First, despite the process of reform that has been undertaken, they still see the DFPs as being less efficient and effective than the MDBs. Second, they remain concerned about the agenda and priorities of the DFPs at the country level being driven by programme countries in a manner over which the donors have still not found a way of exercising effective restraint and control. Thus, the blunt weapon of withholding core funding is the only tool they have come to rely upon.

*Recommendations*

It is recommended that donors and programme countries urgently increase the amount of funding in accordance with discussions and commitments to the MYFFs made in the Executive Boards of the agencies.

In terms of diminishing the effect of exchange rate fluctuations, the Study recommends that DFP financial managers explore further (e.g. with counterpart financial staff from the World Bank) the notion of using the SDR as a device for managing volatility in programmes and budgets. As programme volatility of +/-15% annually is difficult to accommodate in DFPs, a sizeable liquidity cushion and reserve need to be built up which then raises questions about the effectiveness of throughput and resource utilisation capacity. There is no question that DFPs need to employ a greater degree of financial sophistication than they presently have in-house for liquidity management, the introduction of exchange equalisation buffer reserves, and liquidity cushions for managing emergency expenditures. Such arrangements need to be put in place sooner rather than later.

## 6.3 The Priorities of Programme Countries and Donors

One of the concerns that emerged in the Study is the growing gap between the development assistance priorities that donors think are important, and those that programme countries emphasise in achieving sustainable development. This “twist” is occurring partly as a result of political pressures operating on donor governments making it easier for them to obtain aid appropriations to certain support activities, but not others. The development agenda of aid agencies is also driven by the “development fashions” that are in vogue at the time. What is frustrating programme countries is that their development is being driven in a direction that is deflecting them from putting in place the foundation blocks needed for sustained and sustainable development. They are being pushed by bilateral and multilateral aid agencies to pursue strategies that are politically correct rather than sticking doggedly to less fashionable strategies which they believe are the ones that will work in the long run.

The UNDFPs, and especially UNDP, are caught in the middle. They would like to respond to the needs of programme countries. But doing so risks their funding support from donors. Programme countries feel that the donor-driven reforms that have been pursued since the mid-1990s have less to do with increasing the flexibility, widening the mandate, and increasing the responsiveness and reach of the UNDFPs. They are aimed instead at bringing the UNDFPs under the control of donors with a concomitant weakening of programme country influence in priority-setting. Programme countries are concerned that the reforms being pursued by the DFPs will re-orient these institutions in the same way as the MDBs. Such an orientation reflects the priorities of donor countries and of politically active, single-issue lobbies in these countries, rather than addressing the development needs of programme countries. As far as programme countries are concerned, these changes also compromise the core principles of universality and consensus to which they attach paramount importance.

In the UNDFPs, the developing countries have adhered to the principle of universality as being an uncompromisable bedrock of their charters. To them it is of paramount importance to retain the integrity and character of the UNDFPs as institutions governed by democracy among sovereign states (i.e. one state, one vote) and avoid the risk of their becoming clones of the IFIs in being governed by the democracy of dollars (i.e. one dollar, one vote or something roughly to that effect).

Donors, on the other hand, assert that the funding problem of the UNDFPs arises because of donor discomfort with a lack of democratic accountability. Donors who provide 97% of the funds have less than 20% of the votes in the UNDFPs. They cannot expect to secure approval in their parliaments for funds that will be spent with them having very little say (if voting majorities prevailed) as to "for what" and "how efficiently". Donor countries therefore feel that they suffer from the UN equivalent of “taxation without sufficient representation”. The conundrum is how these two contrasting positions can be reconciled in a way that does not compromise either the integrity or the funding of these institutions.

The Study believes that, in holding their views, the programme countries have a point that should not be casually dismissed. However, their influence in getting their point across is diminished because they do not bear a fair share of the burden of financing the DFPs.

The perennial problem of DFPs not being sufficiently supported and underfunded (in terms of core resources) by OECD-DAC donors arises, because of the acknowledged asymmetry between institutional control (i.e. in terms of voting power) and funding. Donors believe that programme country voting control of these institutions creates perverse incentives for DFPs to be intractable and fiscally irresponsible, when OECD-DAC members provide virtually all their funding. Moreover, it leaves the DFPs exposed to having their annual resource requirements continually driven upwards through ostensibly “demand-driven” programmes.

Programme countries now produce nearly half the real output of the world (measured in PPP terms). They account for over 30% of world trade. Together they hold over 50% the world’s international reserves. They are seen by donors as driving the DFPs while paying less than 3% towards their core resource costs. In today’s market-oriented world with balanced rights and obligations, this is a basically untenable situation. It is an anomaly that differentiates the DFPs from the MDFs in terms of attracting OECD-DAC donor support.

