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# Financing the UN Development System Time for Hard Choices

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Financing the UN Development System  
Time for Hard Choices





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# Executive summary

**An important challenge is embedded in the title of this year's report: *Time for Hard Choices*. In a financing world which is both simple and complex, the choices are numerous and what follows are hard decisions about the allocation of resources. A multilateral approach to today's global challenges will need to use evidence to show its competitive advantage. From here on, the financing questions flow.**

The intention of this report is to wake us up to the reality that the financing of the United Nations development system (UNDS) is currently in the spotlight of a complex reform agenda. At the same time, financing is a crucial dimension of a multilateral approach to addressing the world's urgent development challenges. The report showcases the complexities and innovations within Sustainable Development Goal (SDG) financing and the need for a firm multilateral approach *when* it is best for SDG achievement.

## Scope of the report

This, the fifth edition of Financing the UN Development System report, is, as in previous years, divided into two parts.

Part One provides accessible UN funding data on revenue and expenditures, which we believe is important for understanding current and future financing reform discussions. This year's report includes references to two new initiatives in the UNDS funding landscape, the Funding Compact and the 1% levy on tightly earmarked contributions. It also discusses the quality issues of financial data, the adoption of new UN data standards and why it matters.

In Part Two of the report, 25 prominent guest authors from outside and inside the UN system present their ideas and initiatives in concise essays on the financing

trends impacting the SDGs. These are organised into four different chapters. Emerging issues this year are how financing can more effectively support a 'leave no one behind' agenda and how the 'big picture' of financial flows to developing countries influences the role of the UNDS in different country contexts.

This part of the report also dives deeply into the challenges and opportunities for financing related to conflict prevention and peacebuilding. In addition, it looks at the role of financing as it relates to technology, digitalisation, science and for the first time at the purposeful investment choices of young millennial investors. Together these essays provide analysis and insights that we believe make an important contribution to the debate and to the choices that lie ahead.

## Key findings Part One: Overview of United Nations' resource flows

### Chapter One: Revenue

The total revenue received by the UN in 2017 was US\$ 53.2 billion and represented an increase of US\$ 3.9 billion compared to 2016 (Table 2a). The increase can be partly attributed to three factors: First, six new UN entities are reporting to the Chief Executives Board for Coordination (CEB) for the first time in this year's report adding a total of US\$ 0.5 billion to the overall revenue. Second, 'double counting' in the UN financial system makes the UN total revenue seem larger than it is; specific instances of where the same financial flows are reported by two UN entities to the CEB are analysed in more detail in the third chapter on data quality. And lastly, the overall revenue of many UN entities has grown between 2016 and 2017, with the United Nations Children's Fund (UNICEF) and the World Health Organization (WHO) having the highest growth rate among six large UN entities (35% and 17% respectively).

Total revenue of the UN system by entity and by financing instrument, 2017 (US\$ million)  
(Table 2a from Part One, Chapter One):

Table  
2a

Entity	Assessed	Voluntary core	Earmarked	Fees and other revenues	Total revenue 2017
UN Secretariat	2,578		2,279	623	5,480
CTBTO	119		7	2	128
DPKO	7,853		343	79	8,276
FAO	474		751	39	1,264
IAEA	434		260	8	702
ICAO	80		114	22	216
ICC	167		2	0	170
IFAD		306	104	9	419
ILO	370		293	21	683
IMO	41		7	19	67
IOM	49	15	1,450	100	1,615
ITC	35	29	62	1	127
ITU	125	1	10	47	183
PAHO	102		614	716	1,433
UNAIDS		173	52	8	233
UNCDF		10	47	3	60
UNDP		647	4,245	344	5,236
UNEP	199		443	25	668
UNESCO	316		261	71	648
UNFCCC	31	2	38	15	86
UNFPA		350	718	93	1,160
UN-HABITAT	14	3	142	11	169
UNHCR	48	703	3,445	31	4,227
UNICEF		1,278	5,153	146	6,577
UNIDO	80		256	3	339
UNITAR		0	32	0	33
UNODC	31	4	342	15	391
UNOPS				834	834
UNRISD		2	0		2
UNRWA		625	559	55	1,239
UNSSC		4	7	0	11
UNU			49	58	107
UN Women	8	146	214	10	379
UNWTO	16		3	5	24
UPU	37		17	16	69
WFP		391	5,609	431	6,431
WHO	457	81	2,058	179	2,775
WIPO	18	1	11	392	423
WMO	70	5	17	2	94
WTO	200		21	2	224
<b>Total</b>	<b>13,953</b>	<b>4,776</b>	<b>30,035</b>	<b>4,435</b>	<b>53,200</b>

Source: see page 30

How these UN entities are financed influences how they operate, and in 2017 more than half of all UN revenue was earmarked to a certain degree (57%). This is a three percentage point increase since the previous year and is part of a long-term trend in UN financing, which has seen a relative decline of the more flexible contributions (assessed and voluntary core) and a relative shift towards the more constrained earmarked contributions. In 2017, voluntary core contributions decreased by one percentage point to 9%, which almost equalled the 8% that came from 'fees and other revenues' (Figure 2).

Meanwhile, assessed contributions amounted to 26%.

The next question is what part and which revenue streams of the UN are growing? The UN's overall revenue growth has been concentrated in UN Operational Activities for Development (UN-OAD), which grew from US\$ 29.5 billion in 2016 to US\$ 33.6 billion in 2017 (UN non-OAD activities decreased slightly from US\$ 19.8 to 19.6 billion). It is, however, specifically the earmarked resources for UN-OAD that have increased (from US\$ 23.1 to 26.7 billion). A closer look at the levels of earmarked contributions to each UN entity (as well as assessed contributions) is detailed in the full report, and it shows, for example, that in 2017 for seven UN entities, over 80% of their funding was earmarked.

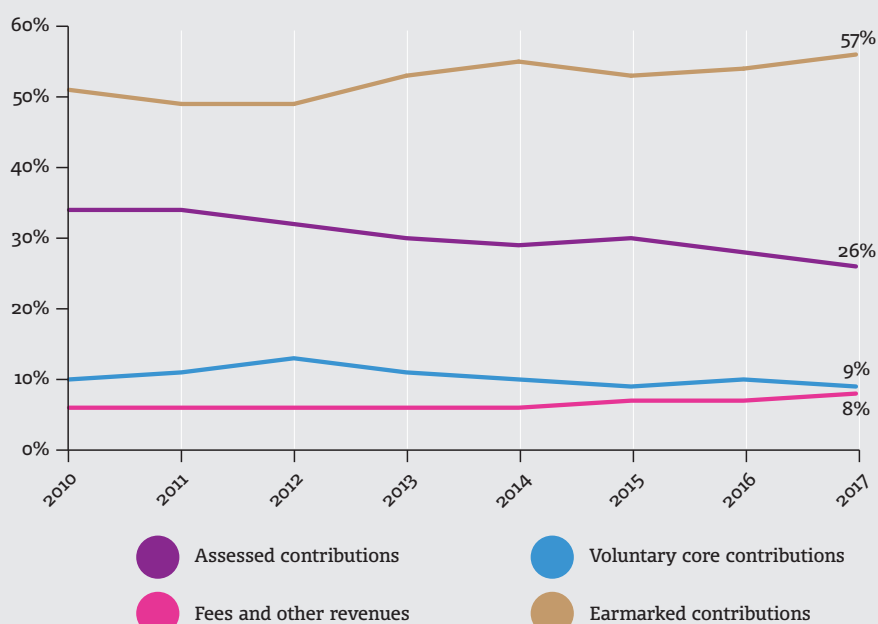
Having looked at the revenue streams into the different UN funding instruments, the report also examines what is being funded in the UN. Figure 5 shows 32% of the funding in 2017 went to humanitarian assistance, which

is a growth of four percentage points compared to the previous year. The relative share of funding for development and peacekeeping has remained stable, while the category of global norms, standards, policy and advocacy has decreased by four percentage points compared to 2016. A note of caution before drawing too many conclusions: the decrease in the category of global norms is more linked to definitional and methodological issues than with the UN investing fewer resources in its normative mandates.

If we now turn to how the UN fits into the funding picture of the broader multilateral system we see in Figure 10 how important the UN is as a multilateral channel. Indeed, the UN remains the largest channel of multilateral assistance from countries part of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) with US\$ 20.9 billion in contributions in 2017, which represents 33% of the total (see Figure 9 on page 39).

In Figure 10 we also see major funding differences and trends between the multilateral institutions. Higher levels of earmarking compared to core funding distinguish the UN system from other multilateral institutions. Moreover, the share of earmarking has increased substantially in the UN in recent years. In 2017, of the US\$ 20.9 billion of multilateral aid channelled through the UN development system, 71% was earmarked, against 64% of the US\$ 16.6 billion in 2013.

**Distribution of total UN system revenue, by financing instrument, 2010–2017**  
(Figure 2 from Part One, Chapter One):

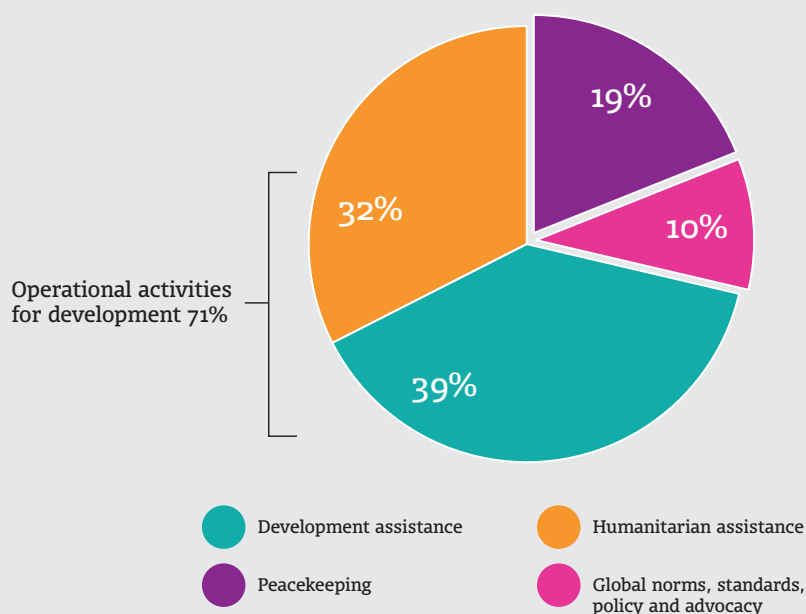


**Figure 2**

Source: see page 29

A more detailed five-year multilateral funding trend can be seen in Table 5 in Chapter One of the full report. This data does, however, not capture the whole picture with regards to trends in Official Development Assistance (ODA) funding, since contributions from OECD-DAC members to multilateral organisations represented only around 41% of total ODA in 2016.

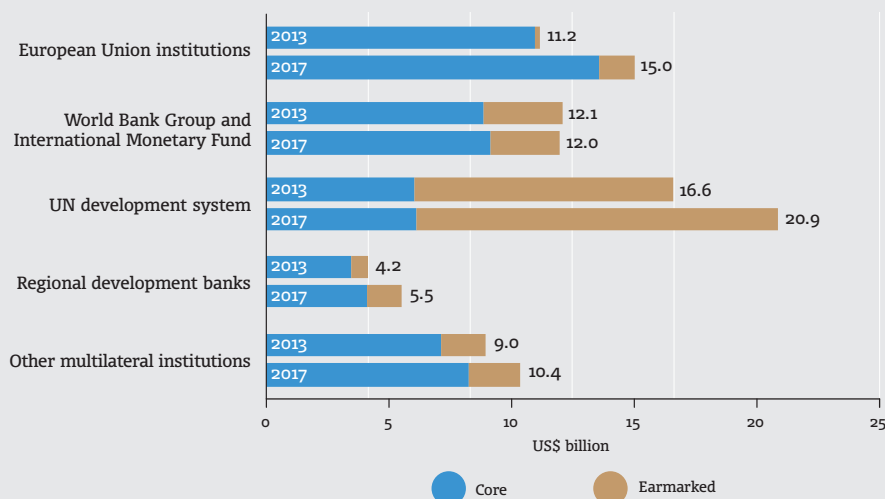
**Funding of UN system-wide activities, 2017**  
(Figure 5 from Part One, Chapter One):



**Figure 5**

Source: see page 36

**Channels of total multilateral assistance from OECD-DAC countries, core and earmarked, 2013 and 2017** (Figure 10 from Part One, Chapter One):



**Figure 10**

Source: see page 40

## Funding sources for UN operational activities, 2017

(Figure 11 from Part One, Chapter One):

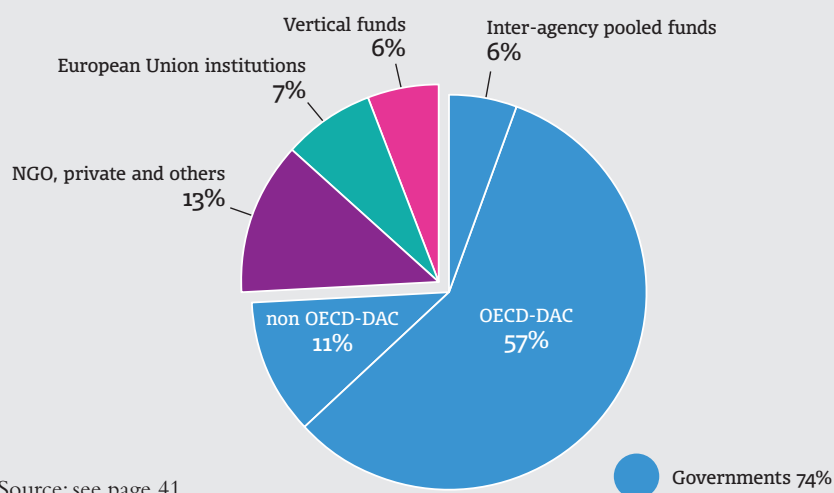


Figure 11

So, knowing that OECD-DAC countries channel a significant part of their ODA funding into the UN, how much of the overall UN funding pie is that? Who are the other funders of the UN? As we can see in Figure 11, governments constituted 74% of the direct funding to the UNDS with 57% coming from OECD-DAC countries and 11% from non OECD-DAC countries. Indirectly governments also funded the UNDS via eg the European Union (EU) institutions and in-part via UN pooled and vertical funds. An equal share of 6% of total funding to the UNDS was channeled through UN inter-agency pooled funds and vertical funds.

While non-state contributions are growing significantly as sources of revenue for the UN (from 9% in 2016 to 13% in 2017), they remain a relatively small source of revenue for most UN entities (a visual breakdown of the non-state funding for six UN entities is provided in the report).

In fact, the majority of contributions to UN operational activities come from a small group of Member States. Figure 25 shows the funding mix of the top 12 OECD-DAC contributors, with contributions broken down into core, inter-agency pooled funds, single-agency thematic funds, and other earmarked funds. In 2017, these top OECD-DAC members provided 65% of the total contributions for UN operational activities and in the past five years this share has grown four percentage points (from 61% in 2013).

This analysis is complemented by an investigation into the funding mix of non OECD-DAC countries, (Figure 26). It shows that the top five countries: China, Russian Federation, Colombia, Saudi Arabia and Qatar, contributed 51% of the total funding (excluding local resources) from this

group of countries, which was 7% of the total of contributions to UN operational activities. Compared to 2016, China has increased its funding the most in nominal terms and of the same group, Qatar increased its funding most in relative terms. Local resources, which are contributions from programme countries in support of their own development framework, are depicted separately. They have only been added after the top 12 non OECD-DAC contributors were identified.

In this year's report we bring back our 2017 analysis of levels of funding that individual UN Member States are contributing to six UN entities, United Nations Development Programme (UNDP), United Nations High Commissioner for Refugees (UNHCR), UNICEF, United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), World Food Programme (WFP) and WHO. It specifically shows how much the top ten OECD-DAC and top ten non OECD-DAC countries contribute to each of the entities above in core and earmarked funding. A visual comparison can be found on pages 50–51 (Figures 29–32). While all ten of the OECD-DAC countries contribute core resources to all six entities, the total portfolio of core contributions is not dominated by one single entity.

Finally, this chapter also takes a closer look at the use and scale of UN inter-agency pooled funds. In Figure 34 (page 16) we see the top 12 contributors to these funds and the share of earmarked resources they channel through pooled funds. It points to the need to increase the funding to this type of financial instrument if the target set in the recent Funding Compact is to be met (doubling of contributions to UN inter-agency pooled funds by 2023).

Funding mix of the top 12 OECD-DAC members to UN operational activities, 2017  
(Figure 25 from Part One, Chapter One):

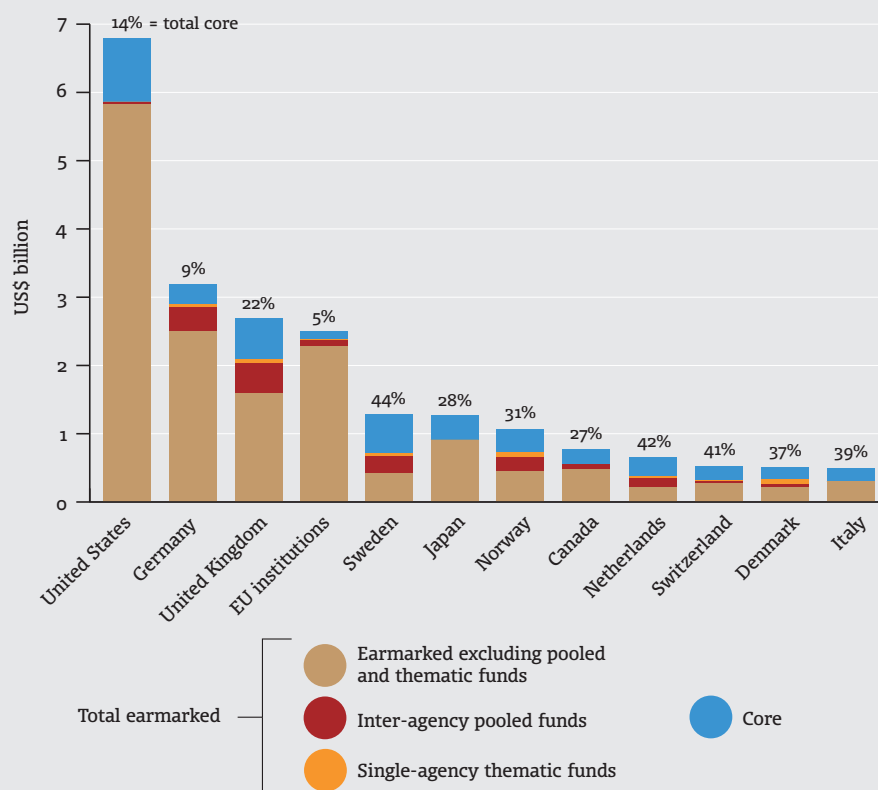


Figure 25

Source: see page 45

Funding mix of the top 12 non OECD-DAC countries contributing to UN operational activities, 2017  
(Figure 26 from Part One, Chapter One):

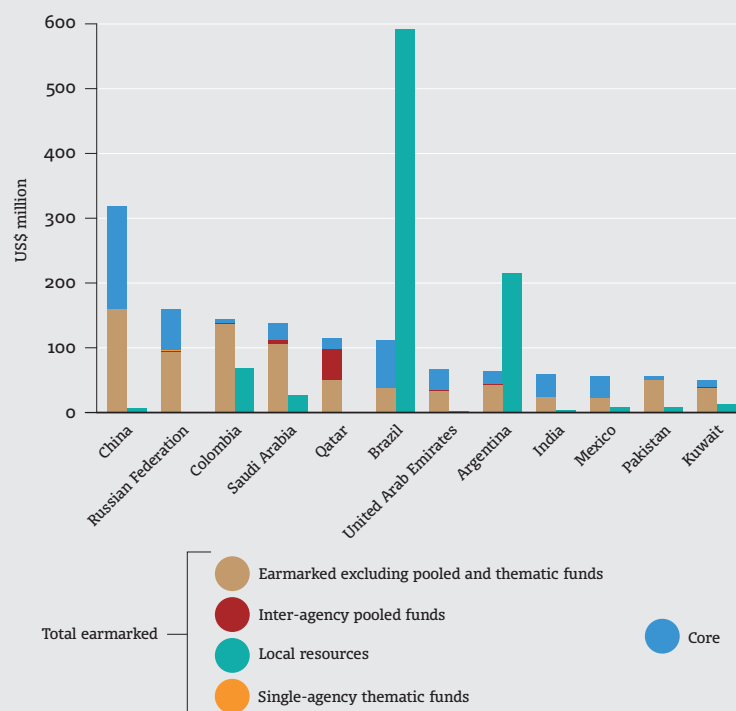


Figure 26

Source: see page 46

Deposits to UN inter-agency pooled funds from the 12 largest contributors, and share of their total earmarked contributions to the UN, 2017  
(Figure 34 from Part One, Chapter One):

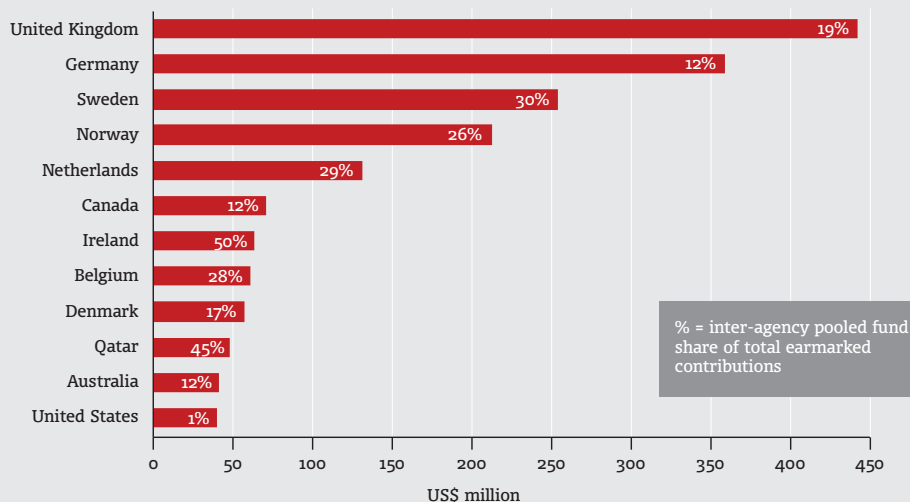


Figure 34

Source: see page 53

UN operational and peace related expenditure in crisis-affected countries, 2017  
(Figure 38 from Part One, Chapter One):

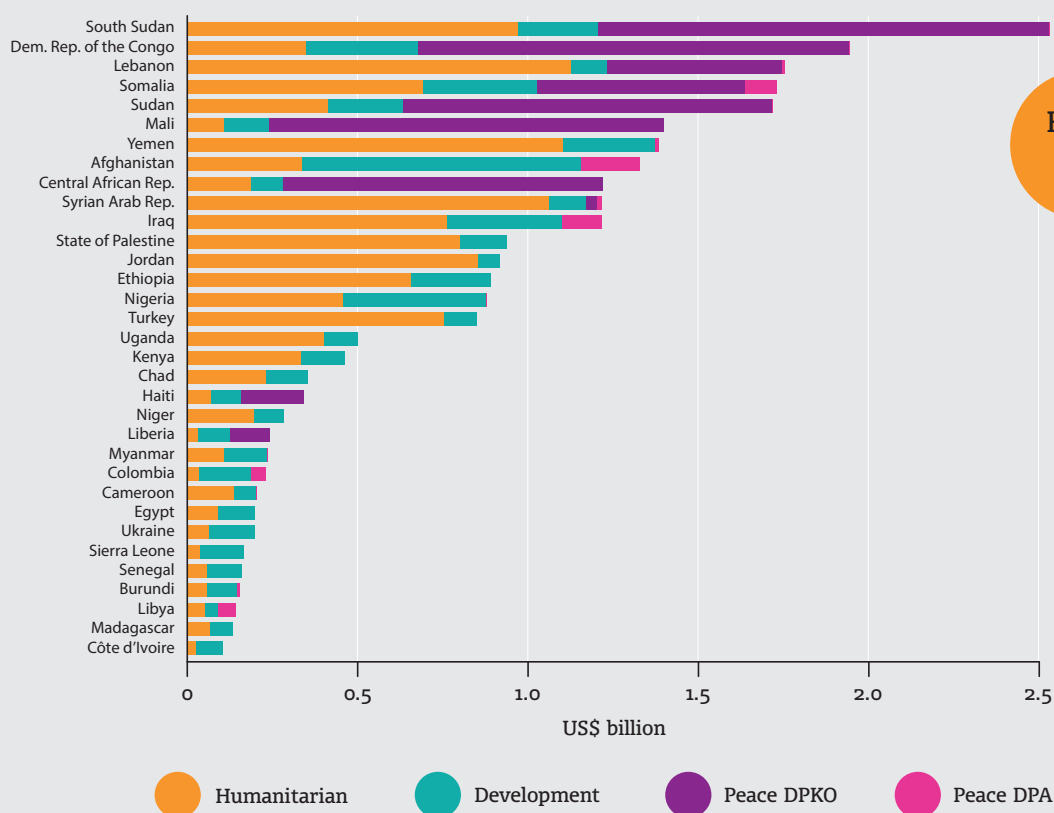


Figure 38

Source: see page 57



The report also discusses the newly adopted ‘UN Funding Compact’ and its mutual commitments between the UN and Member States. The core idea of the Funding Compact is to give incentives for Member States to contribute more qualitatively, flexibly and predictably, alongside incentives for UN development entities to increase coherence, co-operation and transparency and make full use of efficiency gains. Several aspects of the Funding Compact are discussed in Part One as well as in a separate contribution by Silke Weinlich and Bruce Jenks in Chapter Two of Part Two.