This problem is not going to be solved by exhortation and proselytising about the importance of aid and ODA/GNP ratios or upholding the principles and tenets of multilateralism *circa* 1950. Clearly “fair” shares of funding burdens cannot be based on share in world production, trade or reserve holdings alone. The relative incomes (and therefore the relative funding capacities) of people in donor and programme countries also needs to be taken into account in determining what a fair share of the financing burden would be in each case. The OECD world with about 850 million people enjoys a per capita income averaging US$22,000. The non-OECD world with 5.15 billion people has an average per capita income of about US$2,000. But that disparity cannot possibly justify, on the basis of any fair burden-sharing indicators, the non-OECD world providing just 3% of core DFP funding.

*Recommendation*

It is recommended that a compact be negotiated whereby, as part of their global obligations, the non-OECD countries agree to increase gradually their share of the DFP funding burden. Only when programme countries accept that their “rights” in the DFPs are coupled inextricably with an acceptance of their corollary funding “obligations”, will they be respected by donors. This will require considerable political effort but it is an objective that should be put before the high-level consultation on FfD in 2001 as a major agenda item for agreement.

## 6.4 A New Funding Mechanism for the UNDFPs

### 6.4.1 Funding Mechanisms Currently Available

In considering the avenues open to DFPs for funding their resource requirements the Study considered a number of options and evaluated their advantages and disadvantages. These are encapsulated below:

**Voluntary Contributions:** This approach remains the mainstay of core-funding for the DFPs. It respects the notion of being "voluntary" thus absolving donor governments of the pressures involved in responding to influences other than internal budgetary considerations and changing domestic preferences about ODA. It does not oblige them to calibrate their contributions to what other countries do.

**Multiyear Pledges**: Experience up to now with the MYFF suggests that there are serious practical difficulties in many donor countries with making forward budget commitments for 3-4 years. This usually becomes possible only under a treaty or replenishment legislation that obliges governments to make commitments and keep them. Of course, even when such commitments are binding, they are not always kept.

**Assessed Contributions**: Automacity makes this option attractive in terms of global taxation logic. For that reason it is anathema to governments and parliaments in most donor countries. Assessments are seen to violate the principle of "voluntariness". Experience with the UNO and some specialised agencies (ILO, WHO, UNESCO etc.) suggests that donors reluctant to be bound by assessments invariably raise problems about: (a) the basis and formulae used for assessment; and (b) the size of the annual budget for the DFP concerned. At the extreme, donors fall into prolonged arrears. Assessments provide an incentive for unwilling donors to minimise the volume of resources agreed. For donors contributing more than their "assessment" the incentive is to reduce payments or at least go for zero growth for a long time till others catch-up.

**Mixed-Funding Mechanism**: This is a combination of three other options that have already been discussed. It combines the best and worst of these three different methods of funding. In doing so it introduces additional complexity as a necessary trade-off to assure predictability and sound management. It enables DFPs to utilise the technique of fund-raising most suitably tailored to the purpose for which funds are being raised, making it easier to enhance volume as well. It allows management to focus on protecting core administrative capacity, core programme content, and supplementary add-ons separately and distinctly in the way that they should; instead of forcing them to make sub-optimal trade-offs across these three elements. Mixed funding might work, if the three separate components worked and could be articulated with one another. However, its weakness lies in the difficulty of making the three separate components work. If the option of "multiyear negotiated pledges" - falling just short of a replenishment model - could be made to work, and could be relied upon, that would probably suffice in solving most of the funding problems that DFPs face. Additional supplementary funding might still be provided outside the negotiated pledging framework through individually determined voluntary contributions. And there would probably be no need for raising the spectre of assessed contributions, that a few influential donors are quite hostile to, for even part of the funding of DFPs.

**Multiyear Compact:** The *compact* proposed by UNDP in 1997 tries to get around the discipline and rigours of a replenishment exercise while attempting to achieve almost the same thing in practice. It requires as much effort as a replenishment yet results in a desultory outcome. It attempts to avoid the trauma of negotiations on burden-sharing in the DFPs. Yet it acknowledges that they cannot really be avoided. It tries to avoid having scrutiny applied to programme priorities, use of funds, eligibility and allocation criteria, and country/sector allocations that a replenishment exercise typically incorporates. The compact is an attempt to fudge and side-step contentious issues rather than face them. It is based on wishful thinking and an unwillingness to face reality about what would really be involved in putting such an idea into practice. Instead it dives and ducks on key issues of concern to donors that would need to be resolved one way or another rather than being cleverly and disingenuously avoided.

After considering these various options, the Study arrives at the inescapable conclusion that the UNDFPs have a fundamentally *political problem* in organising their funding support. A problem of that nature cannot be resolved by a technical or methodological means.