## Chapter Two: Expenditure

The second chapter of the report examines the expenditure of the UN. It provides the global picture of UN operations in financial terms and supplies historical data by each UN entity, as well as expenditures by region and by income status. It shows that among UN entities Department for Peacekeeping Operations (DPKO), WFP, the UN Secretariat, UNICEF and UNDP had the largest share of expenditures in 2017.

Meanwhile, in 2017 Africa continued to be the region with the proportionally highest UN expenditures (35%), followed by Western Asia (23%), Asia and the Pacific (13%), Americas (10%) and Europe (3%). Global expenditure, which includes global normative work, programme support, management and administration, constituted 17% of all UN expenditure.

With regards to UN expenditure by income status, we see it is concentrated in low-income countries, and 48% of the total country-level expenditure in 2017 took place in this group of countries. Expenditure in the group of 50 countries defined as crisis-affected was in total 76% of the total country-level operational expenditures the same year. Figure 38 provides an interesting comparison between expenditures on development, humanitarian, and peace and security-related operations in these crisis-affected countries. The figure shows that South Sudan, Democratic Republic of Congo, Lebanon, Somalia and Sudan are the top five in terms of UN funding for crisis-affected countries; together they constituted US\$ 9.7 billion in expenditures or 19% of the total UN system-wide expenditure in 2017. The first ten crisis-affected countries represented 31% of the UN’s total expenditure – illustrating the concentration of the UN’s work.

Overall, for this group of 50 crisis-affected countries, 24% of the expenditure is dedicated to development assistance, 27% is dedicated to peace and security-related activities, while 49% is dedicated to humanitarian activities.

## Chapter Three: Moving ahead on data quality

Chapter Three discusses the quality issues of financial data and the adoption of new UN data standards. It examines why these are crucial for our analysis and for explaining correctly the financial eco-system of the UN. It also scrutinises which financial data challenges have been solved and what remains to be done.

It notes that most of the data analysis issues are linked to the limitations of the two existing UN system-wide datasets used as the main data sources for Part One. The data comes from the CEB and the United Nations Department of Economic and Social Affairs (UNDESA) and these two parts of the UN system did not – up until recently – share a common system of data governance or a shared set of definitions. This means that the 2017 data, used for this report and largely collected in May 2018, has systemic flaws, including different definitions and no common rules for aggregating and analysing data.

However, the UN has awoken to the importance of having good quality, system-wide financial data. This is clear by the major efforts made by the UN over the past two years to improve its financial data through the Data Cube Initiative, which was jointly led by the CEB’s High Level Committee on Management and the United Nations Sustainable Development Group.

The main result was the adoption of a set of six data standards for UN-system wide financial reporting in the fourth quarter of 2018. A roadmap for implementing the data standards has also been developed. The introduction of the data standards is not only expected to improve data quality, but also to have a positive impact on transparency and accountability as access to quality financial data will be improved through an online data platform.

Nonetheless, the introduction of data standards is not the end, but rather the beginning of a longer process of improving the UN’s system-wide financial data. Much more will need to be done, but this is an encouraging start.

## Key findings Part Two: Financing flows impacting the Sustainable Development Goals

The second part of the report is organised into four chapters where guest contributors discuss some of the key challenges facing development finance today.

### Chapter One:

#### Financing the 2030 Agenda: The big picture

In Chapter One, contributors were invited to look at the big picture of development finance against the backdrop of the 2030 Agenda. **Homi Kharas** provides an overview of the state of cross-border financing of the SDGs. These are defined as the financing flows to developing countries that likely finance investments related to the SDGs. He sees a significant increase, largely due to private flows, but notes that these private flows are volatile and not a full substitute for aid. His concluding analysis looks at the net impact of financial inflows and outflows together and notes that the International Monetary Fund's (IMF) most recent forecast for net flows to developing countries in 2019 is actually zero. He also notes that in 2019 and 2020, a period when aid budgets will be tight, the replenishment cycles of several large multilateral agencies are overlapping, so aid for one entity might result in reduced aid for another (see the figure below).

This is followed by a contribution from **Fiona Bayat-Renoux**, outlining the Secretary-General's strategy for financing the 2030 Agenda. She sees current investment levels are far from the scale and speed required, but stresses that the resources and capacity available today can close the existing investment gap. She notes that the UN has a long history of supporting Member States on financing for development.

**Navid Hanif** and **Philipp Erfurth** focus on the need to change the narrative from identifying investment gaps to promoting investment opportunities. Rather than a gap filling exercise, investment in sustainable development needs to be seen as an exercise in matching investments with investors. They argue that there is a need to change mind-sets and perceptions both on the supply and the demand sides.

For **Ambassador E. Courtenay Rattray**, achieving the objectives of the 2030 Agenda and the targets of the Paris climate agreement requires a massive, global programme of investment in real assets and sustainable infrastructure. Beyond establishing new partnerships between the public and private sectors, as with others, he stresses the critical engagement needed by institutional investors. He wants to see Member States taking concrete action and in this regard, he describes the launch of the Closing the Investment Gap initiative (the CIG initiative).

**John W. McArthur** takes us back to the country level in his paper entitled 'Bye-bye, billions to trillions'. He argues that if normal global economic growth trends continue until 2030, SDG government spending will grow on its own by US\$10 trillion per year, which more than covers the needed incremental investment cited in the SDG context. Bearing this in mind he argues that the focus needs to shift from volume to purpose and distribution.

**Pedro Conceição's** paper explores the relevance of science, technology and innovation policy in relation to the 2030 Agenda and how they will shape inequality. Far from neutral, they may emerge as one of the most consequential policy areas for inequality because of the

#### Funding of the UN system-wide activities, 2016

(Figure 2 from Part Two, Chapter One: International financing of the Sustainable Development Goals):

#### The compressed current cycle of replenishments

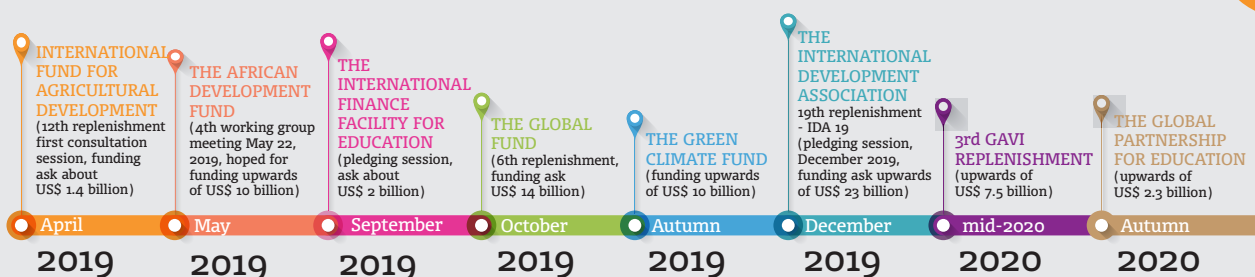


Figure  
2

impacts of the incentives that exist to foster innovation. The key idea is that this area has little to do with mobilising resources as such and more to do with the incentives that shape creativity and innovation to advance science and technology in a way that generates widely shared benefits.

## Chapter Two: Earmarking: Making smart choices

Chapter Two features a number of contributions that explore how to go beyond the core vs earmarked conundrum. The first paper in this section by the **UN Multi-Partner Trust Fund Office (MPTFO)** provides an overview of UN pooled funding and discusses some of the advantages that pooled funding has to offer. The paper makes a persuasive case that pooled funding can provide quality funding and offers opportunities that might otherwise not be available to the UN system.

This is followed by a paper by **Max Bauman, Erik Lundsgaarde** and **Silke Weinlich** which explores some of the advantages and disadvantages of non-core funding. The paper calls for more attention to the best mix of various forms of funding, which allows UN organisations to play to their strengths.

A paper by **Brian Elliott** and **Maximilian Sandback** provides an overview of WHO's approach to strengthening its resource mobilisation efforts as part of its new

five-year strategic plan. It links WHO's resource strategy with a range of initiatives it is taking, such as WHO's first ever investment case, the formulation of a draft Global Action Plan and the development of a draft global resource mobilisation and partnership strategy. What has the impact of all these actions been so far? The current financial outlook for the approved Programme Budget 2020-2021 already shows an improvement (see Figure 3 below).

In his paper, **Guido Schmidt-Traub** shares lessons learned from the experience of setting up the Global Fund to fight AIDS, Tuberculosis and Malaria, which was launched in January 2003. The paper argues that success was made possible in large part due to the unique design principles of the Global Fund and notes that they have applicability and should be of great interest to sector financing mechanisms as a whole.

Finally, the paper by **Silke Weinlich** and **Bruce Jenks** explores the implications of the UNDS reform process on the growth of system-wide funding mechanisms. It argues that the Secretary-General's UNDS reform proposals and the Funding Compact have put system level funding back on the table as a fundamental component of a reform agenda. The paper identifies five different approaches to system-wide funding that merit close attention and then details the different instruments that comprise the Secretary-General's Funding Compact.

How realistic is the budget increase for 2020-21? Comparison of projected financing levels  
(Figure 3 from Part Two, Chapter Two: Improving the World Health Organization's financing):

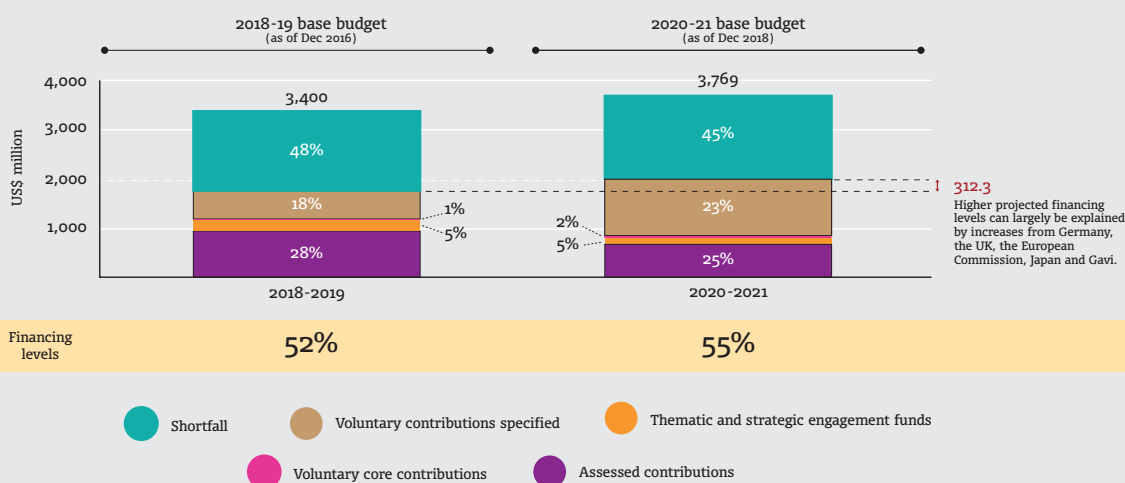


Figure  
3

Source: see page 114

### Chapter Three: Financing peacebuilding, humanitarian assistance and migration: Time to invest

Chapter Three explores ongoing efforts and innovative approaches to strengthen financing for peacebuilding, sustaining peace, humanitarian assistance and migration in times of greater needs. In the first piece, the **Dag Hammarskjöld Foundation**, argues that beyond the need for additional resources for peacebuilding, a radical rethink is needed on how financing is structured and how to leverage strong partnerships for more effective resourcing. The paper outlines ten points to help frame the issues that require attention and action by the UN and its Member States.

**Franck Bousquet** highlights the success of the World Bank's International Development Association (IDA) 18 in addressing fragility, conflict and violence (FCV). He explains that the scale-up in IDA18 from US\$7 billion to US\$14 billion for low-income countries impacted by FCV has proven critical and has helped the World Bank adapt a more tailored response to diverse situations of fragility.

The third piece by **Catherine Howell** and **Henk-Jan Brinkman** explores innovative financing options for peacebuilding. They call for caution and note that innovative finance is unlikely to be a panacea that brings the 'quantum leap' for the Peacebuilding Fund that the UN Secretary-General has called for or raise the needed resources for financing peacebuilding more broadly. They explain that donor contributions will remain at the heart of peacebuilding financing, certainly in the near term.

**Ayham Al Maleh** looks at 10 years of ODA flows to peacebuilding, updating the findings of a 2017 report by the Institute of Economics and Peace and the UN's Peacebuilding Support Office. Looking at OECD-DAC

data, the article notes that peacebuilding expenditures remain a small, and declining, proportion of total aid disbursement to all developing countries, although this trend seems to be halting in the most recent years.

Building on the conviction that sustaining peace and sustainable development are complementary and mutually reinforcing, **Laura Buzzoni** and **Henk-Jan Brinkman** present findings from a portfolio review of projects funded by the Peacebuilding Fund (PBF) from 2015 to 2018 and note that PBF has contributed 83% of its total allocations to the SDGs.

The report also highlights **OECD's Total Official Support for Sustainable Development (TOSSD)** pilot study on peace and security. The pilot is based on a consultation with a wide range of experts and a deep dive into one specific provider country's support to the security sector.

Given the importance to overcome the silos, the **MPTFO** offers insight on a new generation of pooled funds that are helping to bridge the humanitarian-development-peace financing divide. These flexible instruments are demonstrating that well-designed pooled funds can quickly pivot when faced with rapidly changing conditions on the ground. The article argues that they improve cost-efficiency, transparency and collective outcomes not only by pooling resources and delivery systems, but also by sharing, and thereby reducing, the risks that often arise in highly volatile and unpredictable settings.

Looking concretely at humanitarian financing and natural disasters, Ambassador **Lana Zaki Nusseibeh** explains the advantages of 'forecast based financing' as a new preventive tool for humanitarian response to climate change. The article notes that while it is not

#### Structure of a cat bond issued by the World Bank

(Figure 1 from Part Two, Chapter Three: World Bank catastrophe bonds as an innovative development financing tool):



Figure  
1

going to eliminate what is often a US\$ 10+ billion annual gap in humanitarian financing, it could provide, for the first time, a very concrete and politically feasible way to do what the UN and international humanitarian system struggle to grapple with: prevent rather than react.

Continuing in the area of disaster risk management, **Michael Bennett** and **Rebeca Godoy** of the World Bank explain the advantages of a Cat Bond, which is a unique type of loan that is designed to provide immediate liquidity to countries following a natural disaster (see Figure 1 on the previous page).

And lastly, **Jonathan Prentice** looks at ways in which the recently adopted Migration Compact can be realised and provides details around the US\$ 25 million Migration Pooled Fund. He explains that the aim is to encourage and support the design of projects which can either be scaled up and/or replicated as bodies of best practice.

## Chapter Four: Multilateralism on trial?

Chapter Four explores new ways to forge a strong multilateral order in times of uncertainty. Former UN Director General of Geneva, **Michael Møller** sees the instability and period of discontent as an opportunity to revive multilateralism by injecting it with new levels of agility, inclusiveness and partnership. He argues this entails breaking down internal and external silos, forging new and unconventional partnerships, increasing public outreach and promoting openness.

In the next piece, **Ulrika Modéer** states that in order for the multilateral system to regain trust and bolster the rule-based and value-driven system, it needs to address its discontents and evolve to be ‘fit for purpose’. She calls on Member States to show their support for and trust in the ability of the UN development system to meet both the promises and the responsibilities of achieving the SDGs and increase the core-share for more predictable funding.

Multilateralism is a hard option, argues **Bruce Jenks**, and to be effective, multilateralism must be a choice that is made because it is the most effective or efficient instrument available to a government. He notes that countries should work multilaterally when it is the most effective way to meet a challenge. It should not become a way of abdicating leadership; it must be a way of exercising it.

**Adriana Erthal Abdenur** brings a perspective on multilateralism from the Global South. In her contribution she highlights that the Global South is increasingly frustrated that global norms are, too often, set by global powers, and that—recent restructuring efforts notwithstanding—deeper reform of the multilateral system is hampered by geopolitics and outdated, unjust power

structures that date back to the post-War period. She argues that three particular steps are needed to boost the engagement of the Global South in the defence of multilateralism.

In the last piece **Kanni Wignaraja** reminds us how important Millennial Investors are in shaping the next multilateral order. She notes that the millennial generation – as leaders, consumers, self-starters and investors – can dramatically move the needle on influencing SDG investments, locally and globally. She highlights how UNDP is expanding its knowledge on Millennial Investors and engaging with them so they can transition from considering financing of the SDGs as fringe philanthropy to being mainstream better-business for all.

## Conclusion

Time is short. Not only is 2030 approaching, but there is little time to take the necessary actions to prevent irreversible setback and development losses. Climate action, armed conflict, disease prevention, migration, inequality – all need urgent action and multilateral approaches to be at the centre of global action. To make the case for a multilateral approach, countries, leaders, investors and citizens will need evidence of where and in which areas this approach is the most effective option to achieve the goals we aspire to globally, nationally and locally. This is the first hard choice, out of which the financing choices flow.

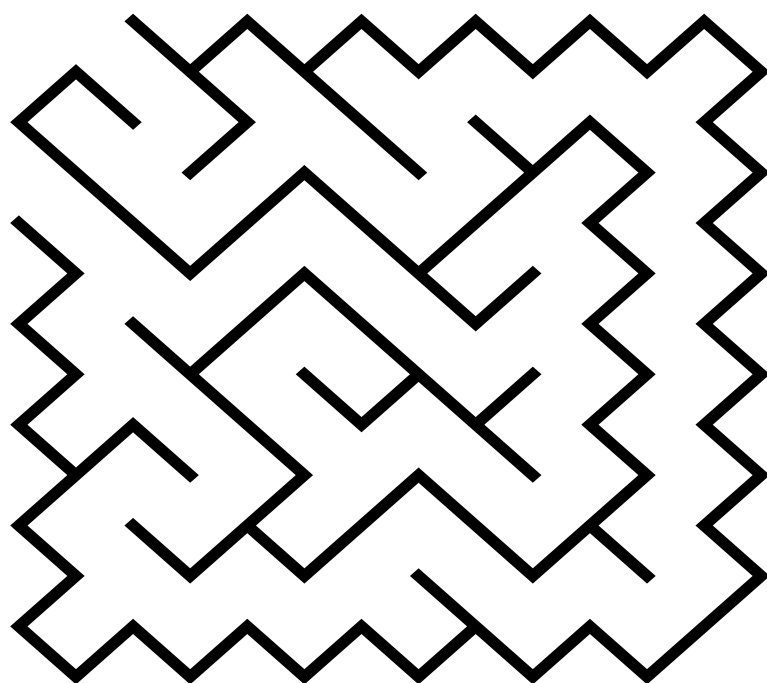
This report has attempted to provide the necessary evidence, showcasing the funding of the UN development system and its role within the financing dynamics of the 2030 Agenda. A number of headline messages and questions have emerged from this work.

What kind of multilateralism supports financing and funding of sustainable development and is there a sufficient sense of urgency and evidence for meaningful investment? How do global norms get funded and support these larger investment and financing choices? Does the big picture of financial flows to development countries – apparently increasing – point to any net impact?

How can some of the most impactful drivers of change – technology, science and innovation – help to reduce inequality, ‘leave no one behind’ and leapfrog transformation? And what are the financing approaches most likely to accelerate these drivers? How can impact be credibly measured to underpin hard investment choices and track outcomes and return for future investment? What are today’s (and tomorrow’s) models of ‘good multilateral donorship’? And where are the pathways to ensure the model becomes a firm structure?



In order to support countries in their achievement of the SDGs, the required repositioning of the UNDS was advanced by recent milestones. These include the Secretary-General's 2018 reform agenda adopted by Member States, the major global financing events for sustainable development held in 2018 and 2019, and the Funding Compact with Member States. These steps, if well reinforced can serve as financing cornerstones for the UN's contribution to a stronger multilateral order. The hard choices ahead rest on further strengthening this multilateral foundation, where strength is needed especially in times of uncertainty.



# Introduction

An important challenge is embedded in the title of this year's report: *Time for Hard Choices*. In a financing world which is both simple and complex, the choices are numerous and what follows are hard decisions about the allocation of resources. A multilateral approach to today's global challenges will need to use evidence to show its competitive advantage. From here on, the financing questions flow.

The intention of this report is to wake us up to the reality that the financing of the United Nations development system (UNDS) is currently in the spotlight of a complex reform agenda. At the same time, financing is a crucial dimension of a multilateral approach to addressing the world's urgent development challenges. The report showcases the complexities and innovations within Sustainable Development Goal (SDG) financing and the need for a firm multilateral approach *when* it is best for SDG achievement.

Over the past year, the extensive discussions and negotiations around the 2030 Agenda implementation have been increasingly focused on aspects of financing. The High-level UN summits on sustainable development financing in 2018 and 2019, major ongoing global fund and International Financial Institutions (IFI) replenishment exercises, as well as negotiation of a first-ever Funding Compact for the UNDS are all expressions of these financing choices, approaches and innovations. And far away from UN and IFI conference rooms, similar discussions are taking place in private investors forums, company boardrooms and country-level strategy meetings.

As previous reports have highlighted, the exact numbers on the aggregate annual financing needed to achieve the 17 goals vary widely depending on calculations, but all are

in the trillions. There is a consistent realisation from the range of estimated figures that traditional aid, consisting of mainly Official Development Assistance (ODA), will be far from enough. Currently estimated to be US\$ 140 billion annually, ODA is a mere 3 to 4% of the total needed, but it remains a vital financing flow especially for low-income and conflict-affected countries.

In this report, we look at how and why the UNDS funding ecosystem – underpinned by US\$ 53.2 billion in total UN revenue in 2017 – can and should interact with the wider SDG financing landscape. Emerging issues this year are how financing can more effectively support a 'leave no one behind' agenda and how the 'big picture' of financial flows to developing countries influences the role of the UNDS in different country contexts. It dives deeply into the challenges and opportunities for financing related to conflict prevention and peacebuilding. The report looks again at the role of financing as it relates to technology, digitalisation, science and, for the first time, at the purposeful investment of young millennials.

Successfully making the hard choices and investing with intent in the SDGs will require leadership. Countries must recognise when the multilateral option provides added-value and is the most effective approach to meet urgent global challenges – climate change, health, migration, armed conflict and inequality. New partnerships and engagement with investors are required to close the investment gap.

This is the fifth annual report of *Financing the UN Development System* and maintains the basic structure from previous reports. Part One provides accessible UN funding data on revenue and expenditures, which we believe is important for understanding current and future financing

reform discussions. This year's report includes references to two new initiatives in the UNDS funding landscape, the Funding Compact and the 1% levy on tightly earmarked contributions. It is important to note that as these reports have grown in ambition over the five years of production, so has our attention to the underlying data and current definitions. While there is a wealth of statistics to draw from, there are a number of challenges with data quality, as was highlighted in the 2018 report, making in-depth analysis at times difficult. Thus, again this year we have devoted more attention to this, taking a step further and outlining the current challenges with the definitions and the 2017 financial data used in the report, as well as highlighting the major progress made in the last 12 months.

In Part Two of the report, 25 prominent guest authors from outside and inside the UN system present their ideas and initiatives in concise essays on the financing trends impacting the SDGs. The overview to Part Two on page 66 outlines each of these important perspectives and contributions. There are some inevitable crossovers between the issues covered in the papers, but they are nonetheless clustered into four chapters:

1. *Financing the 2030 Agenda: The big picture*
2. *Earmarking: Making smart choices*
3. *Financing peacebuilding, humanitarian assistance and migration: Time to invest*
4. *Multilateralism on trial?*

The 2030 Agenda requires a better understanding of the complexities and opportunities of financing development. Part Two gives us the analysis and insights that we believe make an important contribution to the debate and to the choices that lie ahead.

Our overall ambition for this report, which is a collaborative partnership between the Dag Hammarskjöld Foundation and the UN Multi-Partner Trust Fund Office, is to advance the quality of the evidence-based debate and the marketplace of ideas related to the UN's role in financing development. With a firm platform of data and a strong portfolio of ideas presented in the report, we hope that when hard decisions are made – bilateral, multilateral or other – they deliver on our shared goals.





Overview of United Nations' resource flows



Chapter One:  
Revenue



Chapter Two:  
Expenditure



Chapter Three:  
Moving ahead on data quality

# Overview of United Nations' resource flows

As readers of the Financing the UN Development System reports have learnt in previous years, the financial landscape of the UN is both simple and complex, both traditional and innovative, both agile and rigid, young and old. It is a uniting force and a divider. All at the same time. *How and by whom is the UN funded? And where and on what does the UN spend?* The answers to these questions are key to understanding the multilateral financial architecture of the UN and informing future debates on the funding of the UN.

The first chapter of Part One is a deep dive into the financial engine room of the UN, looking closely at its revenue streams, where they originate and why identifying them matters. It also contrasts the funding of the UN to that of other multilateral institutions.

Chapter Two examines UN expenditure by building up a global picture of UN operations in financial terms. In what functions does the UN invest and where, geographically, does the UN spend?

Chapter Three discusses the quality of financial data and the adoption of new UN data standards. It examines why these are crucial for our analysis and for correctly

explaining the financial ecosystem of the UN. It also scrutinises the financial data challenges that have been resolved and what remains to be done.

Finally, Part One explains two new initiatives formally introduced to the UN in 2019 that will affect how UN finances are measured, analysed and operationalised:

- 1) the adoption of the Funding Compact and its mutual commitments between the UN and its Member States;
- 2) the operationalisation of the levy on tightly earmarked funding and what it entails.

Both are results of the wider UN reform ambitions and the repositioning of the United Nations development system (UNDS).<sup>1</sup> The ambition and vision of the Funding Compact is to measure and strive towards more flexible, predictable and coherent UN funding, while the levy has been introduced to serve as a financing mechanism for the reinvigorated Resident Coordinator function and to give incentives for more flexible funding to the UN. All these measures are being put in place to enable the UN to deliver on the ambitions of the 2030 Agenda.

# Revenue

## Total revenue of the UN system

How the UN is financed affects how it operates and influences, for example, the level of flexibility and accountability for the UN entities. Broadly speaking, there are five different channels of revenue in the UN system:

- 1) Assessed contributions
- 2) Voluntary core contributions
- 3) Negotiated pledges
- 4) Earmarked contributions
- 5) Fees

Table 1 outlines the definitions, characteristics, and burden sharing arrangements, and how decisions are usually taken in each type of these financial instruments.

Table 1: The spectrum of UN financing instruments

	Assessed contributions	Voluntary core contributions	Negotiated pledges	Earmarked contributions	Fees
Definition	Fixed amounts, calculated based on agreed formula that Member States undertake to pay when signing a treaty	Voluntary untied contributions	Legally binding contribution agreements made by Member States	Voluntary contributions that are designated for a specific purpose	Payments for services
What is the central characteristic of financing?	A price of a membership	Voluntary, usually annual contributions (no earmarking)	Member States negotiate and agree on the contribution each will make	Funding is earmarked to theme, country or project	Collection of separate knowledge, management and product fees from both state and non-state actors
How are decisions on the amount of contribution made (burden sharing)?	Price is based on an agreed formula	Contributions are purely voluntary	The amount to be paid is negotiated and legally binding	No institutionalised formula, contributions are purely voluntary	Flat or negotiated fees
How are resources allocated?	Established in recipient's budget	Established in recipient's budget	Established in recipient's budget	Agreed, case-by-case, between contributor and UN recipient	Various
Who takes allocation decision?	UN membership	UN Member States	Recipient UN entity and UN Member States	Specific parties concerned	Various

Assessed contributions are mandatory membership fees based on a jointly pre-agreed formula which determines each member's fee. For a UN membership, the General Assembly and the UN Member States determine the formula for assessed contributions, building on each Member State's capacity to pay. Voluntary core contributions, or what is sometimes referred to as 'regular resources', are fully flexible non-earmarked funds. Voluntary core, which is always provided to an individual UN organisation, is vital for the operations of many UN entities, but is currently not a revenue channel for the UN at a system-level. Negotiated pledges are legally binding commitments, but not a revenue channel for the UN at a system-level today. An example of negotiated pledges is the World Bank's International Development Association (IDA).

Earmarked contributions are sometimes also referred to as 'non-core resources', or 'extra budgetary resources'. These contributions are voluntary for the contributor but constrained in how they can be used by the recipient, for example, funds can be restricted to a specific project, theme, region or country. There are many different applications of earmarking, some less stringently tied, others more tightly earmarked. In 2019, the UN introduced a 1% levy on *tightly earmarked* development funding (for further definitions and applications of the levy see page 46). Finally, the UN receives revenues from fees and other revenue streams, linked to public services, and management and product services. A deeper look at this category is included further on in the chapter.

Knowing the definitions helps us in the next step when looking at the size and mix of these revenue channels in the UN system for 2017. This is displayed in Figure 1 on the next page which shows that the main channel of revenue in the UN system is earmarked in some form by the contributor(s).

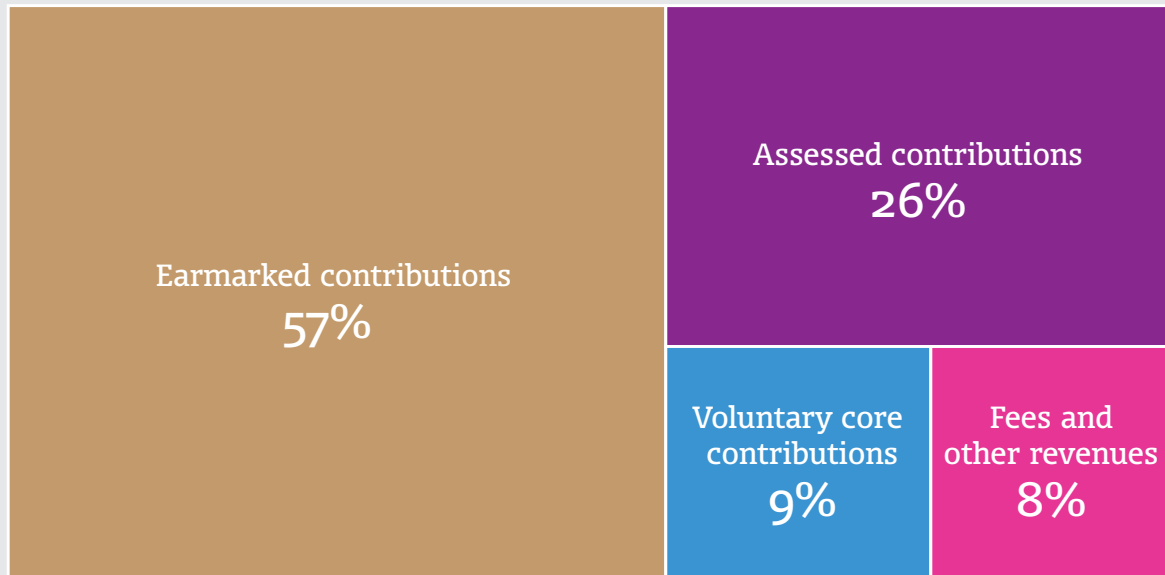
In 2017, (the most recent year of available financial data), 57% of all UN income was earmarked to some degree. The upward trend in this revenue stream is visible in the short term; in 2015 and 2016 the share of earmarked contributions was 54% and 53%, respectively.

The increase of the share of earmarked UN revenue is part of a long-term trend in UN financing and forms part of the changing financial landscape of the UN (see Figure 2 on the next page). Figure 2 shows the distribution over time of the different channels of revenue in the UN system, demonstrating the relative decline of assessed contributions and voluntary core contributions combined with the general shift towards earmarked contributions. Assessed contributions amounted to 26% in 2017, which was two percentage points less than in 2016. The voluntary core contributions decreased by one percentage point to a level of 9% of the total financial resources of the UN in 2017.

The remaining revenue stream of 8%, from fees and other revenues, is steadily rising. Interestingly, the share of the revenue accrued from these sources almost equalled the size of the voluntary core contributions in 2017. It is therefore worth taking a closer look at the types of revenues included in this category. As the word 'other' suggests, the category is a broad mix of revenue streams. It includes fees for management and procurement services as well as financial revenues accrued from financial transactions (interest, foreign exchange gains etc) and in-kind contributions. In 2017, 70% of the revenues of this category went to five UN entities: the United Nations Office for Project Services (UNOPS), the Pan American Health Organization (PAHO), the UN Secretariat, the World Food Programme (WFP) and the World Intellectual Property Organization (WIPO).

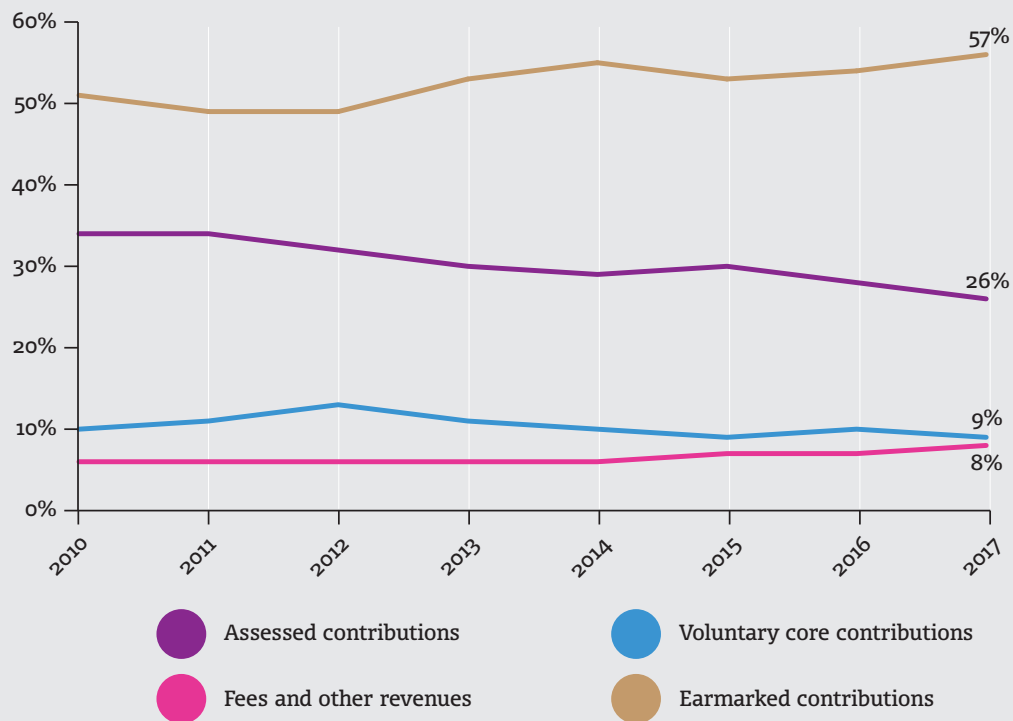
The almost fully fee-financed WIPO illustrates an interesting, although today atypical, UN funding model. WIPO receives fees for patent services arrangements. The revenue stream could be characterised as core-like (as it is presumed to be non-earmarked) even though the income is likely to fluctuate and is tied to a single type of product – the patent service. WIPO-fees make up about 9% of the UN's total revenue in the category of fees and other revenue. The unique case of WIPO and other funding models, old and new, are further elaborated on in Weinlich and Jenks' article in Part Two of this report.

Figure 1: Overview of the total revenue of the UN system by financing instrument, 2017



Source: Chief Executives Board for Coordination (CEB)  
For notes – see page 182.

Figure 2: Distribution of total UN system revenue, by financing instrument, 2010–2017



Source: Chief Executives Board for Coordination (CEB)  
For notes – see page 182.

Table 2a: Total revenue of the UN system by entity and by financing instrument, 2017 (US\$ million)

Entity	Assessed	Voluntary core	Earmarked	Fees and other revenues	Total revenue 2017
UN Secretariat	2,578		2,279	623	5,480
CTBTO	119		7	2	128
DPKO	7,853		343	79	8,276
FAO	474		751	39	1,264
IAEA	434		260	8	702
ICAO	80		114	22	216
ICC	167		2	0	170
IFAD		306	104	9	419
ILO	370		293	21	683
IMO	41		7	19	67
IOM	49	15	1,450	100	1,615
ITC	35	29	62	1	127
ITU	125	1	10	47	183
PAHO	102		614	716	1,433
UNAIDS		173	52	8	233
UNCDF		10	47	3	60
UNDP		647	4,245	344	5,236
UNEP	199		443	25	668
UNESCO	316		261	71	648
UNFCCC	31	2	38	15	86
UNFPA		350	718	93	1,160
UN-HABITAT	14	3	142	11	169
UNHCR	48	703	3,445	31	4,227
UNICEF		1,278	5,153	146	6,577
UNIDO	80		256	3	339
UNITAR		0	32	0	33
UNODC	31	4	342	15	391
UNOPS				834	834
UNRISD		2	0		2
UNRWA		625	559	55	1,239
UNSSC		4	7	0	11
UNU			49	58	107
UN Women	8	146	214	10	379
UNWTO	16		3	5	24
UPU	37		17	16	69
WFP		391	5,609	431	6,431
WHO	457	81	2,058	179	2,775
WIPO	18	1	11	392	423
WMO	70	5	17	2	94
WTO	200		21	2	224
<b>Total</b>	<b>13,953</b>	<b>4,776</b>	<b>30,035</b>	<b>4,435</b>	<b>53,200</b>

Source: Chief Executives Board for Coordination (CEB)  
For notes - see page 186.

## The total size of UN financing – a cautionary note

How large is the UN in financial terms and is it growing? The total revenue received by the UN in 2017 was US\$ 53.2 billion, an increase of US\$ 3.9 billion compared to what was reported in 2016 (according to the UN System Chief Executives Board for Coordination (CEB)). Table 2a, on the previous page, shows the total revenue for each of the 40 UN entities that reported to the CEB in 2017, as well as the breakdown of their total revenue between the different UN revenue streams. The total revenue in 2018 of seven of these entities is presented in Table 2b below. Of these entities, the United Nations Population Fund (UNFPA) had the largest growth rate in 2017–2018 (16%) followed closely by WFP (15%).

When considering the 2017 overall numbers, it is important to highlight two points.

First, the UN financial reporting has become more comprehensive. Six UN entities reported their financial data to the CEB for the first time in 2017 and, therefore, are newly introduced to this year's report. These debuting entities are:

- the Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO);
- the International Criminal Court (ICC);
- the United Nations Capital Development Fund (UNCDF);
- the United Nations Framework Convention on Climate Change (UNFCCC);
- the United Nations Research Institute for Social Development (UNRISD); and
- the United Nations System Staff College (UNSSC).

In 2017, the total sum of the revenue for these six entities was US\$ 457 million; of which the ICC and CTBTO were the largest in financial terms (US\$ 170 and 128 million, respectively).

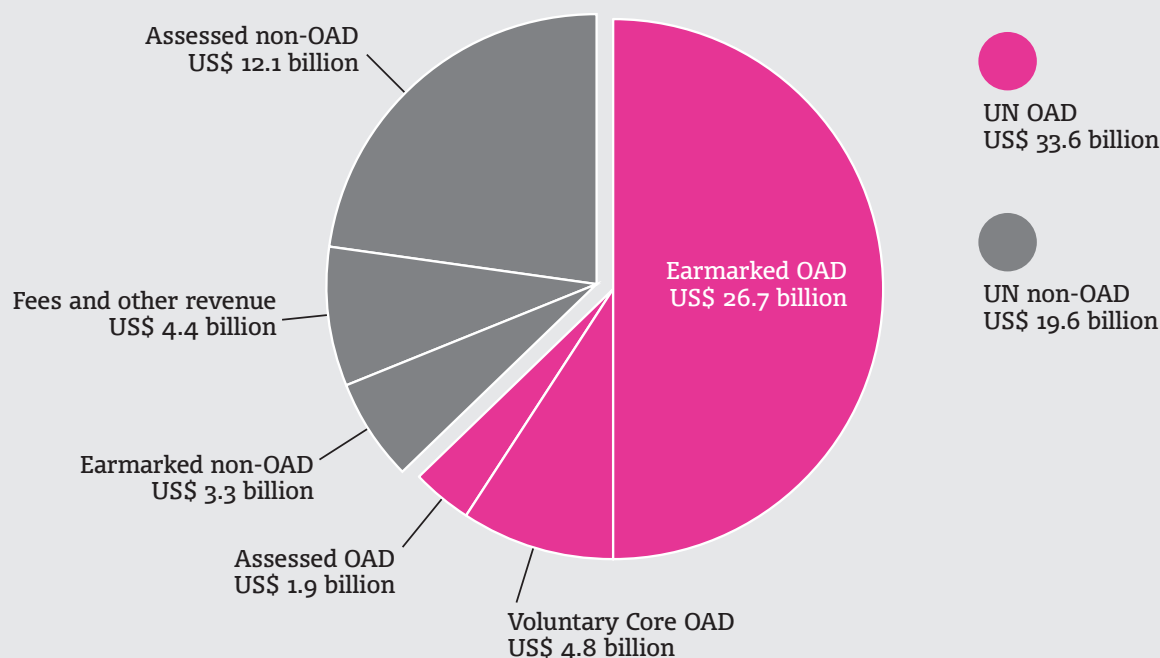
Second, 'double counting' in the UN financial system makes the UN total revenue seem larger than it is; specific instances of where the same financial flows are reported by two UN entities to the CEB are analysed in more detail in the third chapter on data quality.

**Table 2b: Total revenue of seven UN entities, 2017-18 (US\$ million)**

Entity	Total revenue 2017	Total revenue 2018	Percentage growth rate
UNDP	5,236	5,517	5%
UNFPA	1,160	1,343	16%
UNHCR	4,227	4,338	3%
UNICEF	6,577	6,675	1%
UNRWA	1,239	1,295	5%
WFP	6,431	7,368	15%
WHO	2,775	2,901	5%

Source: UNDP, UNFPA, UNHCR, UNICEF, UNRWA, WFP, and WHO  
For notes - see page 186.

**Figure 3: UN operational activities' share of total revenue of the UN system by financing instrument, 2017 (Total US\$ 53.2 billion)**



Source: Source: Chief Executives Board for Coordination (CEB) and Report of the Secretary-General (A/74/73-E/2019/4)  
For notes – see page 182.

### Which parts and revenue streams of the UN are growing?

To answer this question it is important to note that the UN receives both funding categorised as Official Development Assistance (ODA) as well as revenues for non-ODA activities. Figure 3 above gives us an overview of how the UN funds, on the one hand, its operational activities for development (UN-OAD) and, on the other hand, all other UN system activities (UN non-OAD).<sup>2</sup> The term UN-OAD refers to those UN activities that are classified as development and humanitarian and funded by contributions that are ODA-like, that are carried out by UN entities classified by the United Nations Department of Economic and Social Affairs (UNDESA) as being part of the UN development system. The UN's overall revenue growth has been concentrated in UN-OAD. In total, the split of UN overall revenue between UN-OAD and UN non-OAD was US\$ 33.6 versus US\$ 19.6 billion in 2017, a shift from US\$ 29.5 versus US\$ 19.8 billion in 2016.

Specifically, the earmarked resources for UN-OAD increased (from US\$ 23.1 to US\$ 26.7 billion), while there was a decrease in earmarked funding for UN non-OAD (from US\$ 3.6 to US\$ 3.3 billion). Fees and

other revenues, all classified as UN non-OAD, increased from US\$ 3.6 to US\$ 4.4 billion.

As seen in Table 3 on the next page, there is a large variance in the level of predetermined, membership-based assessed funding received by UN organisations. Only three UN entities are almost fully funded through assessed contributions, namely CTBTO, the Department for Peacekeeping Operations (DPKO) and ICC. For the International Atomic Energy Agency (IAEA), the International Labour Organization (ILO), the International Maritime Organization (IMO), the International Telecommunication Union (ITU), the United Nations World Tourism Organization (UNWTO), the Universal Postal Union of the United Nation (UPU) and the World Meteorological Organization (WMO) – these contributions are the dominating source of revenue (50–90%) and several other entities, like the Food and Agriculture Organization of the United Nations (FAO), the International Civil Aviation Organization (ICAO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), UNFCCC and the UN Secretariat, have a substantial share of assessed funding (30–50%).