Given the limitations of voluntary contributions, the apparent early warning signs that multiyear pledges for the first MYFF have not yet yielded any promising results, and that the concept of a compact suggested by the UNDP being unworkable, the only option left to pursue is that of a replenishment.

### 6.4.2 The Issue of Burden-Sharing

Burden-sharing issues in UNDP and UNFPA on one hand, and UNICEF on the other, need to be looked at differently because they involve different issues and require different approaches to resolving them. This is elaborated on in Chapters 4 and 5. The detailed treatment of burden-sharing therein needs to complement this summary conclusion. The overall conclusion about relative burden-sharing is summarised in Box 4.5 in Chapter 4.

The three main burden-sharing distortions in funding the DFPs are that:

- Except in UNICEF, the US is disinclined to contribute to the level of its "fair share" as indicated by traditional burden-sharing indicators in DFPs or MDFs (an issue discussed further in Chapter 5). This leaves a "gap" of 8-10% in filling any replenishment geared to indicator-based burden-sharing. However, in UNDP and UNFPA the gap is even larger (about 15%) and needs to be narrowed.

- As a whole, the large European economies, with the exception of the UK and to a lesser degree Germany, are under-performing in meeting fair burden-sharing obligations where DFP funding is concerned. One way of circumventing that problem is by making a European contribution to the DFPs based on the same assessment formulae as for the EDF. The EDF is today the most over-funded but under-administered programme in the global aid industry. In contrast, UNDP has global aid machinery and capacity that is being under-utilised because of a chronic, endemic core funding shortage. It also has collateral advantages that go beyond simply solving UNDP's funding problem or achieving fairer burden-sharing for financing the DFPs within the EU.

- Third, the non-DAC and programme countries now need to be engaged in fairer burden-sharing as well. A compact needs to be entered into whereby as part of their global obligations the non-OECD countries agree to increase gradually their share of the DFP funding burden from 3% to 30% by 2020.

The present pattern of burden-sharing is neither healthy nor sustainable for the stability and continuity of the UN system. When 50-60% of the core resources of the DFPs are provided by eight of the smaller European economies and Canada, while the larger European economies (with the exception of the UK which is roughly in fair burden-sharing balance) contribute a relatively very small share, the system is in unstable equilibrium. The US contributes a reasonable share to UNICEF, but not to the other DFPs. Thus, the way to get to fairer burden-sharing involves a political rather than technical approach.

*Recommendation*

For burden-sharing to be accepted as a basic component of replenishment negotiations for funding the DFPs, a political initiative should be taken to build consensus through the OECD-DAC working group mechanisms. It may need to be pursued simultaneously in various European fora on multilateral aid issues. These two steps would be necessary before it could be broached in the UN system. These intra-donor political efforts will need to be complemented by similar efforts between programme and donor countries.

### 6.4.3 A Replenishment Mechanism for the UNDFPs

If a replenishment model were to be applied to the DFPs, the optimal replenishment period should cover two biennia - four years. In practical terms that would mean gearing up for a replenishment at the earliest in time for the next MYFF for 2004-2007. Assuming that a 12-15 months negotiating period should be allowed for the first time, this would mean launching the first replenishment negotiation meeting by no later than the last quarter of 2002 for negotiations to conclude and an agreement put in place by the last quarter of 2003. If that target was adopted, the strategy for creating consensus around the need for a replenishment approach in funding the DFPs would need to be developed now and unveiled at the high-level consultation on FfD in 2001. A major political initiative would need to be launched immediately thereafter to create consensus for a replenishment in the donor community and between donors and programme countries.

Replenishments are not cost-free exercises. They will involve considerable costs in terms of staff time, overhead and travel for both the DFPs concerned and contributing governments. They will involve a delicate set of issues concerning the role of replenishment negotiators in determining policy matters vis-à-vis the role of Executive Boards. Economies of scale will be an important consideration as will the implications of two or three separate replenishment negotiations being conducted simultaneously for each institution. It would be easiest to negotiate a single replenishment for all the DFPs under the aegis of UNDG. However, it is doubtful whether the internal co-ordination mechanisms within the UN system exist, or are strong enough, for a pooled approach to be taken at the outset.

Replenishments cannot be seen as a quick fix or panacea for solving the DFP core funding problem. Without the political will to support DFPs in the same way that donors are prepared to support the MDFs, replenishments may pose as many problems as voluntary contributions. These would include agreements being reached at very low levels of core funding with certainty being traded off for volume.

The MDF replenishment model would need to be adapted in significant respects to be more responsive and user-friendly to the somewhat different core funding needs of DFPs. Specific adaptations have been outlined in detail in Chapter 5.