Table 3: Assessed contributions to the UN system by entity, 1975-2017 (US\$ million)

Entity	1975	1980	1985	1990	1995	2000	2005	2010	2015	2016	2017	Percent assessed of total revenue 2017
UN Secretariat	268	510	618	888	1,135	1,089	1,828	2,167	2,771	2,549	2,578	47%
CTBTO											119	93%
DPKO	153	141	141	464	3,364	2,139	4,394	7,828	8,504	8,282	7,853	95%
FAO	54	139	211	278	311	322	377	507	497	487	474	38%
IAEA	32	81	95	155	203	217	278	392	377	371	434	62%
ICAO	14	21	31	34	49	49	59	77	68	78	80	37%
ICC											167	99%
ILO	48	105	127	165	233	234	265	409	401	399	370	54%
IMO	3	10	12	23	27	30	36	43	45	37	41	61%
IOM					29	21	32	38	43	46	49	3%
ITC						17	26	35	37	37	35	28%
ITU	21	44	53	84	107	84	98	135	128	120	125	69%
PAHO						85	92	98	106	102	102	7%
UNEP					44	40	62	221	223	190	199	30%
UNESCO	89	152	187	182	224	272	305	377	341	323	316	49%
UNFCCC											31	36%
UN-HABITAT						6	9	0	17	14	14	8%
UNHCR	6	13	15	20	25	20	39	40	49	37	48	1%
UNIDO			40	90	123	66	91	103	78	71	80	24%
UNODC						14	21	0	29	30	31	8%
UN Women									8	8	8	2%
UNWTO						7	11	16	15	14	16	67%
UPU	4	10	11	19	28	21	27	37	36	35	37	53%
WHO	119	214	260	307	408	421	429	473	467	468	457	16%
WIPO	2	10	10	19	19	11	13	18	18	17	18	4%
WMO	9	17	19	35	41	39	48	66	66	67	70	74%
WTO						72	128	202	198	191	200	90%
Total	822	1,467	1,830	2,763	6,370	5,276	8,668	13,283	14,520	13,972	13,953	45%

Source: Chief Executives Board for Coordination (CEB);  
General Assembly Financial Report (A/72/5 Vol. II), 2006 and 2011;  
and Michael Renner, Peacekeeping Operations Expenditures.  
For notes – see page 186.

Table 4: Earmarked contributions to the UN system by entity (US\$ million)

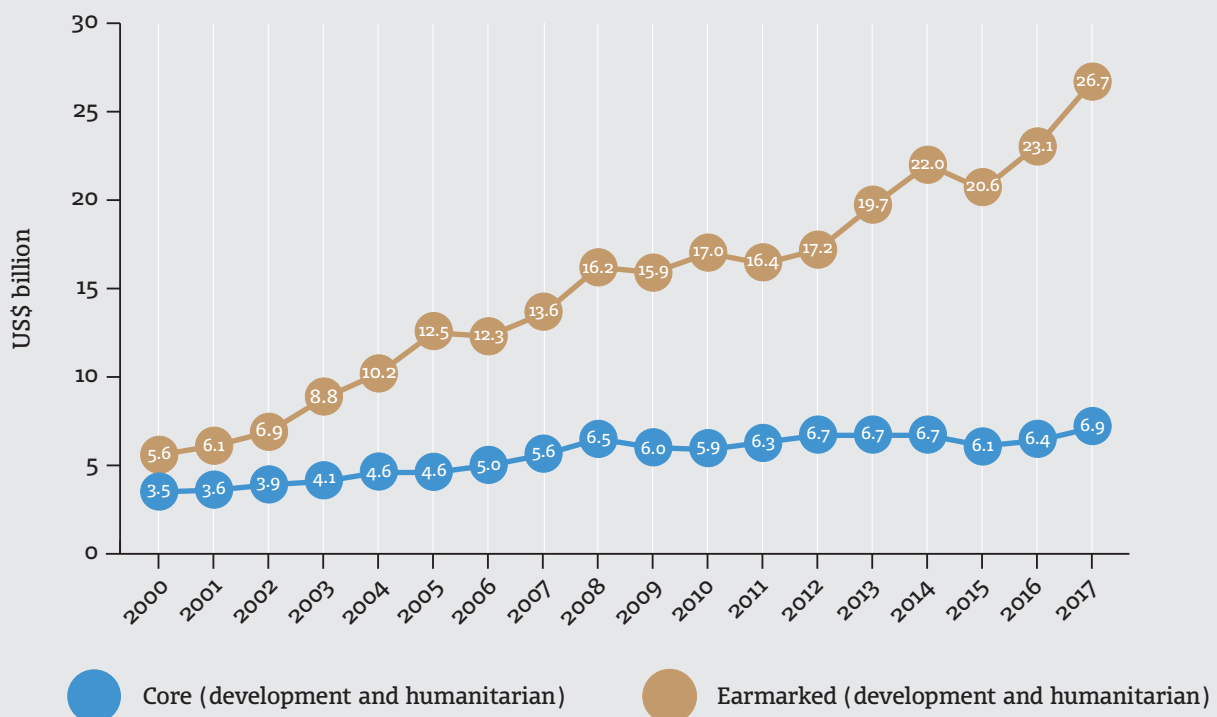
Entity	2005	2010	2015	2016	2017	Percent earmarked of total revenue 2017
UN Secretariat	848	1,361	2,094	2,063	2,279	42%
CTBTO					7	5%
DPKO	23	33	195	392	343	4%
FAO	364	891	744	770	751	59%
IAEA	124	202	236	252	260	37%
ICAO	154	129	106	101	114	53%
ICC					2	1%
IFAD	39	80	93	109	104	25%
ILO	179	248	225	252	293	43%
IMO	14	11	8	5	7	11%
IOM	962	1,051	1,397	1,462	1,450	90%
ITC	32	40	25	18	62	48%
ITU	16	12	6	5	10	6%
PAHO	65	741	651	600	614	43%
UNAIDS	26	34	23	44	52	22%
UNCDF					47	78%
UNDP	3,609	4,311	3,726	4,122	4,245	81%
UNEP	79	174	432	499	443	66%
UNESCO	349	323	352	246	261	40%
UNFCCC					38	44%
UNFPA	199	357	581	486	718	62%
UN-HABITAT	125	166	156	208	142	84%
UNHCR	1,089	1,521	2,779	3,208	3,445	82%
UNICEF	1,921	2,718	3,836	3,571	5,153	78%
UNIDO	157	229	250	228	256	75%
UNITAR	16	19	24	23	32	98%
UNODC	124	238	234	297	342	87%
UNOPS						0%
UNRISD					0	12%
UNRWA	528	13	611	601	559	45%
UNSSC					7	59%
UNU	20	37	61	50	49	46%
UN Women			171	180	214	57%
UNWTO	3	8	3	5	3	11%
UPU	6		21	20	17	24%
WFP	2,963	3,845	4,469	5,108	5,609	87%
WHO	1,117	1,442	1,857	1,726	2,058	74%
WIPO	5	10	10	10	11	3%
WMO	19	25	5	5	17	18%
WTO	21	31	21	19	21	10%
<b>Total</b>	<b>15,196</b>	<b>20,298</b>	<b>25,403</b>	<b>26,684</b>	<b>29,834</b>	<b>63%</b>

Source: Chief Executives Board for Coordination (CEB). For notes – see page 186.

Meanwhile, a large number of UN agencies rely almost exclusively on voluntary core and earmarked contributions, like the New York based UN funds and programmes of the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), UNFPA and the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women). In Table 4 on the previous page, the percentage of earmarked funding for each UN entity is shown. In 2017, seven UN entities, the International Organization for Migration (IOM), UNDP, the United Nations Institute for Training and Research (UNITAR), the United Nations Human Settlements Programme (UN-HABITAT), the United Nations High Commissioner for Refugees (UNHCR), the United Nations Office on Drugs and Crime (UNODC) and the WFP received over 80% of their funding as earmarked.

We now turn to the financing of UN operational activities for development, ie those activities that are classified under development and humanitarian assistance, and funded by contributions that are ODA-like. A close look reveals a trend of strong growth in earmarked revenue in the last decade(s) combined with, in nominal terms, rather stagnating core resources; with core resources being the total of assessed contributions and voluntary core contributions. The financial data of the UN operational activities in Figure 4 below shows this. The two co-existing trends of growth and stagnation are widening the gap between flexible core resources and restricted earmarked resources.

Figure 4: Total core and earmarked contributions for UN operational activities, 2000–2017



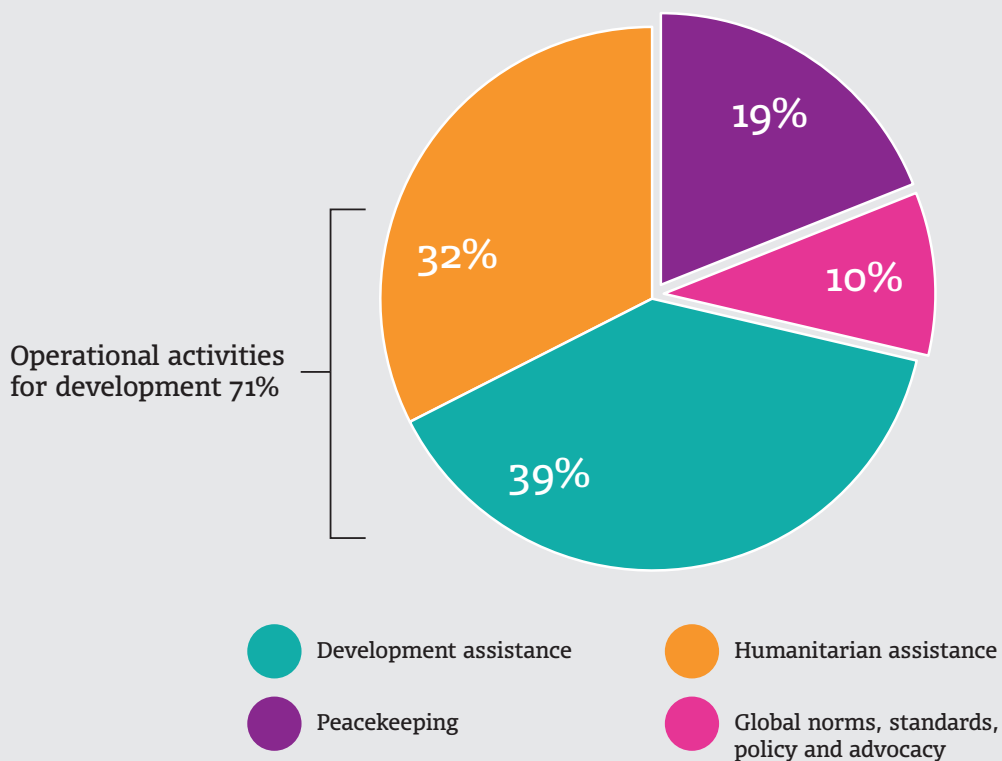
Source: Report of the Secretary-General (A/74/73-E/2019/4)  
For notes – see page 183.

## What does the UN fund?

Having looked at the different funding instruments available to the UN, we now move into examining what is being funded by the UN. In Figure 5 below, the total funding of UN activities is divided into four areas: development assistance and humanitarian assistance (which together are the UN operational activities for development), peacekeeping and a fourth area that covers all other activities – global norms, standards, policy and advocacy. There has been a recent increase in humanitarian assistance: the humanitarian sector has grown by four percentage points in size relative to the other sectors, from 28% of the total in 2016 to 32% in 2017. The relative share of funding for development and peacekeeping remains stable (+/- 1%), while the relative drop visible here is within the category of global norms, standards, policy and advocacy that decreased by four percentage points compared to 2016. A note of caution though before drawing too many conclusions from these numbers; as elaborated in Chapter Three on data quality, the drop in the share of funding for the normative work of the UN has more to do with definitional and methodological issues than with the UN investing less resources in its normative mandates.

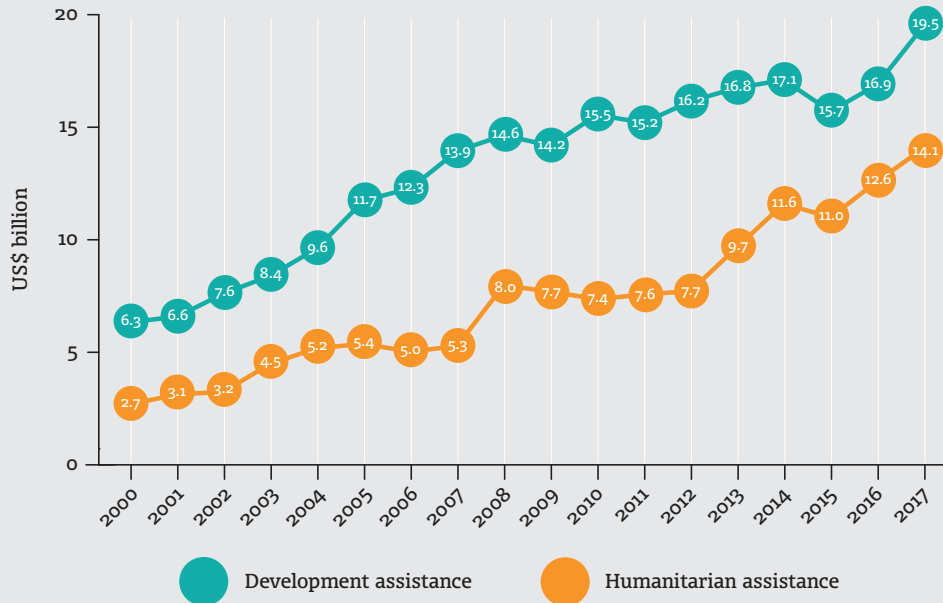
Taking a closer look at development and humanitarian assistance, ie the two major functions of the UN that make up the Official Development Assistance through the UN, can help further understand the major trends in UN financing for operational activities in recent decades. In Figure 6 on the next page, we can see the growth in nominal financial contributions to both functions and, over time, the narrowing relative gap between them. Also visible is the higher growth in contributions to humanitarian assistance, in particular after 2012. This can be seen even more clearly in Figure 7 (also on next page) that looks into the accumulative growth (adjusted for inflation) of UN-OAD (including a breakdown of humanitarian and development assistance) and compares it to the growth of overall Official Development Assistance. It shows that real growth in UN-OAD has been strong since 2011, while ODA funding has grown less in real terms and has even stagnated in the last couple of years. While UN development assistance funding and overall ODA have followed a fairly similar path, it is the UN's humanitarian funding that has grown the fastest of all.

Figure 5: Funding of UN system-wide activities, 2017



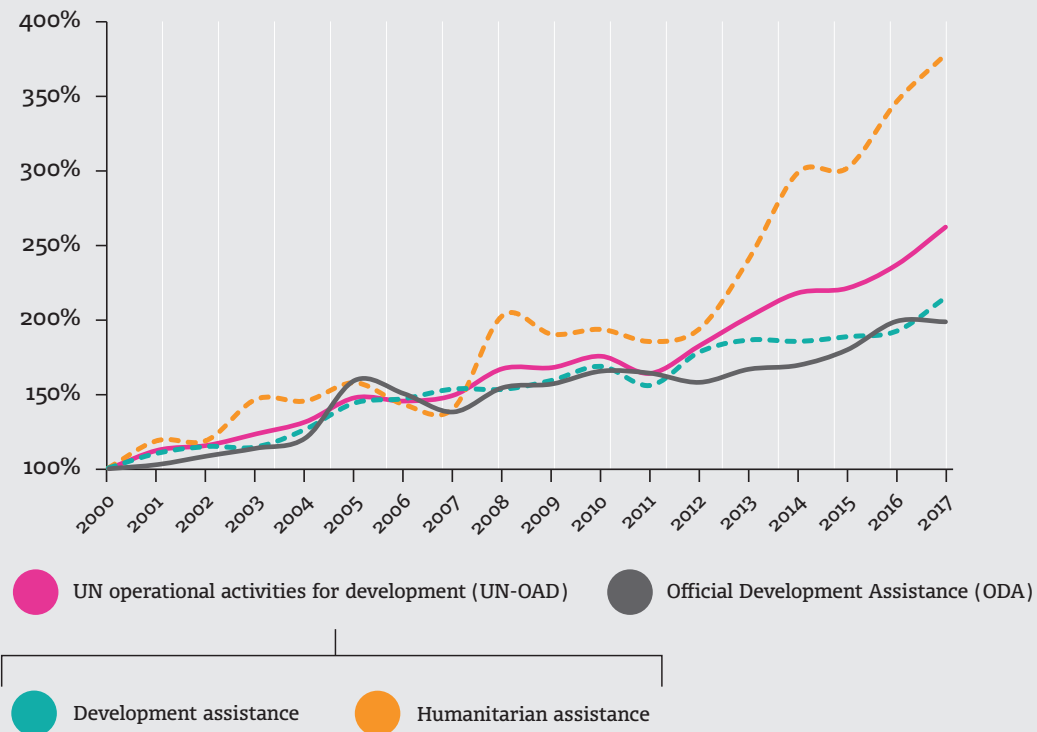
Source: Report of the Secretary-General (A/74/73-E/2019/4)  
For notes – see page 183.

Figure 6: Total contributions for development and humanitarian-related UN operational activities, 2000–2017



Source: Report of the Secretary-General (A/74/73-E/2019/4)  
For notes – see page 183.

Figure 7: Real growth of ODA and of funding for UN operational activities for development, 2000–2017



Source: Report of the Secretary-General (A/74/73-E/2019/4)  
For notes – see page 183.

Although funding for humanitarian assistance is experiencing rapid real and nominal growth, humanitarian needs are still partially unmet, as is visible in Figure 8 below. Throughout the period 2014–2018 around 40% of the requirements in the humanitarian appeals went unmet. Consequently, even with growth in nominal and real terms as seen, the humanitarian crises around the world remain largely underfunded.

What is being funded in the multilateral system today and how does the UN fit in? The Organisation for Economic Co-operation and Development's (OECD) data on contributions from the OECD's Development Assistance Committee (OECD-DAC) members to the multilateral system demonstrates how important the UN is as a multilateral channel compared to others.

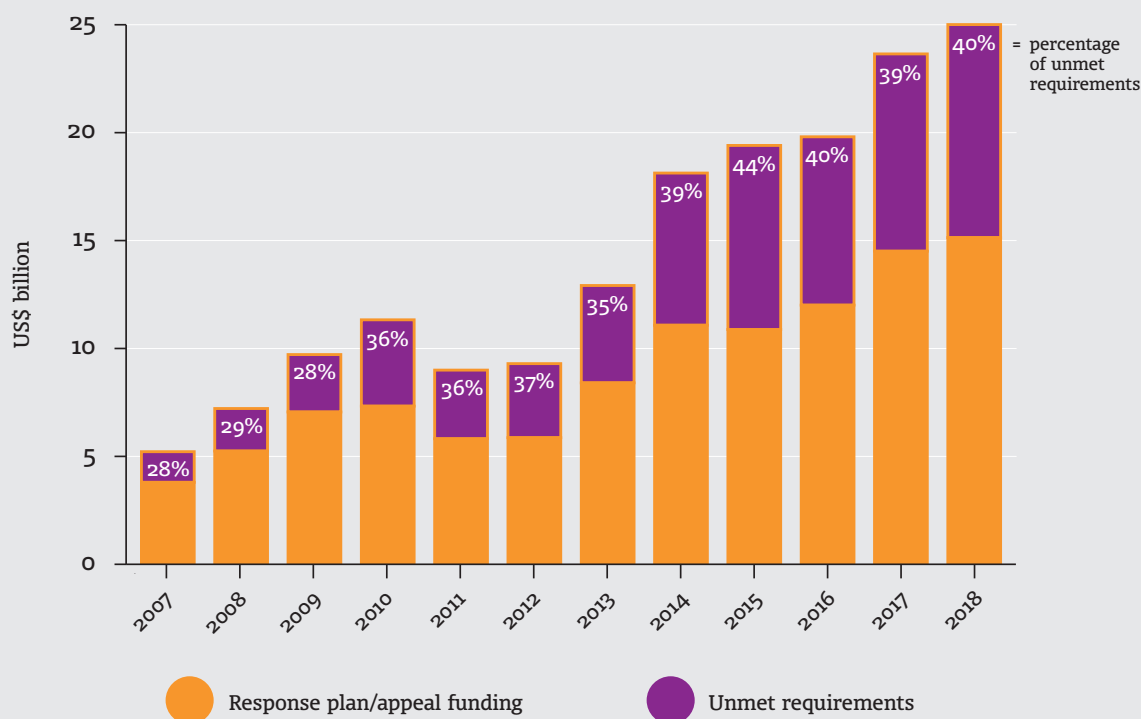
Figure 9, on the next page, outlines the size of these contributions to the UN, the Bretton Woods institutions (World Bank and International Monetary Fund (IMF)), as well as the EU, regional institutions and other multilateral institutions. It shows that the UN remains the largest multilateral ODA channel and the UN system

grew its share in relative terms by two percentage points from 2016–2017 to 33%. Even if no drastic change of patterns can be seen over the five-year period, gradually more multilateral ODA was channelled through the EU institutions, while a decreasing share was channelled through the World Bank Group and IMF, with the UN's share staying fairly constant, varying between 31% and 33%.

While Figure 9 does not capture the whole picture with regards to ODA funding, contributions from OECD-DAC members to multilateral organisations represented around 41% of total ODA in 2016.<sup>3</sup> The multilateral funding trends over the last five years as reflected in the OECD data can be seen in Table 5 (also on the next page).

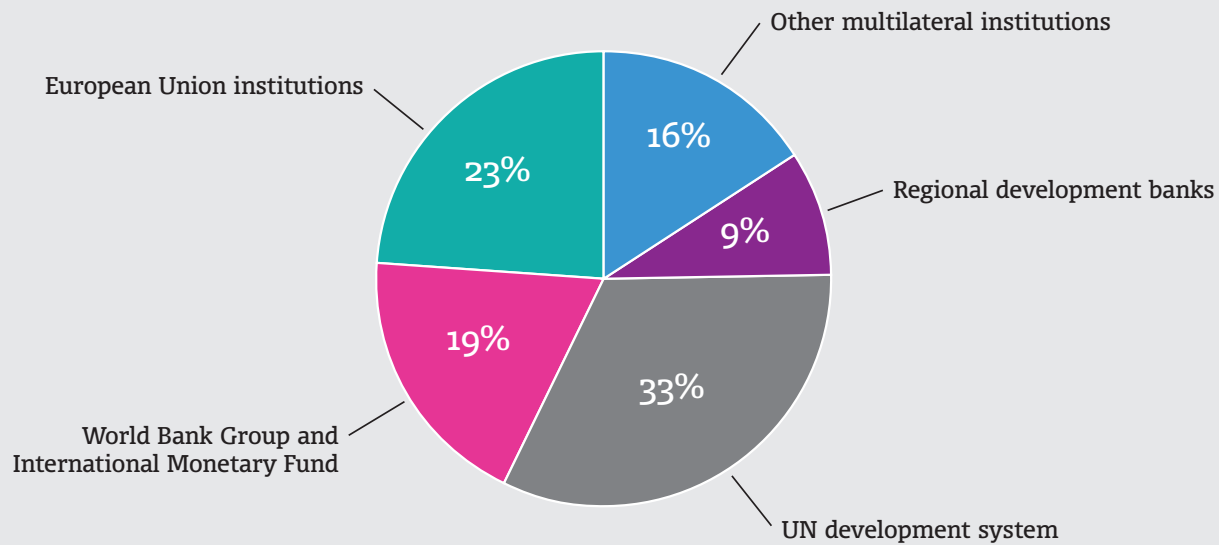
During the period 2013–2017 total multilateral ODA grew by US\$ 10.8 billion. This growth in multilateral aid was led by a US\$ 4.3 billion increase in funding through the UN development system and a US\$ 3.8 billion growth of aid through European Union institutions, as seen in Table 5 on the next page.

**Figure 8: Global humanitarian assistance flows, 2007–2018**



Source: UN Office for the Coordination of Humanitarian Affairs (UNOCHA)  
For notes – see page 183.

Figure 9: Channels of total multilateral assistance from OECD-DAC countries, 2017



Source: Organisation for Economic Co-operation and Development (OECD)  
For notes – see page 183.

Table 5: Five year perspective of total multilateral aid from OECD-DAC countries (US\$ billion)

Channel	Total multilateral aid					Percentage of total multilateral aid				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Other multilateral institutions	9.0	9.4	9.6	11.1	10.4	17%	17%	17%	18%	16%
Regional development banks	4.2	4.5	4.4	5.5	5.5	8%	8%	8%	9%	9%
UN development system	16.6	17.8	18.2	19.5	20.9	31%	32%	33%	31%	33%
World Bank Group and IMF	12.1	12.5	11.1	12.1	12.0	23%	22%	20%	19%	19%
European Union institutions	11.2	11.5	12.0	14.8	15.0	21%	21%	22%	23%	23%
<b>Total</b>	<b>53.0</b>	<b>55.5</b>	<b>55.3</b>	<b>63.0</b>	<b>63.8</b>					

Source: Organisation for Economic Co-operation and Development (OECD)  
For notes – see page 186.

Continuing the multilateral comparative perspective through the lens of OECD-DAC funding, we do see major funding differences and trends between the multilateral institutions. The higher levels of earmarking as compared to core funding distinguish the UN system in comparison to other multilateral institutions as is evident in Figure 10 below. Moreover, the share of earmarking has increased substantially in the UN in recent years. In 2017, of the US\$ 20.9 billion of multilateral aid channelled through the UN development system, 71% was earmarked, against 64% of the US\$ 16.6 billion in 2013.

### Who funds the UN?

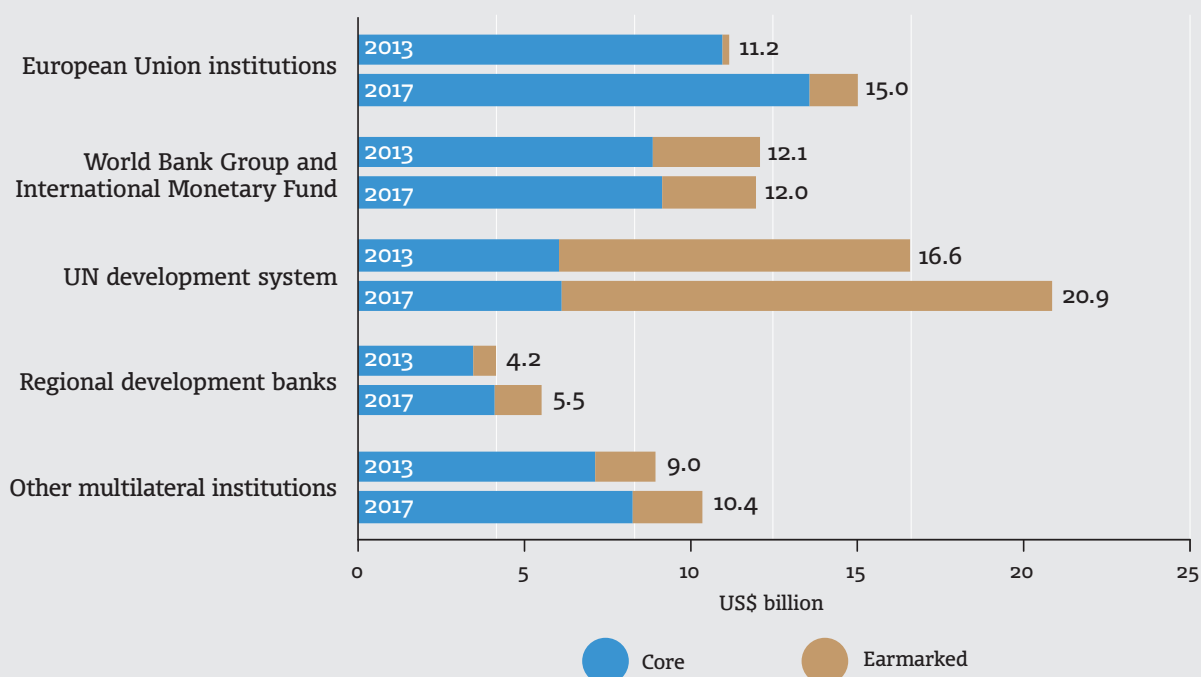
So far, we have looked at what is being funded and how, but our next question is, who is funding the UN? The simple answer is that governments still provide the lion's share of the funding for the UN development system. As we can see in Figure 11 on the next page, they constituted 74% of the direct funding to the UNDS, not including the indirect funding from, for example, the 28 EU governments' funding channelled via the

European Union institutions or the governmental financial resources routed through the vertical funds. EU institutions are almost exclusively financed by the EU Member States through a negotiated, in part means-based, membership fee while the vertical funds are funded by both governments and, in some cases, non-state actors such as foundations.

In 2017, 57% of the funding for UN operational activities came directly from OECD-DAC contributors, slightly less than the previous year (60%). The European Union institutions have emerged as a major contributor to the UN in the last decade; they directly funded 7% of the total revenue for the UN operational activities in 2017 compared to 9% in 2016.

The non OECD-DAC countries contributed 11%, in contrast to 12% in the previous year. Global vertical funds and UN inter-agency pooled funds both contributed 6% to the UN operational activities (both 5% in 2016).

**Figure 10: Channels of total multilateral assistance from OECD-DAC countries, core and earmarked, 2013 and 2017**



Source: Organisation for Economic Co-operation and Development (OECD)  
For notes – see page 183.



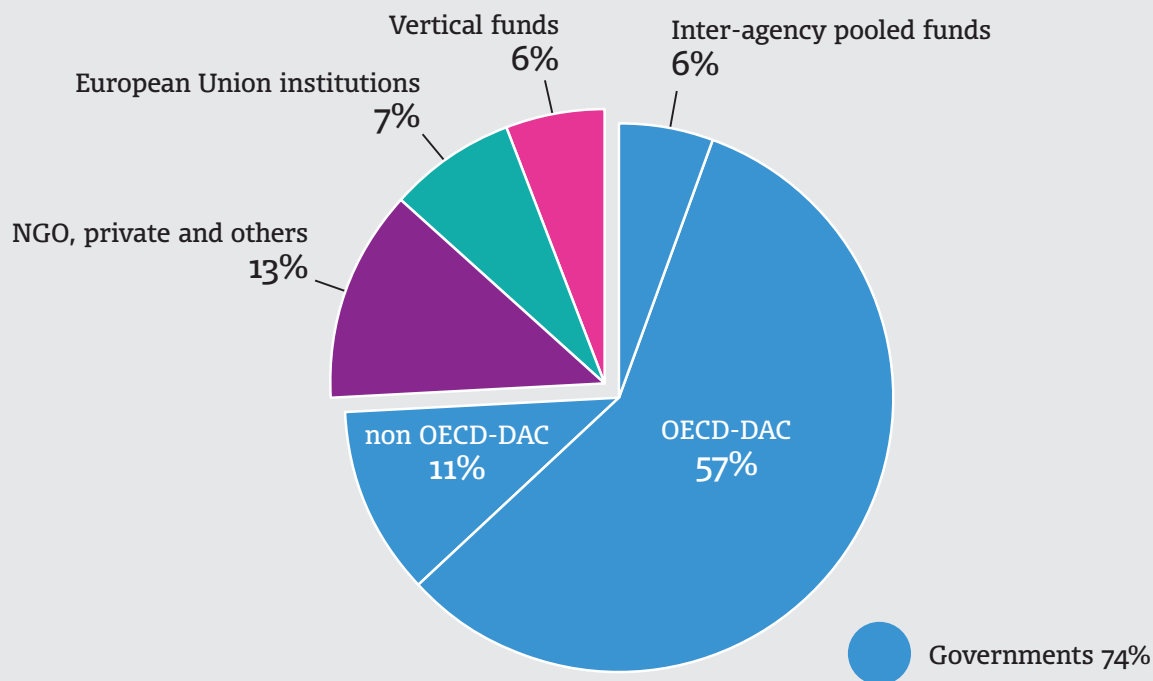
Even though non-state contributions from non-governmental organisations (NGOs), foundations, the private sector and others are growing significantly as sources of revenue for the UN (from 9% in 2016 to 13% in 2017), they remain a relatively small source of revenue for most UN entities. The clear exceptions are UNICEF and the World Health Organization (WHO), who both received around 20% of their total revenue from non-state contributors, and together with UNHCR accounted for over 80% of the UN's non-state funding.

Figures 12 through 17 on the next page present a visual breakdown of the non-state funding by entity for six UN entities. The largest UN recipient of non-state contributions was UNICEF, in nominal terms; the second and third largest in nominal terms, were WHO and UNHCR respectively.

UNHCR disaggregates private sector funding between 'Individual Giving' and 'Leadership Giving'. Donations from private individuals stood at US\$ 276 million in 2017, significantly larger than the US\$ 123 million received from companies, foundations and philanthropists.

In the case of UNICEF, non-state funding is broken down into resources from 'Field offices', 'Individuals' and 'National Committees'. The National Committees are a unique feature of UNICEF. Currently there are 34 National Committees established as independent local non-governmental organisations. In 2017, collectively they raised US\$ 1,270 million which accounted for 20% of the entity's annual income. This funding comes through contributions from corporations, civil society organisations and more than 6 million individual donors worldwide.<sup>4</sup>

Figure 11: Funding sources for UN operational activities, 2017

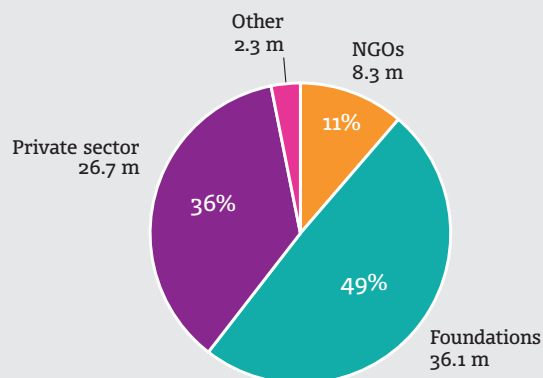


Source: Report of the Secretary-General (A/74/73-E/2019/4)  
For notes – see page 183.

Figures 12-17: Non-state revenue of six selected UN entities, 2017

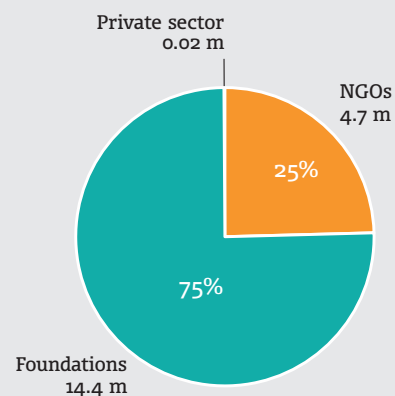
#### UNDP non-state revenue, 2017

US\$ 73.4 million (1% of total revenue)



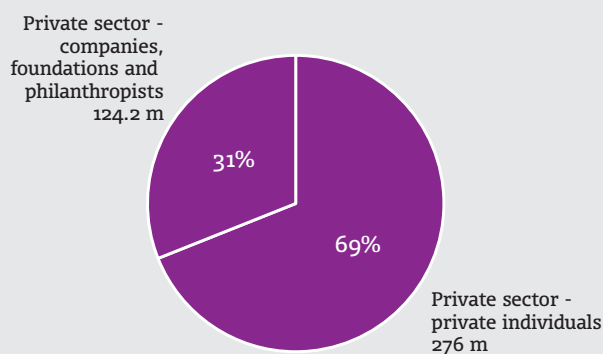
#### UNFPA non-state revenue, 2017

US\$ 19.1 million (2% of total revenue)



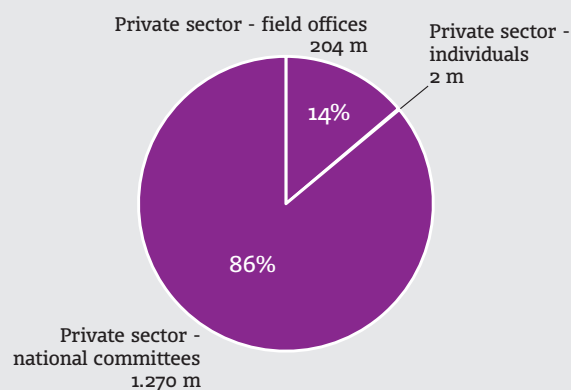
#### UNHCR non-state revenue, 2017

US\$ 400.2 million (9% of total revenue)



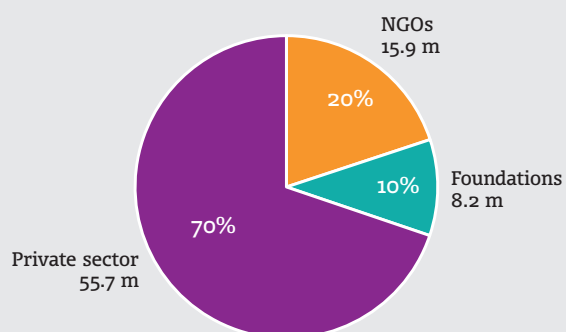
#### UNICEF non-state revenue, 2017

US\$ 1.476 million (22% of total revenue)



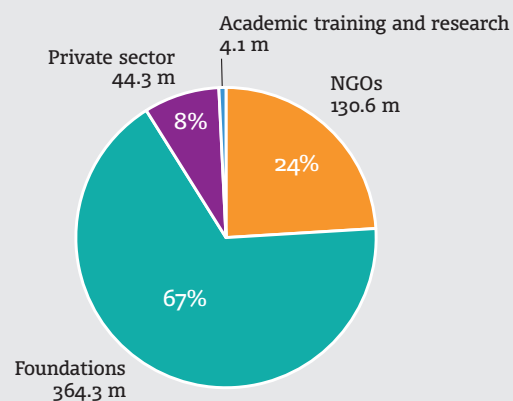
#### WFP non-state revenue, 2017

US\$ 79.8 million (1% of total revenue)



#### WHO non-state revenue, 2017

US\$ 543.3 million (20% of total revenue)



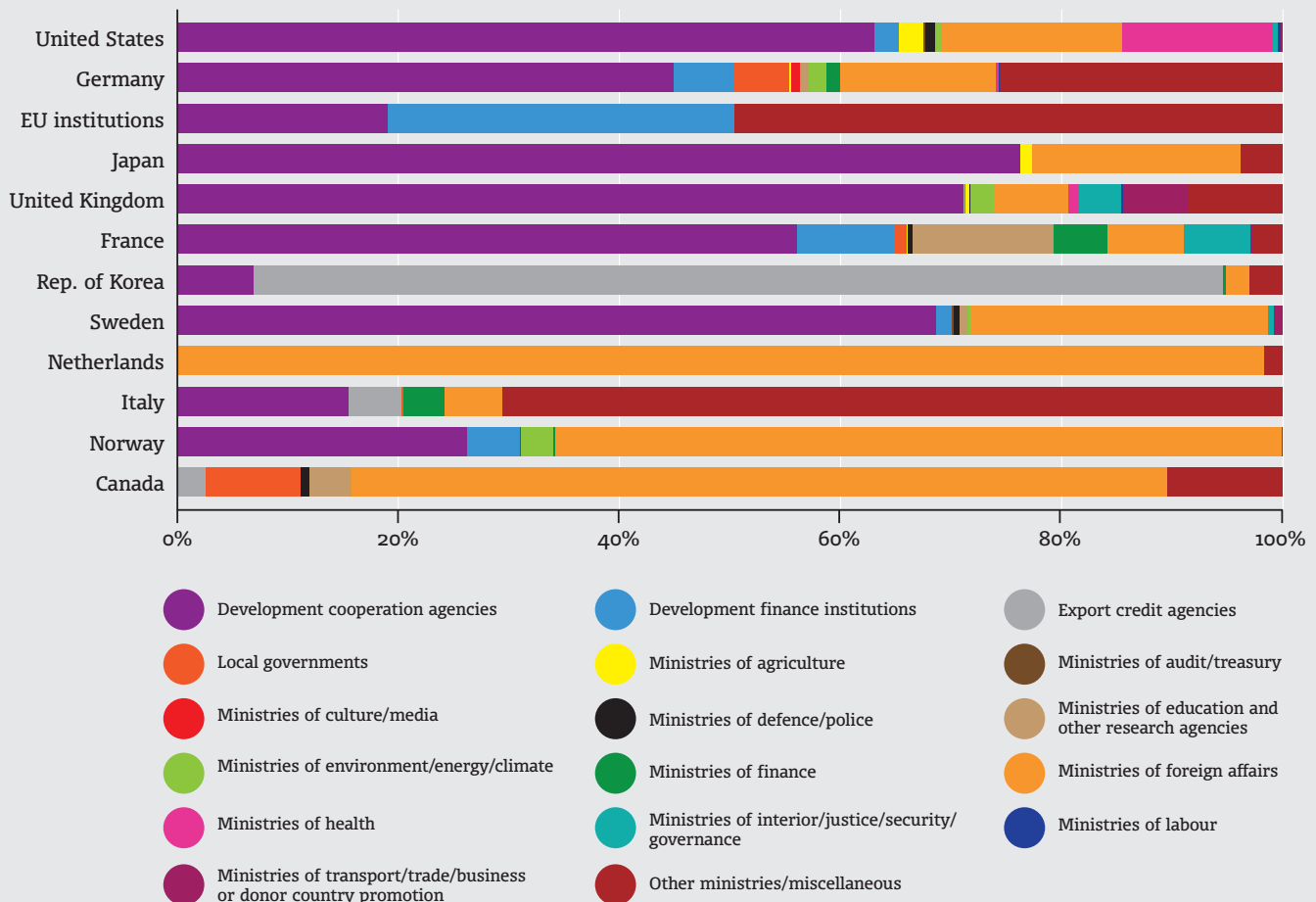
Source: UNDP, UNFPA, UNHCR, UNICEF, WFP, and WHO.

For notes – see page 183.

OECD-DAC governments are still the major contributors to the UN – but which parts of their governments are engaging and contributing? Traditionally, ODA and multilateral affairs have been within the remits of foreign and development ministries, and/or development agencies. Today, we can see a much more mixed picture of involvement from a wider range of ministries and other governmental institutions. Figure 18 below shows a colourful mix of governmental involvement. This is in line with the Sustainable Development Goals' principles of broader partnership and deeper integration of policy-making where global issues are local. The border between domestic and foreign affairs is being eroded,

as global and regional integration deepens, and global discussions take place directly between responsible ministries and for example a specialised UN agency. As seen in a few examples in Figures 19–24 (next page), this departmental integration in a sample of countries and wider stakeholder interaction is manifested differently in the funding patterns of different administrations. However, it does not directly suggest that all decision-making in each of these specific cases is therefore more decentralised (as it just registers the agency channelling the ODA), but it represents an interesting trend of a wider circle of stakeholders potentially interacting with the UN.

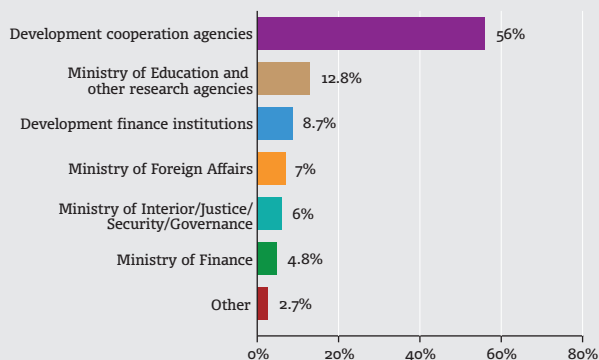
Figure 18: Sources of ODA within 12 largest OECD-DAC members, as proportion of total, 2017



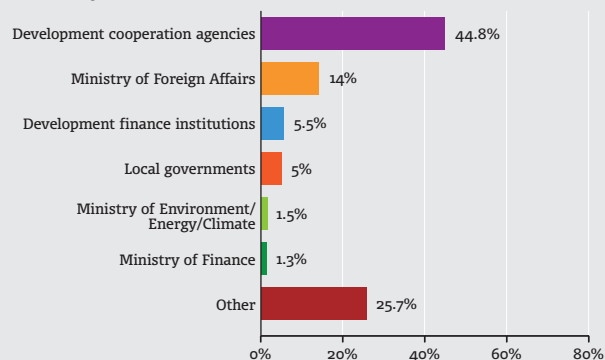
Source: Organisation for Economic Co-operation and Development (OECD)  
For notes – see page 183.

Figures 19-24: Funding sources within six OECD-DAC contributing countries financing ODA, 2017

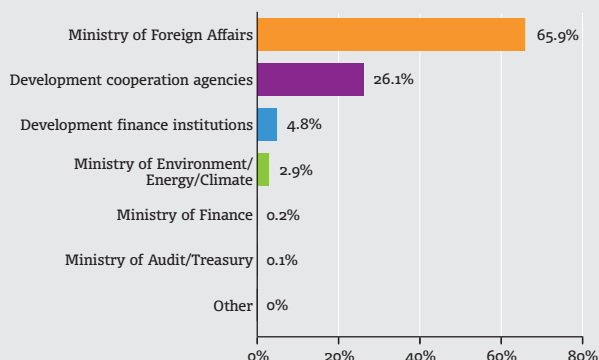
### France



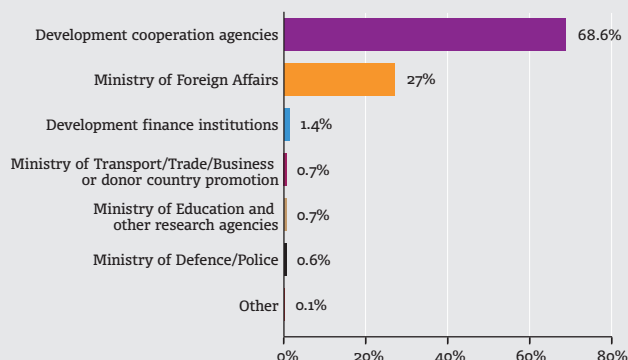
### Germany



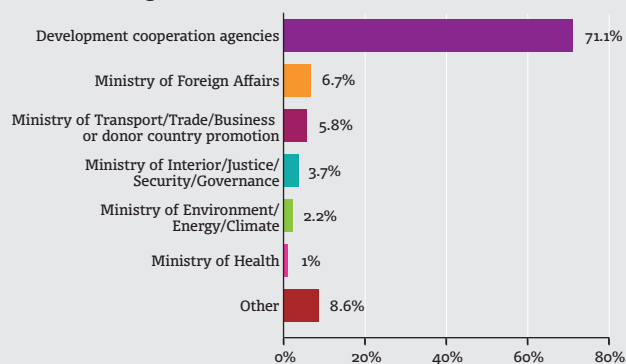
### Norway



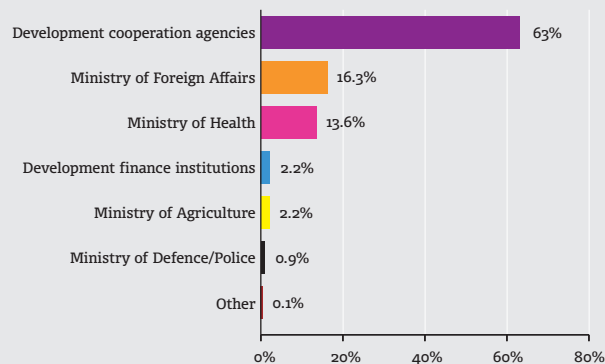
### Sweden



### United Kingdom



### United States



Source: Organisation for Economic Co-operation and Development (OECD)

For notes – see page 183.