As required by the ToR, simulations of a replenishment exercise were carried out for UNDP and UNICEF on the basis of a crudely derived burden-sharing formula (share in world GDP at both market and PPP exchange rates). The major results of these simulations are as follows:

**Simulation for UNDP**

- *OECD-DAC vs. Non-DAC Relative Burden-sharing*: The simulation assumes an OECD-DAC contribution of 70% to UNDP's core resources from governments. The rounded 70:30 ratio for DAC vs. non-DAC contributions is inescapable for purposes of any simulation intended to reflect indicator-based burden-sharing. The 70:30 scenario is, in reality, implausible for *immediate* application in UNDP. This size of reduction in the DAC share cannot be achieved from a starting ratio of 97:03 in one funding round; it could only be achieved slowly over several replenishments.

- *Burden-sharing within DAC Countries*: In 1996-1999 the four Nordic and six other like-minded European countries (in particular the Netherlands and Switzerland, although this group also includes Austria, Belgium, Ireland and Luxembourg) provided nearly 53% of the DAC share. Such out-of-kilter largesse resulted in diminishing the shares of larger EU countries (especially France, Italy and Spain, with Germany and the UK both doing marginally more than fair burden-sharing would have required). These five large European Union economies should together have financed over 26% of the DAC share. However, they ended up financing just 20%.

- Within DAC, the non-European "like-minded" donors (Australia, Canada and New Zealand) together contributed the proportions that fair burden-sharing might have required. Canada did more while the other two did less.

- Japan's contributions to UNDP's core resources were fractionally less than would be suggested by fair burden-sharing.

- The share of the US was proportionately the lowest of all DAC donors by an unjustifiable margin even allowing for a “real world discount” of 6-9% in the normative US share. The simulation for UNDP figured on a US contribution of 16% to total core resources for 2000-2003 within an overall OECD-DAC contribution of 70%. The simulation therefore assumed a US share representing about 23% of the DAC total versus 10% for 1996-1999.

- *The Non-DAC Countries*: The largest assumption in the simulation is that non-DAC countries will contribute their normative share of 30% of total core resources. Non-DAC countries are seen as driving the DFPs while paying under 3% towards their core resource costs. In today’s market-oriented world, that is a basically untenable situation. It is an anomaly that differentiates the DFPs from the MDFs in terms of attracting DAC support. Commonsense and realism suggest that it will be impossible to get non-DAC members to jump from a less than 3% share to a 30% share in funding UNDP’s core resources in one big leap.

- A gradual approach toward a long-term goal on which all members agree is perhaps the only way to get DAC and non-DAC contributors to “buy-in” to more sensible burden-sharing through disciplined replenishment negotiations. The fiction that DFP contributions are inherently voluntary and must be left that way - with the costs and consequences involved - is neither logical nor appropriate where resources of the magnitude of US$5-6 billion for 4-year replenishment periods are concerned. It is too convenient a defence on the part of defalcating donors that is invalid and needs to be dispensed with.

- *Budgetary Implications for Different Contributors*: The large shifts in share between DAC and non-DAC contributors have major budgetary implications. In coping with the shifts in share discussed above, the budget efforts (and reductions) that would need to be made to accommodate them in one swoop would themselves destabilise the sensible management of ODA budgets in donor countries, unless dealt with in a gradual manner.

- *Increases in DAC Budgets*: The UNDP simulation results in budget *increases* of 102% over 1996-1999 levels for the US and 44% for Japan. It results in much higher increases for France (291%); Italy (197%) and Spain (260%), but substantially lower (and entirely manageable) increases for Germany (9%) and the UK (15%). It also implies a 150% increase for Australia and New Zealand

- *Decreases in DAC Budgets*: These increases are offset by substantial *decreases* in budget contributions by the Nordic countries averaging 83%. They also involve decreases for the like-minded smaller European members of DAC averaging 73%. The overall impact for DAC as a whole is a decrease of 10% in the *dollar amount* of the DAC contribution.

- *Exchange Rate Effects*: The simulation did not take either explicit or implicit account of the potential impact of exchange rate changes between the US dollar and the Euro in determining the size of these budget increases.

- *Increases in Non-DAC Budgets*: Increases in the budgetary contributions of the under-performing DAC donors pale in comparison to the percentage increases implied for non-DAC contributors' budgets. In the non-DAC groups, the percentage increases for budgetary effort range from a low of over 800% for the LPC and Arab-OPEC groups to about 1,800% increases for the NICs and a high of nearly a 2,800% increase for the Transition Economies as a whole. These percentage increases appear dramatic; but they are not quite as disconcerting when the absolute dollar amounts of normative contributions are taken into consideration. It is the minuscule existing base of contributions from the non-DAC members that makes the percentage increases look so high.