The majority of contributions to the UN from Member States are provided by a small group of top contributors. Figure 25 below shows the funding mix of the top 12 OECD-DAC members to UN-OAD, with contributions broken down in core, inter-agency pooled funds, single-agency thematic funds and other earmarked funds.

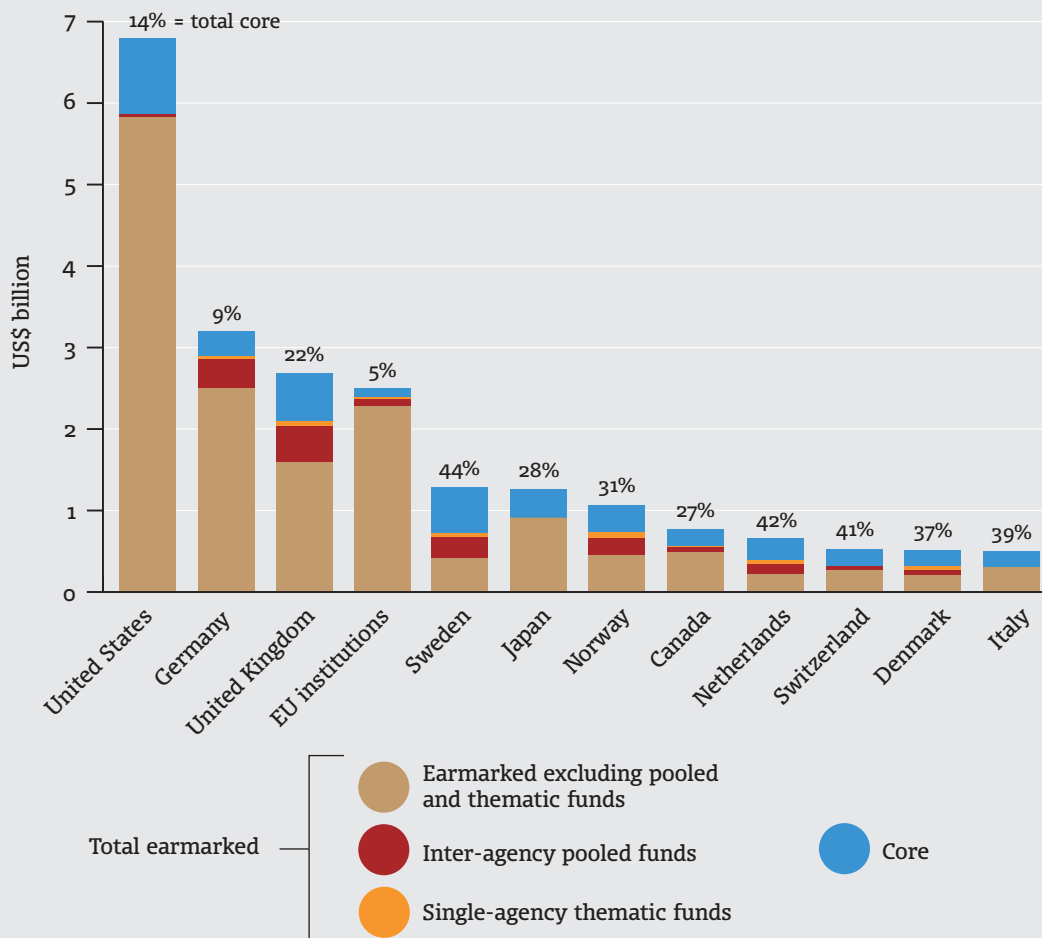
In 2017, these top OECD-DAC members provided 65% of the total contributions for UN operational activities. In the past five years, this share has grown by four percentage points (from 61% in 2013). Denmark was the country amongst the top 12 OECD-DAC contributors that in relative terms increased its funding the most: Danish funding to the UN went from US\$ 307 million to US\$ 512 million between 2016 and 2017 (a growth rate of 67%).

The top 12 non-OECD contributors are shown in Figure 26 on the next page, ranked according to their total contributions to UN-OAD, excluding local

resources. However, local resources were added to the figure after the top 12 contributors had been identified. These top non OECD-DAC countries funded 7% of the total of contributions of UN operational activities in 2017, the number in 2016 was 6% and 8% in 2015.

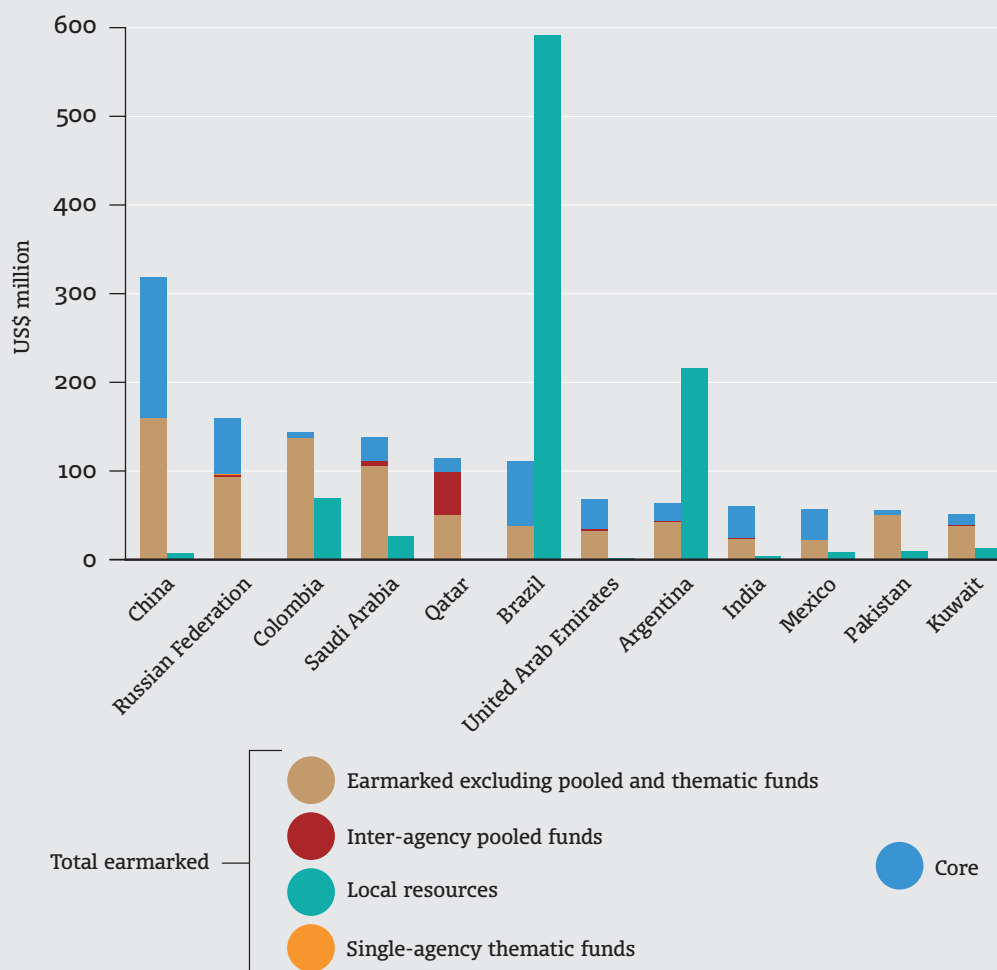
The top five non OECD-DAC countries, China, Russian Federation, Colombia, Saudi Arabia and Qatar, contributed 51% of the total funding for UN operational activities originated from non OECD-DAC countries. Comparing to 2016, of all other non OECD-DAC countries, China increased its funding the most in nominal terms. In 2017, China showed an increase of US\$ 149 million of both core and earmarked contributions to the UN. Qatar was the country amongst the top 12 contributors that in relative terms increased its funding the most as it augmented its funding by more than 200% to the UN, with a large portion of this increase channelled through UN inter-agency pooled funds.

**Figure 25: Funding mix of the top 12 OECD-DAC members to UN operational activities, 2017**



Source: Report of the Secretary General (A/74/73 – E/2019/4) and UN Pooled Funds Database  
For notes – see page 183.

Figure 26: Funding mix of the top 12 non OECD-DAC countries contributing to UN operational activities, 2017



Source: Report of the Secretary General (A/74/73 – E/2019/4) and UN Pooled Funds Database  
For notes – see page 183.

## UNDS reform - new funding initiatives

### *The 1% levy on tightly earmarked funding*

Resolution A/RES/72/279 on the repositioning of the UN development system was adopted by the General Assembly on 31 May 2018.<sup>5</sup> It saw the introduction of a 1% coordination levy on tightly earmarked third-party contributions to UN development-related activities.<sup>6</sup> This is part of an integrated effort to fund the new Resident Coordinator system. The levy should be paid at source by the contributors and not be charged to local government cost-sharing arrangements or to cooperation among programme countries. The levy should, in addition, also have an incentivising effect and steer contributions more towards flexible funding arrangements.

The levy system was launched in 2019 and operationalised by the UN with the following definition of 'tightly earmarked' and the below guidance for UN entities to know when and how to charge the 1% levy.

Operational guidance for the UN on the 1% levy:

- A contribution agreement is potentially subject to the levy if all the following conditions are true.
- The contribution will fund development-related activities.
- The contribution is tightly earmarked to a single entity programme or project.
- The contribution is from a single donor.

There are exemptions to the levy. For a list, please go to Endnote 6 on page 180.

### *A new Funding Compact between the UN and its Member States*

For the UN, its Member States and its institutions, it has been considered paramount to collectively agree on a key set of measurable commitments on funding and system-wide functions so the UN can maximise its contribution to the achievement of the 2030 Agenda. Therefore, it was a notable step in July 2019 when the UN Economic and Social Council (ECOSOC) resolution E/RES/2019/15 declared that the Member States of the United Nations welcome the Funding Compact, and encourage all Member States and entities of the UN development system to contribute to its full and effective implementation.<sup>7</sup>

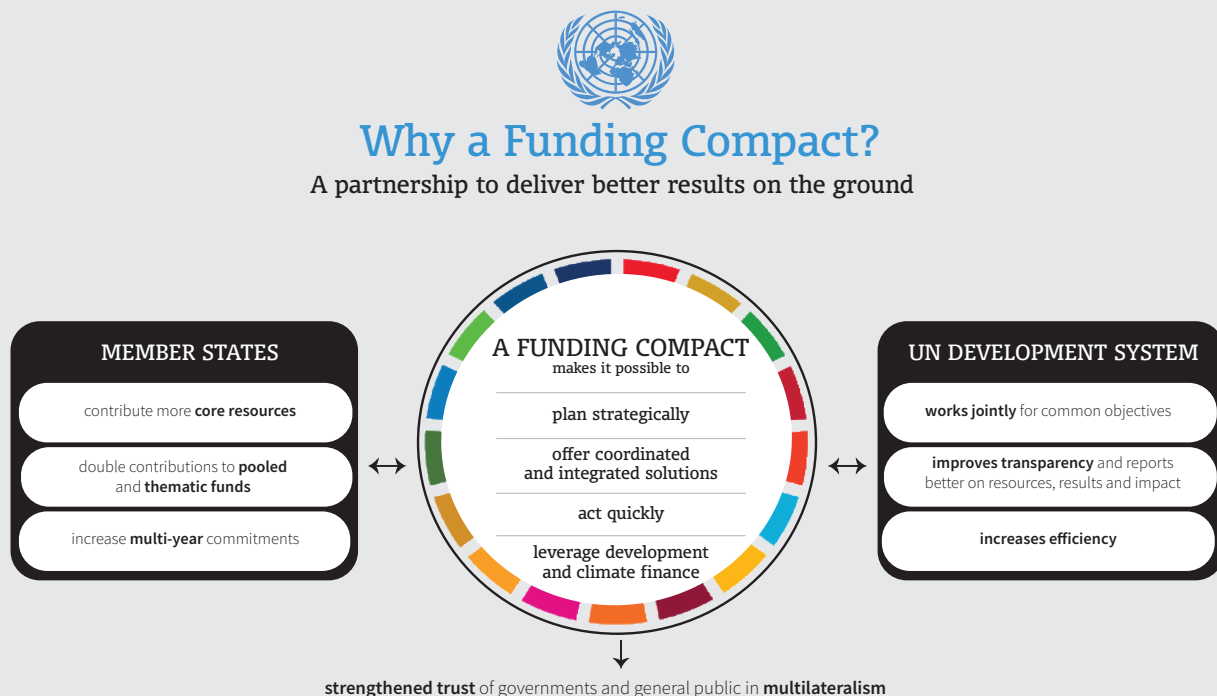
The core idea of the Funding Compact is to give incentives for Member States to contribute more qualitatively, flexibly and predictably alongside incentives to UN development entities to increase coherence and co-operation, make full use of efficiency gains and increase transparency, as illustrated in Figure 27.

### *How do you measure the quality of funding?*

The Funding Compact emphasises core, pooled and single-agency thematic funding modalities. This is to ensure the UN can operate flexibly and coherently, and to foster results on the ground. It provides for measurability, visibility and a mechanism for follow-up periodically. A number of key indicators to measure success is included in the Funding Compact, amongst them and related to funding of the UN development system, notably:

- *At least 30% of the total funding to the UN entities of the UNDS should be core funding by 2023 – to improve flexibility and delivery of the UN entities. The commitment is measured by two separate indicators, one including and the other excluding assessed contributions. Just like the other indicators, this only refers to development-related funding (excluding humanitarian funding).*

Figure 27: Why a Funding Compact?



For notes – see page 184.

Figure 28a and 28b: Development assistance funding mix of the top 20 contributors to the UNDS, including assessed contributions, 2017

Figure 28a:

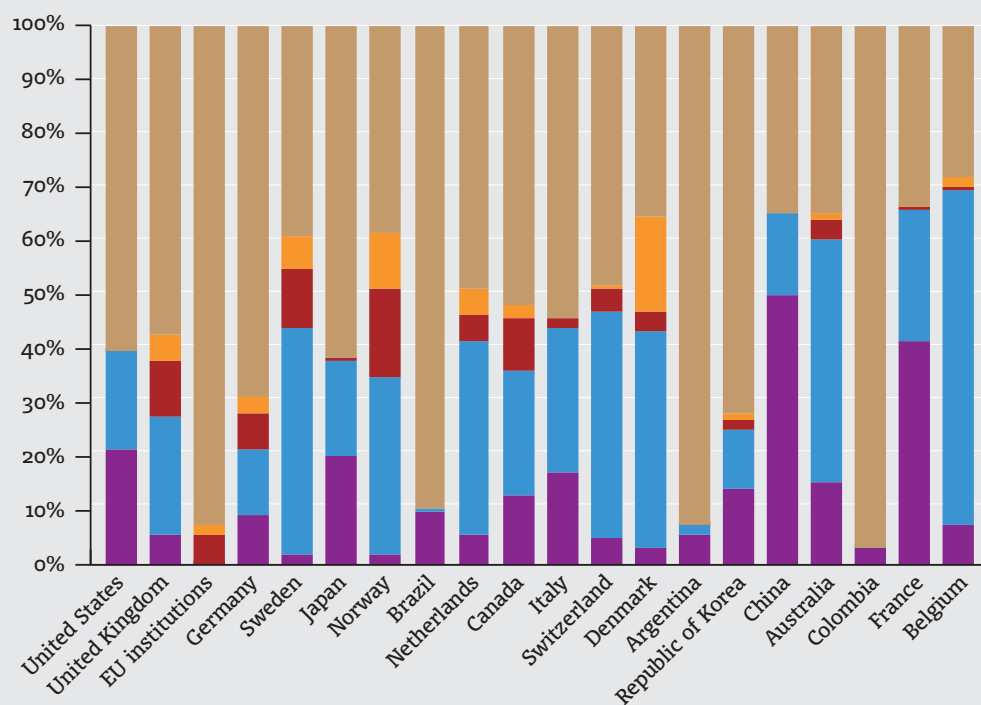
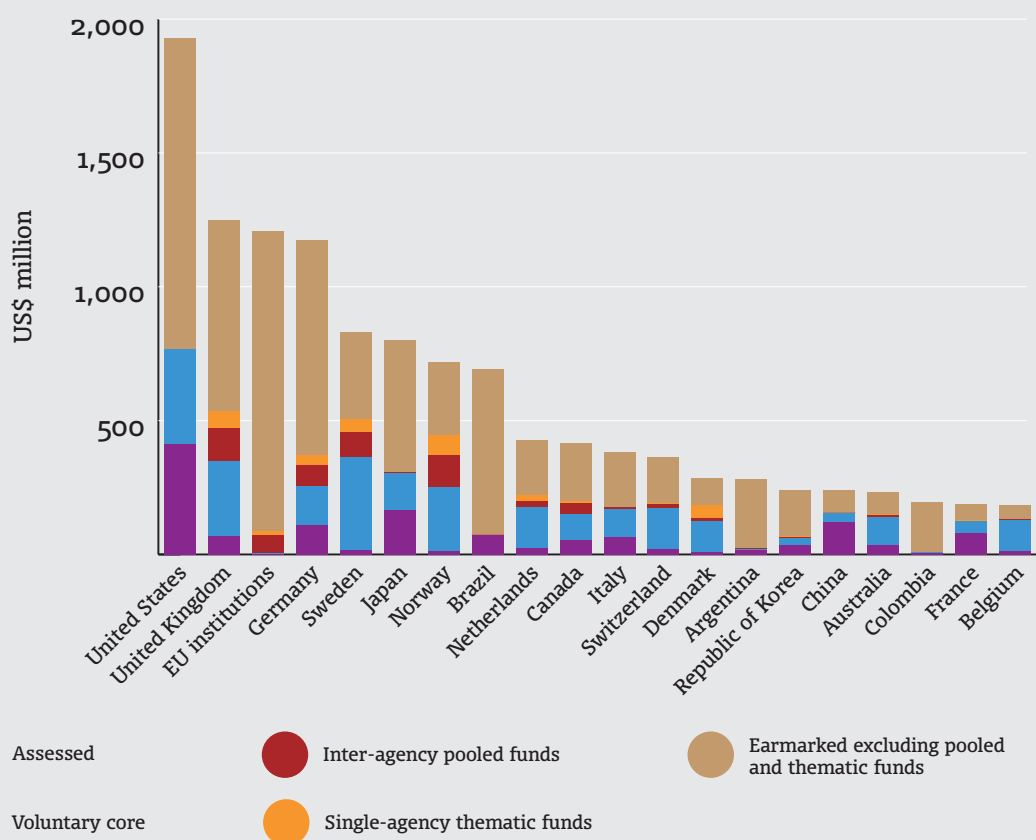


Figure 28b:



Source: Report of the Secretary General (A/74/73-E/2019/4) and UN Pooled Funds Database  
For notes – see page 184.



- *Double the contributions to UN inter-agency pooled funding* to incentivise UN-wide coherence, scale-up, results and common delivery. The commitment is measured by the share of the total contributions to non-core that is going to UN Pooled Funds – from 5% (2017 baseline) of earmarked funding to 10% in 2023.
- *Double the contributions to single-agency thematic funds.* It should be increased from 3% (2017) to 6% by 2023 to increase flexibility and delivery of UN entities.
- *Increase the multi-year commitments to the UNDS* to enable resource planning and give more predictability.
- *Increase the number of contributors* to core, UN inter-agency pooled funds and single-agency thematic funds, to make the UNDS less reliant on a few contributors.

The Funding Compact is a collective commitment for the UN Member States. The funding mix of the top 20 contributors to the development-related activities of UNDS can be found in Figure 28a and 28b.

Other key commitments of the Funding Compact, such as transparency and data, are elaborated on in Chapter Three.

## Levels of funding by UN Member States

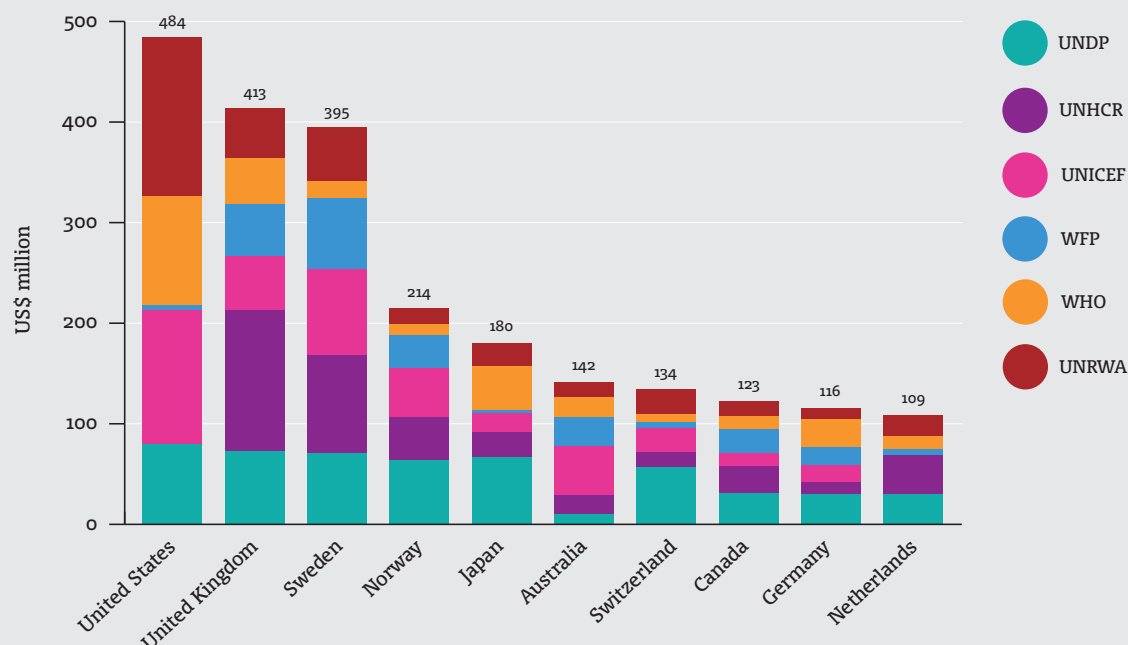
So far, we have looked into who is funding the UN, who receives funds and how. In Figures 29–32 (see pages 50–51), the analysis goes one step further and investigates the levels of funding UN Member States are contributing to six UN entities: UNDP, UNHCR, UNICEF, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), WFP and WHO. Figure 29 shows the top ten OECD-DAC contributors and how these Member States contribute core resources to each UN entity. In Figure 30 we do the same for the non OECD-DAC countries. The analysis continues in Figures 31 and 32, looking at the same two sets of contributors and UN entities but examining earmarked resources instead.

Together these figures show a range of funding patterns. All the top ten OECD-DAC countries contribute core resources to all the six UN entities, to some extent, and the total portfolio of contributions is not dominated by one single entity; however, the focus of their funding varies.

For the non OECD-DAC countries, the pattern of core contributions is partly different. The largely assessed core funding of WHO dominates with regards to many of the countries. A regional dimension is also visible in the relative funding focus on, for example, UNRWA. The voluntary core funding to UNDP, UNHCR, UNICEF and WFP is less prominent in the funding mix of the non OECD-DAC countries.

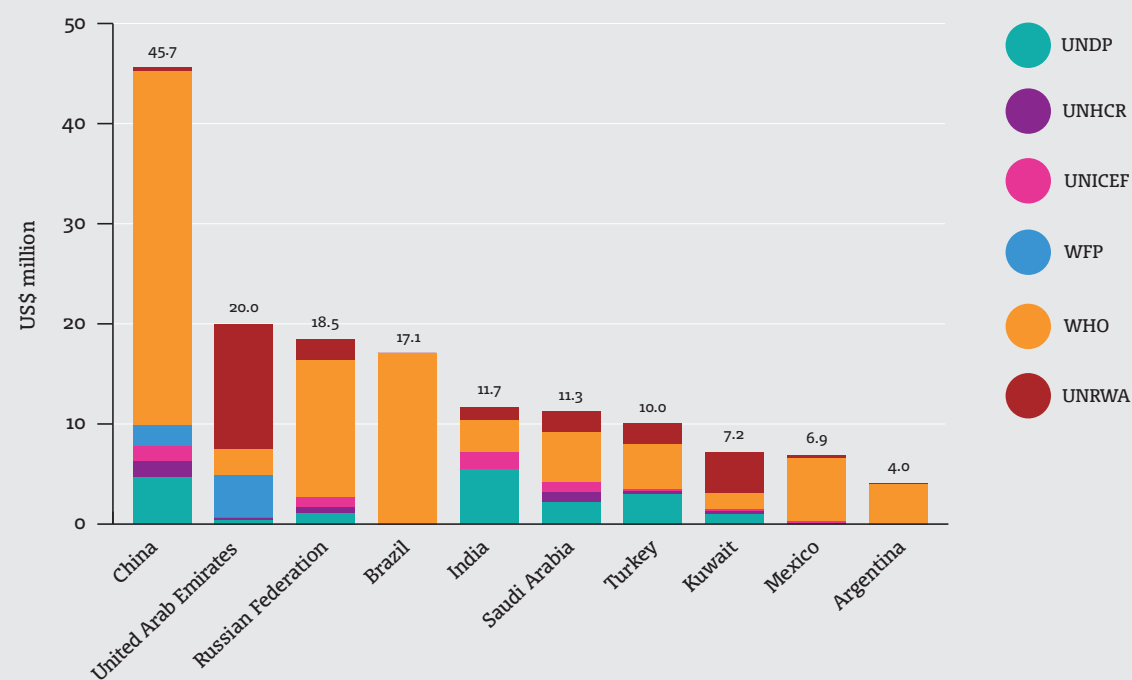
With regards to earmarked funding, which is shown in Figures 31 and 32, a higher concentration of funding to humanitarian-assistance focused entities (UNHCR, WFP, and, in part, UNICEF) is visible amongst the OECD-DAC countries, when compared with their core funding pattern. Amongst the non OECD-DAC countries the opposite trend and a focus on development focused UN entities is visible at a glance. In a number of countries, local cost sharing arrangements through UNDP make up the larger part of the earmarked contributions. The picture is, however, varied and for Saudi Arabia, China, Russian Federation and Kuwait the funding of the UN entities is more mixed.

Figure 29: Total core contributions from the top ten OECD-DAC countries to six selected UN entities, 2017



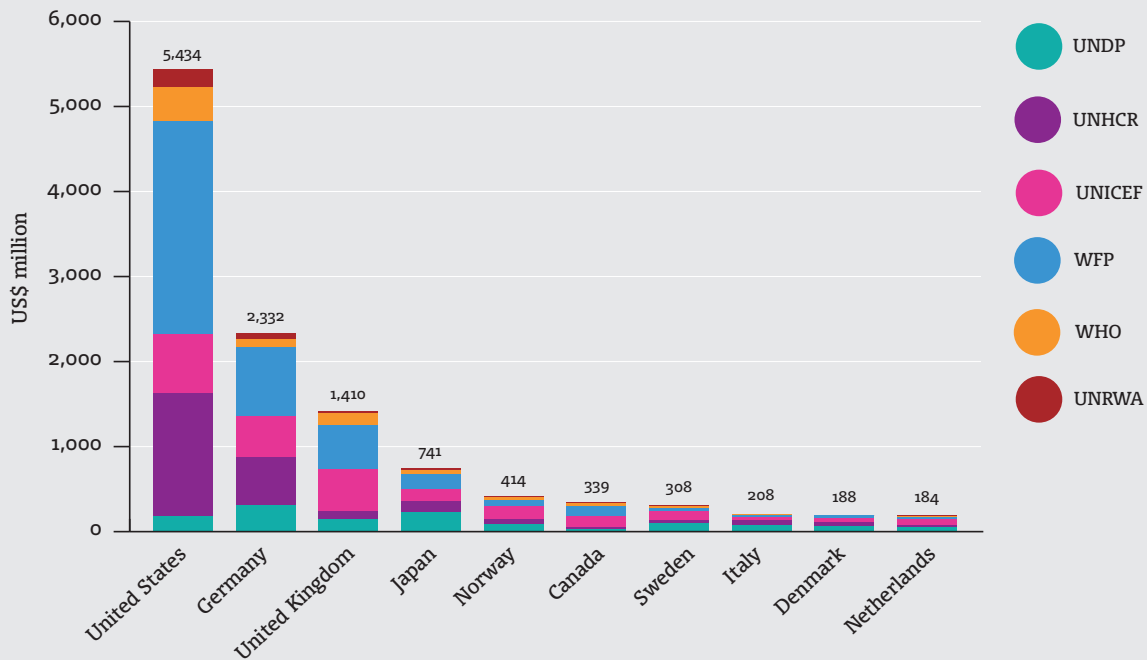
Source: Chief Executives Board for Coordination (CEB)  
For notes – see page 184.

Figure 30: Total core contributions from the top ten non OECD-DAC countries to six selected UN entities, 2017



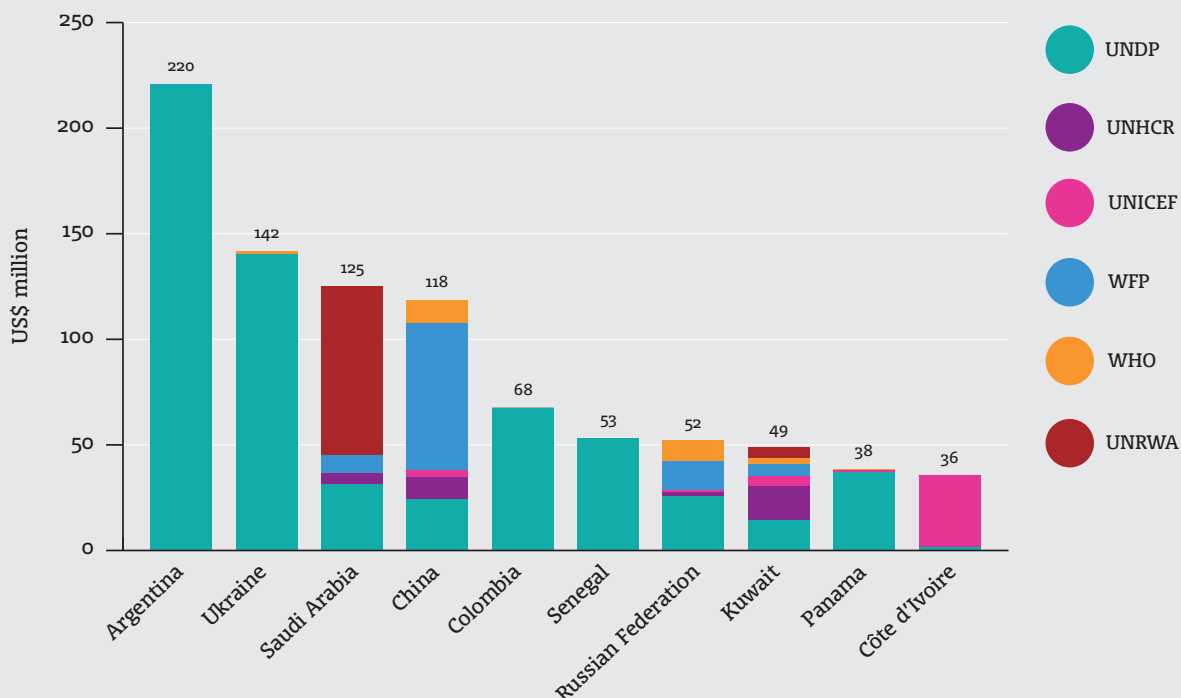
Source: Chief Executives Board for Coordination (CEB)  
For notes – see page 184.

Figure 31: Total earmarked contributions from the top ten OECD-DAC donors to six selected UN entities, 2017



Source: Chief Executives Board for Coordination (CEB)  
For notes – see page 184.

Figure 32: Total earmarked contributions from the top ten non OECD-DAC countries to six selected UN entities, 2017



Source: Chief Executives Board for Coordination (CEB)  
For notes – see page 184.

To complement the analysis on core versus earmarked funding, we now take a closer look at the use and scale of UN inter-agency pooled funds. Figure 33 below shows the deposits into UN pooled fund instruments between 2010 and 2017. Apart from a spike in 2014, the numbers have remained relatively stable with an upward trend in the last couple of years.

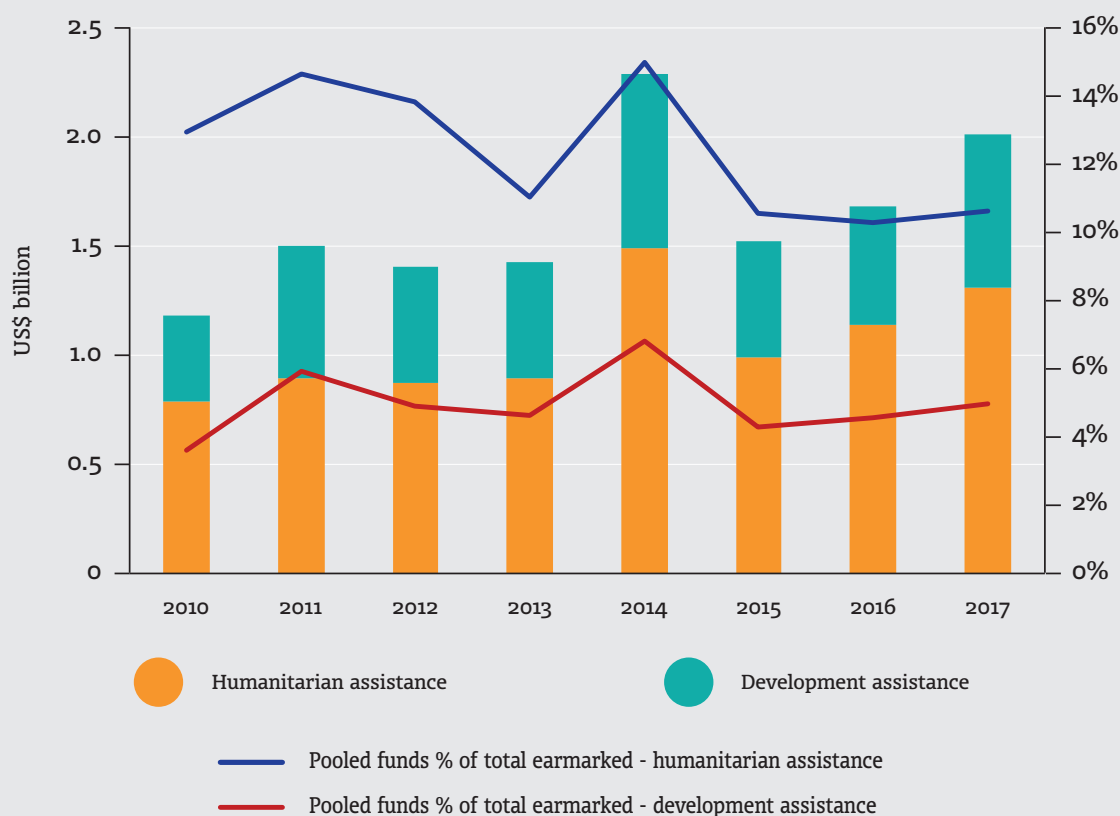
The Funding Compact, described earlier in this chapter, includes a target of doubling contributions to UN inter-agency pooled funds by 2023. The indicator to measure this target assesses the share of pooled fund contributions within the total earmarked development-related contributions. As seen in Figure 33, this share was 5% in 2010 and the ambition to double it, from the 2010 base-year, would mean a 10% share of UN pooled fund contributions. In the humanitarian field, the similar share of inter-agency pooled funds is today 10% (as shown in the same figure).

Figure 34 on the next page looks at the top 12 contributors to UN inter-agency pooled funds, and the

percentage represents the share of earmarked resources they channel through pooled funds. The top five donors are all Member States from Europe and together contributed 69% of the total UN inter-agency pooled fund contributions. The top 12 list includes OECD-DAC contributors from beyond Europe (Canada as number six, and Australia and the United States are also on the top 12 list). The only non OECD-DAC member on the list is Qatar – who contributed 45% of its total earmarked contributions to UN inter-agency pooled funds.

Analysing the numbers further and disregarding the absolute size of contribution – Figure 35 on the next page shows the spread of countries with more than 10% of their earmarked funding going to inter-agency pooled funds. Ireland is the Member State with the highest share of earmarked contributions flowing through UN inter-agency pooled funds in 2017 (50%). The trends of inter-agency pooled funding are further elaborated on in Part Two.

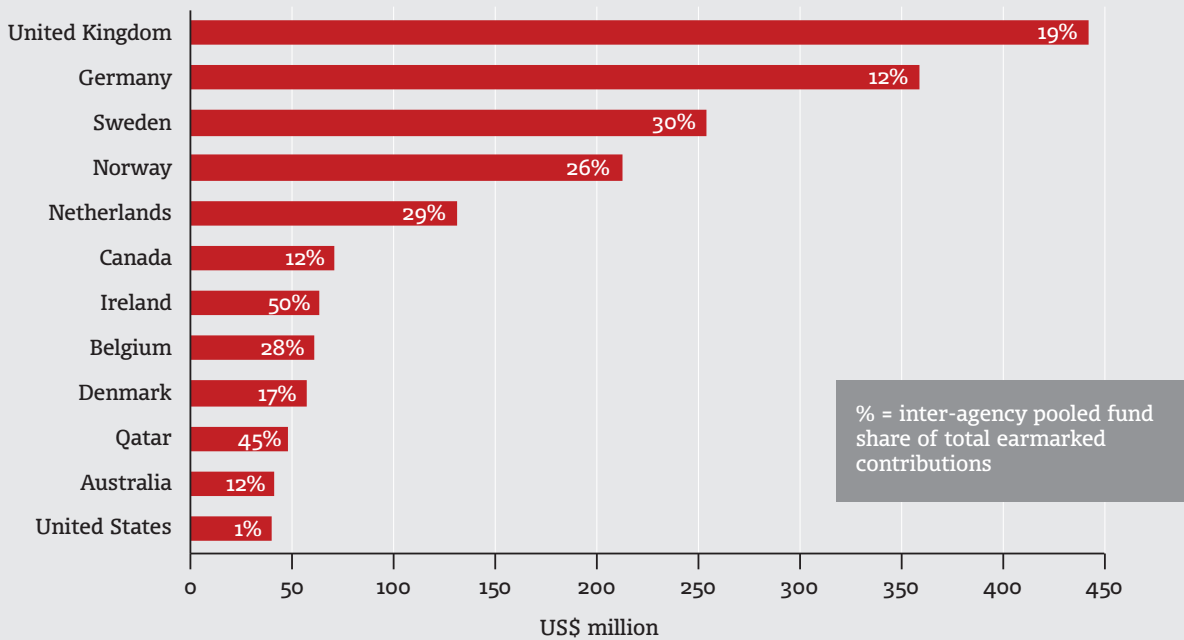
Figure 33: Deposits to UN inter-agency pooled funds, 2010–2017



Source: UN Pooled Funds Database

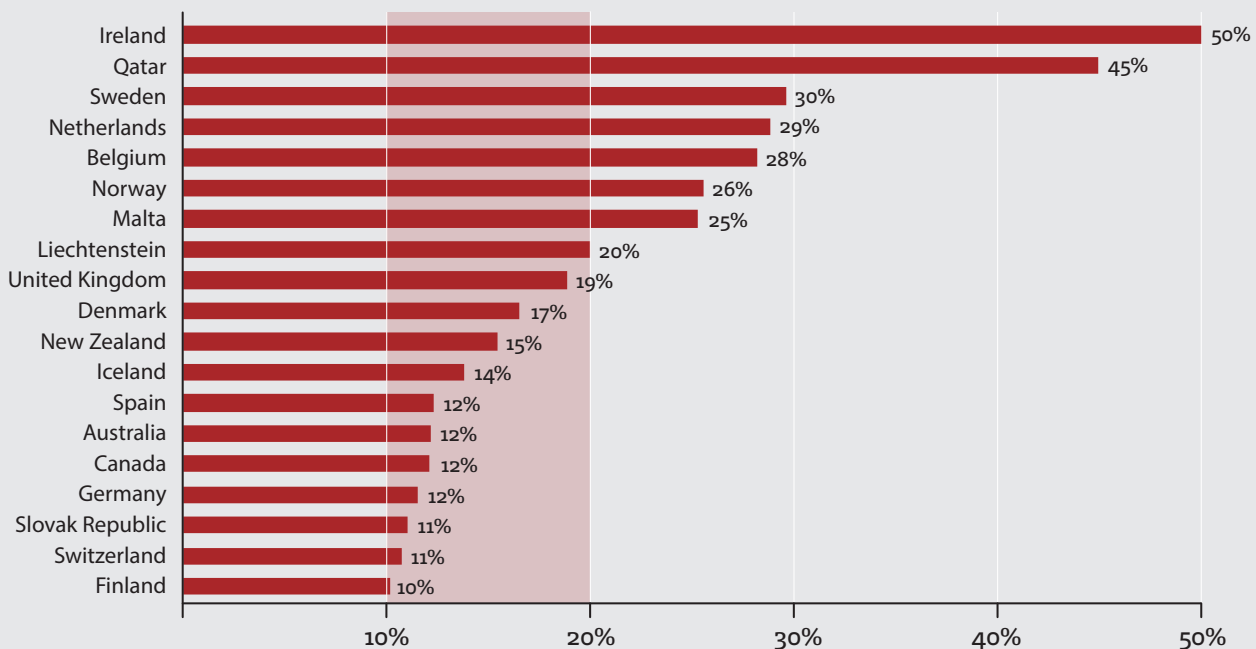
For notes – see page 184.

Figure 34: Deposits to UN inter-agency pooled funds from the 12 largest contributors, and share of their total earmarked contributions to the UN, 2017



Source: Chief Executives Board for Coordination (CEB) and UN Pooled Funds Database  
For notes – see page 184.

Figure 35: Countries contributing more than 10% of their total earmarked funding to the UN through UN inter-agency pooled funds, 2017



Source: Chief Executives Board for Coordination (CEB) and UN Pooled Funds Database  
For notes – see page 184.

# Expenditure

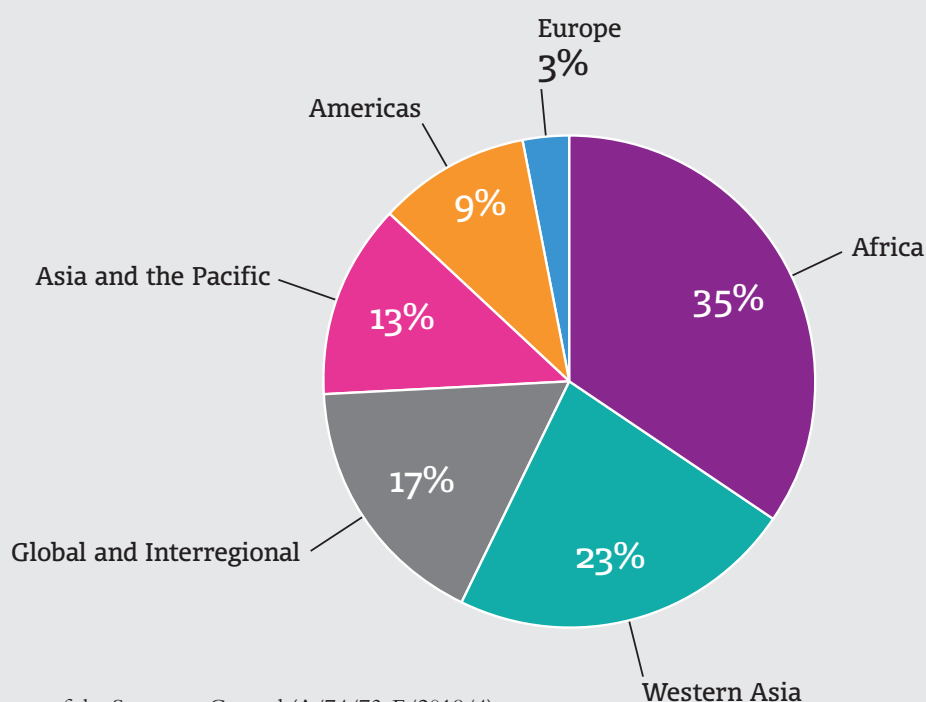
In the first chapter we examined the *how, who* and *what* of UN funding. We are now going to look at the other side of the coin – the spending of the UN system.

*Where* does the UN invest and *how* is the UN spending on operational activities? Revenue and expenditures must balance each other over time, as seen by comparing the 2017 revenues by UN entity in Table 2a on page 30 with the 2017 expenditures by UN entity in Table 6 on the next page. Looking at the table with total expenditure numbers for the period 2005–2017 can help to get a sense of the dynamics of UN finance at the individual UN entity level and the shifting emphasis of the UN's operations. UN entities with strong humanitarian mandates, such as UNHCR, UNICEF and WFP, have

more than doubled their annual expenditures in the period since 2005, while the growth in expenditures of UN entities with a strong development mandate, such as UNDP, has been more modest.

Figure 36 outlines expenditure on UN operational activities by region. Africa remains the largest region of UN investments in financial terms, followed by Western Asia and to a significantly smaller degree Asia and the Pacific, the Americas and Europe. Global expenditure, which includes global normative work, programme support, management and administration, constituted 17% of all UN expenditure.

Figure 36: Expenditure on UN operational activities by region, 2017



Source: Report of the Secretary-General (A/74/73-E/2019/4)  
For notes – see page 184.