**Simulation for UNICEF**

- *OECD-DAC vs. Non-DAC Relative Burden-sharing in UNICEF*: The simulation for UNICEF assumes a 77:23 ratio for DAC vs. non-DAC contributions instead of 70:30. The difference reflects the willingness of the US to contribute its fair share in UNICEF in contrast to its reluctance to do so in the other DFPs. However, the immediate application of the 77:23 scenario is also entirely implausible and impossible to achieve from the 97:03 ratio in 1996-1999.

- *Burden-sharing within DAC*: In 1996-1999 the four Nordic and the six other like-minded European countries provided just under 47% of the DAC share. Unlike UNDP, the shares of all the larger EU countries (including Germany and the UK) were significantly lower than they should have been. The deviation was least in the case of the UK and greatest in the case of Germany.

- *The Impact of Private Contributions to UNICEF on Government Shares*: It cannot be an accident or coincidence that the very low shares of all the larger European countries (other than the UK) coincided with their being among the top six contributors of *private resources* to UNICEF. The same is true of Japan. Japan's private sector contribution is so large relative to that of other contributors that the simulation has justified the assumption of a lower share for Japan's government contribution in UNICEF than in UNDP (12% instead of 14%). Even taking into account their private sector contributions, the five larger European Union economies should have financed between 25-26% of the DAC share of contributions to UNICEF's core resources from governments. However, they financed only 11.5%.

- The private sector contributions of the Nordic countries are minuscule reflecting perhaps a societal preference for financing UNICEF from public rather than private funds. It may be that in economies whose marginal direct tax rates do not permit the same private generosity from after-tax disposable income, private contributions cannot be expected to be as high as in countries that provide more headroom for private contributions.

- By contrast, the private sector contributions of the other like-minded smaller European DAC donors (especially Belgium, the Netherlands and Switzerland) are, in relative terms, as high as those of Japan, given their comparative economic capacities. These three countries share the same characteristic as the US in making both large public *and* private contributions to UNICEF.

- Unlike the US, however, they did compensate for that to a small extent with a lower public contribution (totalling just over 13% for all three countries) than to UNDP (to which they contributed 21%).

- Australia and New Zealand contributed less to UNICEF's fiscally funded core resources than the proportions suggested strictly by fair burden-sharing.However, in Australia's case, relatively large private sector contributions may have been an explanatory factor. Canada did only fractionally less than its normative share even though its private sector contribution was large (if smaller than Australia's).

- *The Non-DAC Countries*: The non-DAC share of 23% of total government-funded core resources is substantially lower than their normative share of 30%. Even so, the share of 23% is still a very substantial change compared to a total non-DAC contribution today of just 3%.

- *Increases in DAC Budgets*: The combined effect of a 13% increase in volume coupled with increased shares for Japan and the large EU donor countries, results in budget *increases* over 1996-1999 levels of 84% for Japan and a marginal reduction for the US (1%). It results in higher increases for France (252%); Germany (400%); Italy (80%); Spain (400%) and Belgium (78%) with a lower and more tractable increase for the UK (35%) and Canada (23%). It implies an 88% increase for Australia and New Zealand.

- *Decreases in DAC Budgets*: These increases are offset by substantial *decreases* in budget contributions by the Nordic countries averaging 86%, for the Netherlands (71%) and Switzerland (51%). The overall impact for DAC as a whole is again a decrease of 10% in the *dollar amount* of the DAC contribution from the previous 4-year period. As with UNDP, the simulation did not take either explicit or implicit account of the potential impact of exchange rate changes between the US dollar and the Euro in determining the size of budget increases or declines.

- *Increases in Non-DAC Budgets*: The increases in non-DAC budgets for UNICEF shown by the simulation are only slightly smaller than the magnitudes indicated by the simulation for UNDP. The percentage increases for enhanced budget effort range from a low of 433% for the European non-DAC members to over 1,000% for the transition economies; with intermediate increases of 566% for the Arab OPEC group; 991% for the NICs and 700% for the LPCs and OPCs. As explained, while these percentage increases may look dramatic, they are manageable and plausible when the absolute dollar amounts of potential normative contributions are taken into consideration.

The main conclusion that these two simulations lead to, is that the shift to normative burden-sharing cannot be forced immediately.[17] It can only be achieved over time. In that sense, the simulations confirm the slow-and-steady strategy for achieving changes in burden-sharing through replenishments over a longer term than any donor may have had in mind.

The conclusion of the Study on the main point of issue is that extant patterns of burden-sharing - the integral but fragile backbone of any replenishment negotiation - are egregiously skewed in UNDP and UNFPA, and only a little less so in UNICEF for historical reasons. To correct these large distortions, and return to a semblance of balance in burden-sharing patterns based on justifiable indicators, all donors involved along with the programme countries, would need to accept and agree that this could not be done overnight. It can only be achieved over a long period of time; probably over at least 4-5 replenishment cycles covering the next 16-20 years.

*Recommendation*

It is recommended that donors and programme countries reach consensus at the outset about what the long-term goal is. They would need to accept the need for a changed pattern of burden-sharing - in keeping with global changes in the evolving financial capacities of different constituencies in the international community - to achieve “balance” by a time-bound target date; e.g. 2020. The problem with needing such a long period to achieve balance is that circumstances may have changed sufficiently by then to render obsolete any specific burden-sharing parameters suggested now. Therefore, some flexibility should be permitted to accommodate the global changes that are likely to occur in the world economy over the next 20 years.

[17] No simulation was required under the ToR for UNFPA, although the implications and findings would have been almost identical to UNDP.

# Annex 1 Terms of Reference

## Mobilising Resources for UN Funds and Programmes

**1. Background**
The Swedish Ministry for Foreign Affairs has initiated the project *Development Finance 2000*. The overall purpose of the project is to help increase awareness, knowledge and international commitment to a strong, effective and well-funded multilateral system in the field of development.

The project goals are to:

1. create political energy and momentum on issues concerning multilateral financing in the field of development,
2. seek to develop new perspectives in the thinking about financing the UN and the development banks,
3. seek to develop concrete mechanisms for financing UN programmes and funds in particular, and finally
4. develop concepts concerning global public goods and its financing.

The project will carry out several studies at different levels in order to achieve these goals. This specific study focuses on donor support for the UN agencies and the relationship between reforms and funding. It will elaborate on mechanisms for how to mobilise resources for UN funds and programmes and analyse if a replenishment model could be used for these organisations.

**2. Introduction**
In an increasingly interdependent world, more and more issues need to be resolved within the framework of multilateral cooperation. At the same time, much of multilateral funding is on voluntary basis and depends too much on short-term considerations in the aid donor community.

Thus, a basic issue is how to match multilateral funding with recognized international needs, both with respect to quantity and quality, e.g. in terms of predictability, stability and fair burden-sharing between nations.

Initially, the main support for the UN development multilateral institutions came from a small group of established donors, led by the United States. Later, there was a period when the "front runners", among them the Nordic countries, became increasingly important donors for the multilateral system.

Notwithstanding significant efforts of shared international responsibility, today - more than 25 years since the United Nations adopted the 0.7 per cent goal - major donor countries appropriate only an average of about 0.25 of their GNP to the developing countries - the lowest level since the 1950s.

UN Funding
The present system of funding the UN is done in three different ways: (i) assessed budget contributions, by which the core of the UN and the specialized agencies are

funded through assessed contributions from member states; (ii) voluntary contributions, which is the main financing source for most of UN's development activities and programmes with donor pledging annually, biennially or triennially; and (iii) ad-hoc funding, which often fills the shortfalls in funding technical assistance from assessed budgets and voluntary contributions through cost sharing arrangements for multi-bi projects and special programmes.

The different principles according to which the funds and programmes are funded have both strengths and weaknesses. On the one hand they provide flexibility for member states to support programmes which are of particular concern to their foreign policy and development objectives. On the other hand they have proved inadequate as a means of mobilizing the funding needed to match generally agreed needs and objectives.

Initial steps towards a more predictable programming and funding has been taken in some of the funds and programmes through e.g. harmonization of budgets within UNDP, UNFPA and UNICEF and through the introduction of the Multi-Year Funding Framework (MYFF).

Nevertheless, many UN agencies have experienced considerable fluctuations in funding in the last couple of years, despite reforms and improved results. There is an increasing discrepancy between the tasks imposed on the UN and the organization's available resources.

The volume of funding of the UN is closely linked to the sharing of the burden. The differences between donors are substantial. In fact, the trend has been towards an increasingly uneven sharing of the burden. A stronger and more effective UN in the economic and social fields should be built on the basis of the joint responsibility of its members. To a greater extent than is presently the case, the sharing of the funding among the member states must reflect their ability to pay.

MDB Funding

It is clear that the UN system, unlike the multilateral development banks, uses funding mechanisms that do not provide sufficient volume, predictability, stability and fair burden sharing.

In this respect it may, therefore, be asked what lessons can be drawn from the funding of the "soft windows" of the multilateral development banks.

Basically the replenishment process in the banks is a two-stage sequence. At the first stage, donors set out to agree on a proposed target for total contributions for a specific period, usually 3-5 years. This target is further related to rather specific objectives for the lending programme, based on analysis of the external financial needs of the borrowers. At the second stage, the donors negotiate the sharing of the burden among them.

The strength of such a replenishment process or funding mechanism is that the volume is clearly related to perceived needs and defined objectives, that it allows for a financial planning of the institution over a number of years and that burden-sharing is negotiated and effected within a unified framework and thus minimises the scope for "free riders", i.e. reaching the targets becomes a collective responsibility.

At the same time it is true that, in one sense, there is a negative relation between volume and burden sharing. With a given burden-sharing formula, the donor that is least willing to contribute may set the standard for others. This may result in total contributions falling short of the volume target set. This is in fact what has happened in many of the replenishment exercises in the MDBs during the last decade.

On the other hand, since donors are reasonably assured that their contributions will be used for purposes to which they give priority, their willingness to contribute is affected in a positive way.

It could thus be argued that many of the features of a replenishment process have advantages over the system with pledges, which is common practice for funding many of the UN funds and programmes.

**3. Objectives**

Based on the background outlined above, the study has three main objectives:

(a) Analyse the relationship between reforms undertaken and actual funding of the main development funds and programmes (UNDP, UNICEF, UNFPA).

(b) Identify key issues regarding the functioning and effectiveness of the organisations, and other factors, which are of importance to key donors for their financial support and their willingness to make multi-year resource commitments.

(c) Analyse the applicability of a replenishment model for these three organisations and how such a model could be operationalized.

**4. Scope of Services**

The main tasks carried out by the consultant are outlined below. The analysis shall also take into account current discussions on development financing and funding mechanisms.

- *Task 1: Review of current funding mechanisms*

As a starting point, the analysis shall include a brief review of the current funding mechanisms of the major UN development funds and programmes. This review will focus on current elements of multi-year frameworks and their strengths and weaknesses. What are the results so far? To what extent has the introduction of MYFF and other reforms improved the long-term financial predictability and stability of the organisations?

- Task 2: *Analysis of Donor Support*

Analyse key issues regarding donor's view on the mandates, roles and effectiveness of UN funds and programmes and its relation to their funding. A selected number of key donors will be interviewed in order to discuss their views on multi-year pledging, reforms and funding of these organisations. A selected number of programme country representatives will also be interviewed in New York for discussion of these issues.

- *Task 3: Application of replenishment model*

Analyse the possibilities of using a replenishment model within the UN funds and programmes. The analysis shall include the following key areas:

- Legal implications of using a replenishment model for the UN organisation and for donors;
- Modalities for burden sharing;
- Administrative and budget implications; e.g. is it possible for donor countries to commit themselves for several years "subject to parliamentary approval" ;
- Political implications; can a replenishment model be applied without jeopardising the universality of UN in terms of voting power, etc.;
- Necessary adjustments of current model; if applicable what are the necessary adjustments for a model to be realistic.
- Variations between different agencies. Is a replenishment model more applicable in some organisations than others?
- Other obstacles, effects (positive and negative).

This task should also include two case studies where the possibilities of applying a replenishment model should be reviewed. For this purpose the consultant should use UNICEF and UNDP and examine the possibilities for these two agencies to adopt a replenishment model.

- *Task 4: Recommendations and Conclusions*

Based on the review and analysis under task 1 - 3, the consultants shall:

  - Provide conclusions and recommendations regarding changes needed from UN agencies, programme countries and donors in order to secure long-term financing of the organisations. Major risks and opportunities should be spelled out.
  - Provide recommendations regarding possible implementation of a replenishment model and spell out key factors for success. Changes required within the organisations should be spelled out. Necessary changes in current donor policies and strategies should be identified;
  - Suggest areas for future research.

## 5. Deliverables, Reporting and Time Schedule

The work under these terms of references needs to be well organised and structured for the presentation of a series of well-defined results. The reports should be prepared in such a way that they can be used as basis for presentations and discussions. The draft final version of the report should be prepared as a background document for a seminar.

The project steering group will be closely involved in the various steps throughout the study, which means that;

- the general outline of the report shall be discussed and agreed upon, with members of the steering group before the start-up of the tasks; and

- the draft final report shall be presented for and discussed with members of the steering group well in advance of the seminar

The following outputs are expected from the consultant(s) activities;

| Deliverables | Content / Activity | Delivery from commencement of assignment |
|---|---|---|
| **Inception Report** | General outline of the report. Issues of importance for the next steps and the future work. | 2 weeks |
| **Interim Report** | Report on initial findings and elaboration of key issues. | 1½ months |
| **Draft Report** | Draft final report with comments from the steering group considered | 2½ months |
| **Seminar** | Presentation of the draft final report | 3 months |
| **Final Report** | A full final report with comments from the seminar activities considered, summary of actives and findings, proposals for future activities. | 3½ months |

The Inception Report should include a descriptive inventory of the issues involved including a work plan for the subsequent work. The Interim Report will form the basis for mid-term briefings with desk officers at the Ministry.

The assignment is estimated to require a total of 67 man-days consultant services.

# Annex 2 Persons Met

**Programme Countries**

H.E. Mr. Sham Shad Ahmad, Permanent Representative of Pakistan to the United Nations, New York
Mr. Antonio Cavalcante, Secretary, Permanent Mission of Brazil to the United Nations, New York
Mr. Hazem Fahmy, First Secretary, Permanent Mission of Egypt to the United Nations, New York
Mr. Alex Giacomelli, Secretary, Permanent Mission of Brazil to the United Nations, New York

**Donor countries**

Mr. Tony Bazeley, UN & Commonwealth Department, Department for International Development, The United Kingdom
Ms. Beryl Bentley-Anderson, Permanent Mission of the United States of America to the United Nations, New York
Mr. Jean-Mathieu Bonnel, Desk Officer, Department for UN and International Organisations, Ministry of Foreign Affairs, Paris
Mr. Johs. Dahl-Hansen, Head of UN Department, Ministry of Foreign Affairs, Copenhagen
Mr. Gerry Duffy, Deputy Head, UN & Commonwealth Department, Department for International Development, The United Kingdom
Ms. Margaret H. Ford, Director General, United Nations & Commonwealth Programs, Multilateral Programs Branch, Ottawa
Mr. Tom Hanney, Multilateral Development Aid, Department of Foreign Affairs, Dublin
Ms. Ruth Jacoby, Ambassador, Economic and Social Affairs, Permanent Mission of Sweden to the United Nations, New York
H.E. Mr. Hideaki Kobayashi, Ambassador, Deputy Permanent Representative of Japan to the United Nations, New York
Ms. Anna Lekvall, Second Secretary, Permanent Mission of Sweden to the United Nations, New York
Mr. Roland Lindenthal, Desk Officer, UN Department, Ministry for Economic Cooperation & Development, Bonn
Mr. Dermot McGauran, Deputy Director, Multilateral Development Aid, Department of Foreign Affairs, Dublin
Ms. Philippine Meunier, Deputy Director, Department for UN and International Organisations, Ministry of Foreign Affairs, Paris
Mr. Michael Mosselmans, UN & Commonwealth Department, Department for International Development, The United Kingdom
Ms. Ginette Saintcyr, Senior Programme Manager, Canadian International Development Agency, Ottawa
Dr. Jurgen Zoll, Deputy Director, UN Department, Ministry for Economic Cooperation and Development, Bonn

**UNDP**
Mr. Adel M. Abdellatif, Programme Manager, Regional Bureau for Arab States
Mr. Steve Glovinsky, Coordinator, Development Resource Networks, Bureau for Development Policy
Ms. Nicola Harrington, Deputy Director, Division for Resource Mobilization
Mr. John Hendra, Deputy Director, Bureau for Resources and Strategic Partnerships
Mr. Jonas Kjær, Resource Analyst, Division for Resource Mobilization
Mr. Jan Mattsson, Assistant Administrator and Director, Bureau of Management
Mr. Romesh Muttukumaru, Director, Office of Budget, Bureau of Management
Mr. Jo Scheuer, Deputy Coordinator, Global Hub, Bureau for Development Policy

**UNICEF**
Mr. Rudolf Deutekom, Director, Private Sector Division
Ms. Cecilia Lotse, Director, Programme Funding Office
Mr. Ado Vaher, Director, Office of UN Affairs and External Relations
Ms. Ellen Yaffe, Comptroller, Division of Financial Management
Ms. Inese Zalitis, Sr. Programme Funding Officer, Programme Funding Office

**UNFPA**
Ms. Kerstin Trone, Deputy Executive Director
Mr. Sterling Scruggs, Director, Information and External Relations Division
Mr. Richard Snyder, Chief, Information and External Relations Division

**United Nations Development Group Office**
Mr. Alan Doss, Director
Ms. Ameerah Haq, Associate Director
Mr. Ian Mcfarlane, Policy Specialist

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COWI. *Study of UNDP's Role in Aid Coordination at Country Level,* 1994.

This study was commissioned by the project *Development Financing 2000* within the Swedish Ministry for Foreign Affairs. The purpose of the project is to increase awareness, knowledge and international commitment to a strong, effective and well-funded multilateral system for development.

The study´s purpose is to develop new perspectives in the thinking about financing the United Nations Funds and Programmes. Four key issues are addressed:

- Political will to support UN Funds and Programmes
- Relationship between reforms and funding
- Priorities of programme countries and donors
- New funding mechanisms for the organisations

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Mobilising Support and Resources for the United Nations Funds and Programmes

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