Table 6: Total expenditure by UN entity, 2005–2017 (US\$ million)

Entity	2005	2010	2015	2016	2017
UN Secretariat	2,659	3,953	5,613	5,713	5,789
CTBTO	103	0	0	0	125
DPKO	4,074	7,616	8,759	8,876	8,264
FAO	772	1,415	1,219	1,202	1,532
IAEA	434	585	571	550	643
ICAO	186	235	195	192	215
ICC	0	0	0	0	187
IFAD	116	784	168	170	189
ILO	454	587	660	675	641
IMO	55	68	68	58	71
IOM	952	1,359	1,594	1,602	1,605
ITC	57	71	103	91	88
ITU	140	193	192	184	200
PAHO	165	927	1,379	1,363	1,435
UNAIDS	158	284	294	182	173
UNCDF	0	0	0	0	65
UNDP	4,573	5,750	5,057	4,660	5,095
UNEP	288	449	560	561	562
UNESCO	688	797	762	664	688
UNFCCC	29	0	0	0	95
UNFPA	523	824	977	923	927
UN-HABITAT	116	201	167	186	197
UNHCR	1,142	1,878	3,279	3,847	3,943
UNICEF	2,191	3,631	5,078	5,427	5,844
UNIDO	209	225	244	236	299
UNITAR	12	20	23	24	28
UNODC	94	211	279	242	309
UNOPS	58	65	672	770	816
UNRISD	0	0	0	0	2
UNRWA	471	555	1,334	1,317	1,310
UNSSC	0	0	0	0	10
UNU	32	60	75	90	108
UN Women	0	0	315	340	339
UNWTO	16	22	27	23	27
UPU	27	50	79	77	83
WFP	3,104	4,315	4,893	5,355	6,224
WHO	1,541	2,078	2,739	2,471	2,681
WIPO	199	324	352	347	404
WMO	73	88	102	98	108
WTO	148	226	247	249	258
<b>Total</b>	<b>26,015</b>	<b>39,847</b>	<b>48,076</b>	<b>48,765</b>	<b>51,578</b>

Source: Chief Executives Board for Coordination (CEB)

For notes – see page 186.

When comparing the UN expenditures with previous years, the share of the Western Asia region has grown the most, from 17% in 2015 to 23% in 2017.

Meanwhile, Figure 37 below gives us an overview of UN expenditure on operational activities categorised by low-, middle- and high-income countries.<sup>8</sup> The UN's expenditure is concentrated in low-income countries, and 48% of the total country-level expenditure in 2017 took place in this category. Expenditure in the group of 50 countries defined as crisis-affected was in total 76% of the total country-level operational expenditures the same year. Crisis-affected countries are countries in the OECD-DAC list of ODA that fulfill one or more of the following criteria:

- report expenditure for an ongoing or recently discontinued peacekeeping mission;
- report expenditure for an ongoing or recently discontinued political mission, group of experts, panel, office of special envoy or special adviser;
- report expenditure from the Peacebuilding Fund higher than US\$ 500,000; and/or
- have had a humanitarian response plan for the two past years, ie 2016 and 2017.

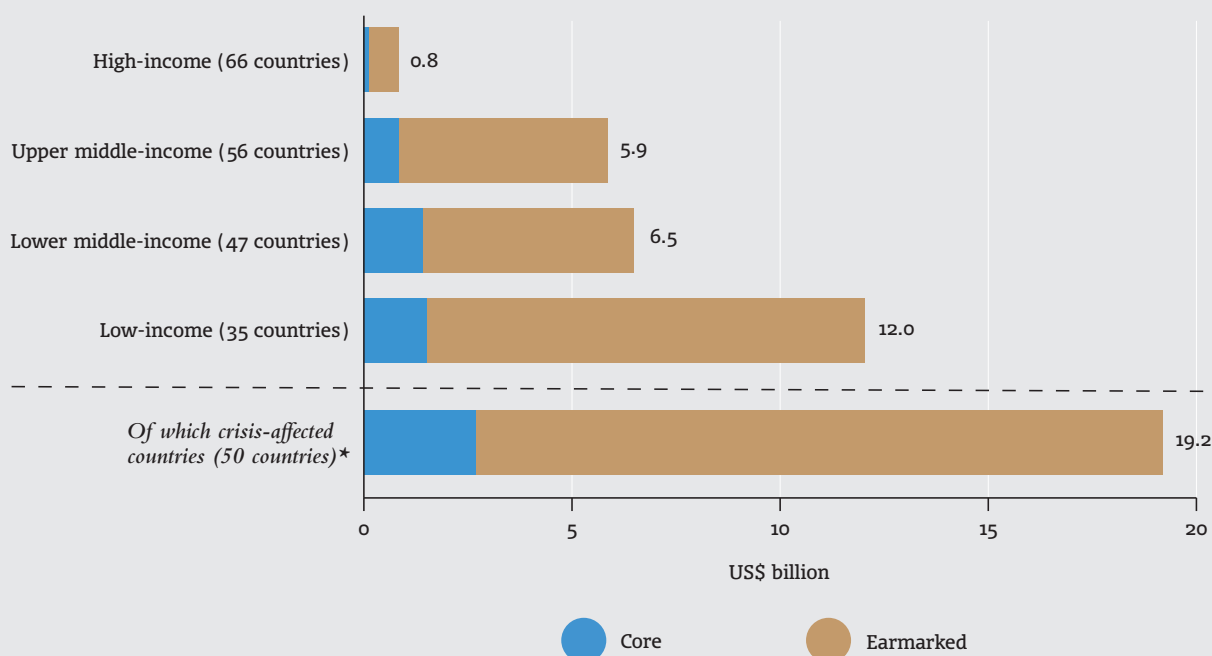
As the list of countries in each category differs from year to year a historical comparison is difficult. However, as in previous years, all the categories of countries in Figure 37 have one thing in common: they are all reliant on earmarked funding, especially crisis-affected countries.

Figure 38 on the next page shows UN expenditure at the country-level in crisis-affected countries. Multiple datasets have been combined to analyse where (which countries) and on what (humanitarian, development and peace operations) expenditures are made. Only the crisis-affected countries with expenditures over US\$ 100 million are depicted in the figure.

The figure shows that South Sudan, Democratic Republic of the Congo, Lebanon, Somalia and Sudan are the top five in terms of UN funding for crisis-affected countries; together they constituted US\$ 9.7 billion in expenditures or 19% of the total UN system-wide expenditure in 2017. The first ten represented 31% of UN's total expenditure – illustrating the concentration of the UN's work.

The placement of some countries in this ranking has changed rapidly over the past few years due to escalating humanitarian crisis or the ending of peacekeeping mis-

Figure 37: Expenditure on UN operational activities by countries' income status, 2017



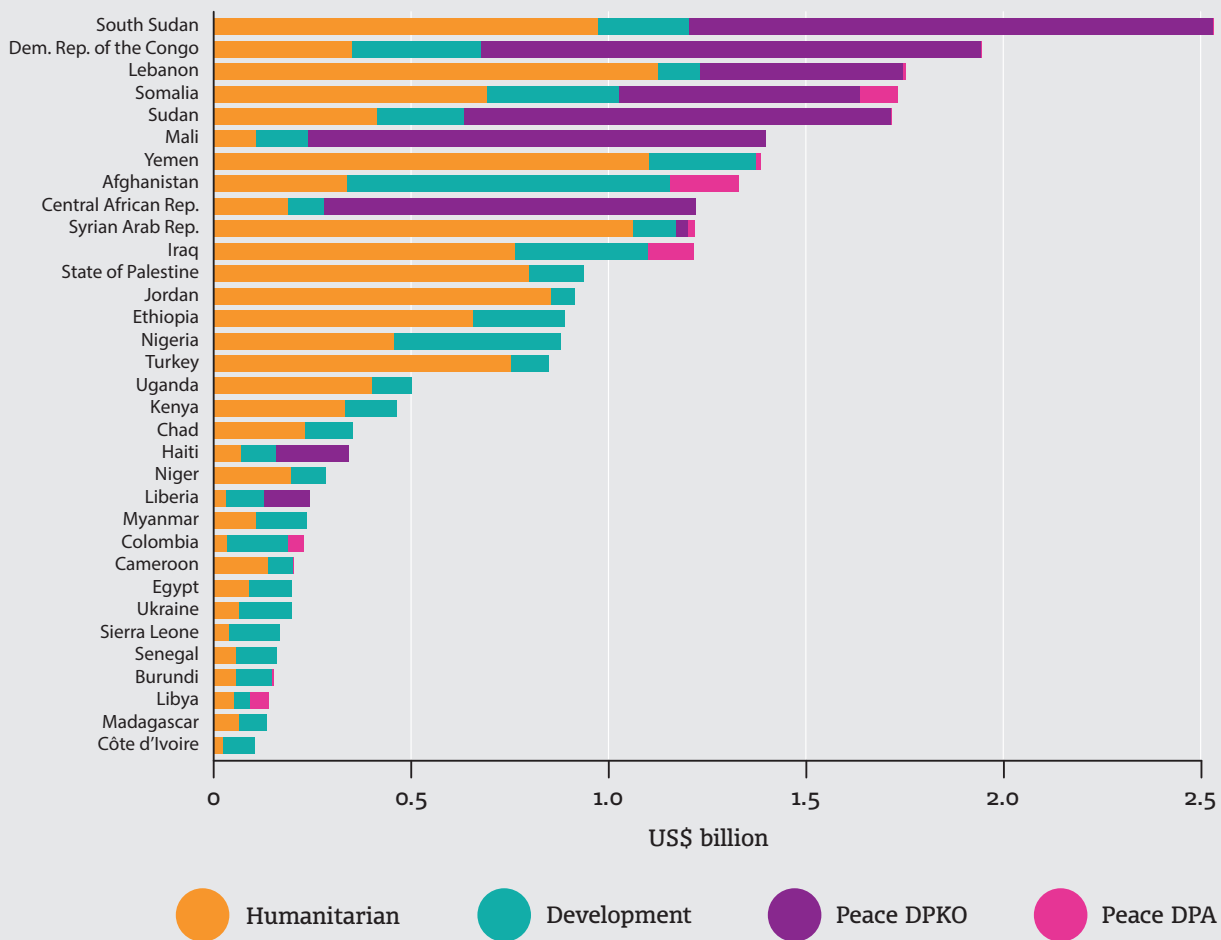
Source: Report of the Secretary-General (A/74/73-E/2019/4)

\* The 50 crisis-affected countries are drawn from the other country categories.

For notes – see page 184.



Figure 38: UN operational and peace related expenditure in crisis-affected countries, 2017



Source: Report of the Secretary General (A/74/73 – E/2019/4); UN Pooled Funds Database; General Assembly financial report A/73/5 (Vol II), 2019; and General Assembly Programme Budget for the Biennium 2018–2019, 2019.

For notes – see page 184.

sions. One example is Yemen, which saw a rapid increase in overall UN expenditures, from US\$ 0.5 billion in 2015 to US\$ 1.4 billion in 2017, with most of the growth in expenditures being for humanitarian purposes even though development-related expenditures also doubled. As a result, Yemen moved up in this overview from 17<sup>th</sup> place in 2015 to 7<sup>th</sup> place in 2017. In the same period, the humanitarian expenditures in Nigeria grew from 6% of total expenditures in 2015 to 52% two years later, while the overall UN expenditures almost doubled. A third example is Côte d'Ivoire, whose expenditures on operational activities stayed constant in

the 2015 to 2017 period, while the closure of the UN peacekeeping mission in Côte d'Ivoire resulted in an overall drop of the UN expenditures by about US\$ 0.5 billion. The country, which had been in 16<sup>th</sup> place in 2015, moved down to 33<sup>rd</sup> place two years later.

Overall, for the group of 50 crisis-affected countries, 24% of the expenditure is dedicated to development assistance; 27% is dedicated to peace and security-related activities; while 49% is dedicated to humanitarian activities.

# Moving ahead on data quality

## Introduction

The UN system-wide financial data is far from perfect. That is why we introduced a chapter on ‘exploring data quality’ in the 2018 edition of this report, describing the key data quality issues facing the UN. This year’s analysis goes a step further and outlines the current challenges regarding the definitions and the 2017 financial data used in the report, as well as the major progress made in the last 12 months in moving the UN onto a path to better, cleaner data, enabling improved support for analysis and decision-making.<sup>9</sup> We will look at the actions taken towards improving the comprehensiveness, consistency and comparability of the UN system-wide data, and outline what more is being planned to improve data governance and quality of UN system-wide financial data.

This chapter will also shed more light on some of the data analysis issues that we have run into, again this year, as we try to provide some interesting insights into the financing of the United Nations development system. Most of the issues are linked to the limitations of the two existing UN system-wide datasets used as our main data sources for Chapters One and Two.

The data comes from the annual financial statistics produced by the Chief Executives Board for Coordination, based on the financial data submissions received from UN organisations (the CEB data)<sup>10</sup> and the statistical annex produced by the United Nations Department of Economic and Social Affairs for the annual Report of the Secretary-General on the Implementation of the Quadrennial Comprehensive Policy Review (the UN-DESA data).<sup>11</sup>

Though these two parts of the UN system work closely together, they did not – up until recently – share a common system of data governance or a shared set of definitions. This means that the 2017 data, used for this report and largely collected in May 2018, has systemic flaws: different definitions, no common rules for aggregating

and analysing data, and hence different conclusions depending on which set of data is used in the analysis.

## Key issues with the 2017 data

### 1. Who is part of the UN system?

The first issue with the 2017 financial data, and the datasets used by CEB and UNDESA, is one of comprehensiveness. Without an agreed definition of the UN entities that together constitute ‘the UN system’ to underpin data collection, the two datasets reflect different choices of which organisations should be considered part of the UN system. The CEB dataset includes the 40 UN entities that responded to the 2017 CEB financial data collection exercise, with six new UN entities included for the first time in the list<sup>12</sup> (and hence in the tables in Chapters One and Two of Part One). The UNDESA dataset uses different definitions as to which organisations to include. For example, three related organisations that together reported a total 2017 revenue of US\$ 2.5 billion to the CEB, are not counted as being part of the UN system, namely the International Atomic Energy Agency, the International Organization for Migration and the World Trade Organization (WTO). The overall expenditure figures for the UN differ from US\$ 51.6 billion (CEB data) to US\$ 48.1 billion (UNDESA data).

### 2. Who is part of the UN development system?

The best-known definition for the UNDS is the one used by UNDESA. For the most recent funding analysis included in the Report of the Secretary-General<sup>13</sup>, the UNDS is defined as: ‘UN entities that receive funding for operational activities for development and are eligible for Official Development Assistance (ODA)’. Since the three organisations mentioned above are not counted by UNDESA as being part of the UN system, they are also not considered part of the UNDS, even though contributions to the IAEA, IOM and WTO are (partially) eligible for ODA.

### 3. What does the UN spend on normative activities?

The entities reporting to the CEB have, in some cases, tended to treat ‘normative’ as a residual category, under which all activities that do not fit elsewhere can be classified. The result of this is not-so-relevant to rather useless data, especially if this were to be the only basis for UN strategic decision-making. For example, the UNDESA data shows a halving of the UN’s normative expenditures between 2015 and 2017 (from 20% of the total expenditures in 2015 to 10% in 2017). Over the same period, the CEB figures show only a two percentage point decline in the share of normative expenditures (from 17% of the total expenditures in 2015 to 15% in 2017, with the actual US\$ amount decreasing only by 7%).

### 4. What does the UN spend on development and humanitarian assistance?

The major problem with comparability and consistency of the CEB and UNDESA datasets is most evident when data users compare the 2017 data for humanitarian and development expenditures quoted by these two sources. For 2017, the UNDESA data presents the UNDS development expenditure as US\$ 18.7 billion and humanitarian expenditure as US\$ 15.6 billion. Meanwhile, the CEB data shows a reverse picture with the total UN development expenditure at US\$ 13.4 billion and the humanitarian expenditure at US\$ 17.5 billion.

As already mentioned in our analysis from last year, there are several reasons why these two key UN data sources come up with such different results for 2017. First, as noted above, CEB and UNDESA have different definitions for which entities are part of the UN system. Second, CEB and UNDESA do not use the same definitions for humanitarian and development. The CEB data reflects what UN entities themselves classified as development and humanitarian expenditures in their reporting, while UNDESA uses a definition that makes a direct link to the OECD-DAC definition of ODA. Third, in the absence of more granular data, UNDESA

classifies most UN operational entities as either ‘development’ or ‘humanitarian’ for data analysis purposes, even though an increasing number of UN entities are active in both domains.

### 5. Where does the UN spend its resources?

A fair number of UN entities, including the UN Secretariat, did not provide a breakdown of their 2017 humanitarian and development expenditures by country in their data submissions to the CEB. As a result, the UN expenditure at the headquarters and the regional level are overstated, while the country-level expenditure are understated. This also means that any of the country-related graphs included in Chapter Two will systematically underestimate how much the UN spends at the country level, notably on development assistance activities.

### 6. Why/for what results does the UN spend money?

Neither the CEB nor the UNDESA dataset provide any insights into the Sustainable Development Goals (SDG) or targets, or even the more traditional sectoral allocations (such as the OECD-DAC sector codes) of the UN’s development and humanitarian expenditures. An SDG dimension has been introduced in the CEB’s 2019 data collection process (for 2018 data).

### 7. Who decides which financial numbers are ‘the right ones’?

In the absence of a UN system-wide data governance mechanism, the UN lacks an institutional anchor to agree on definitions for all UN system-wide financial reporting and thereby reduce the risk that different parts of the UN system publish divergent numbers.

## What progress has there been so far on improving the quality of financial data?

The UN has woken up to the importance of having good quality system-wide financial data that is clean, consistent, comprehensive and current. First, there was the clear request by Member States for ‘the publication of timely, reliable, verifiable and comparable system-wide and entity-level data, definitions and classifications’, aligned to the SDGs.<sup>14</sup> Second, UN managers realise that they also need quality data for effective, evidence-based decision making, for communicating about the UN’s activities and evaluating its results. Moreover, better data will also give UN senior leaders a cross-pillar view on UN system funding and enable them to meet the Funding Compact commitments on transparency of financial data and reporting against the SDGs.

As part of an emerging ‘financial data strategy’, the UN has made major efforts over the past two years to improve its financial data through the Data Cube Initiative, which was jointly led by the CEB’s High Level Committee on Management and the United Nations Sustainable Development Group. The main result was the adoption of a set of data standards for UN system-wide financial reporting in the fourth quarter of 2018. These new data standards cover six different dimensions:

- 1) The UN Entity Standard defines the organisations that make up the UN system (the ‘Who’ dimension).
- 2) The UN Function Standard provides revised definitions for the four functions in which the UN is involved, ie development, humanitarian, peace operations, and global agenda and specialised assistance (the ‘What’ dimension).
- 3) The Geographical Location Standard defines codes for the global level, regions and countries, and provides guidance for the allocation of expenses to these locations (the ‘Where’ dimension).
- 4) The UN Grant Financing Instruments Standard provides definitions for the various grant modalities through which funds are received by UN system entities (the ‘How’ dimension).
- 5) The Sustainable Development Goals Standard introduces a common UN methodology for tracking the contribution of UN activities to the 2030 Agenda for Sustainable Development and defines how UN financial information should be reported against the 17 SDGs and the 169 SDG targets (the ‘Why’ dimension).
- 6) The Contributor Standard provides coding and guidance on reporting revenue by contributor (the ‘Contributor’ dimension).

Secondly, a roadmap for implementing the data standards was developed. This roadmap has been characterised as a ‘living document’ that will continue to evolve as new actions are identified that should make the implementation of the data standards a full reality. Some elements of the roadmap have already been implemented, while others are ongoing or planned for later in 2019. As part of the roadmap:

- The six data standards have been integrated into the requirements for the 2018 CEB financial statistics exercise, resulting in major adjustments in the CEB templates used for the data collection taking place in 2019. Moreover, UN entities have received face-to-face training and detailed guidance on how to report against these data standards.
- The idea of a minimum financial dataset has been developed that could build on the UN data standards and ensure harmonised UN reporting to the International Aid Transparency Initiative (IATI), while being appropriate as well for reporting to the OECD (see box on TOSSD on page 61 as well as Figure 41 on page 63).
- The questions and answers, and guidance sections of the data standards are continuously being updated, with further guidance planned on a variety of topics including double counting (see the box on page 62) and the allocation of operating costs across the four functions.

The deliverables of the Data Cube Initiative have also informed a number of UN commitments around transparency and accountability in the Funding Compact (detailed in Part One, Chapter One). This includes specific commitments on reporting expenditures disaggregated by SDG and by country. The introduction of the data standards is also expected to have a positive impact on the access to quality financial data at the headquarters level, through an online data platform, and at the country level through UN Info, a country-level tool that the UN can use to report to host governments.

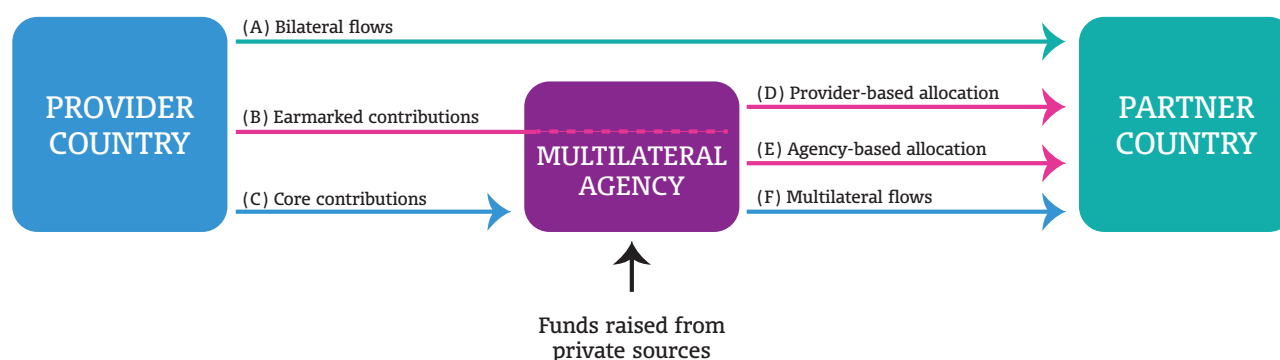
The link between the UN data standards, the broader financial dataset and the related commitments in the Funding Compact are graphically depicted in Figure 41.

## Towards better tracking of the UN's contribution to the implementation of the 2030 Agenda: The Total Official Support for Sustainable Development (TOSSD) framework

The current Official Development Assistance (ODA) statistical system measures the efforts of countries in providing development cooperation. As such, the ODA data includes both contributions to the multilateral system (core or non-earmarked funds) and through the multilateral organisations (activities implemented by them with earmarked funds). Multilateral organisations receiving ODA are encouraged to report to the OECD on the use of the core funds they receive from provider countries. Currently, 42 international institutions, including 17 UN entities, do so. This reporting by UN entities is essential for establishing a complete picture of the ODA channelled through the multilateral system to ODA-eligible, recipient countries.

The new statistical framework of TOSSD<sup>15</sup>, for which the OECD hosts the interim secretariat, will include a broader spectrum of activities of multilateral institutions that promote sustainable development in developing countries, support development enablers and address challenges at the regional and global levels. It will include all types of finance in support of the SDGs, whatever the instrument used or the level of concessionality. In comparison to the ODA system, it will record the activities (outflows) of multilateral institutions funded by both core and earmarked funds, rather than just the funds provided (inflows) to them (see Figure 39 below).

Figure 39: Simplified representation of flows reported by multilateral institutions in ODA and TOSSD



*Note: in the ODA system, bilateral provider countries report (A), (B) and (C) and multilateral institutions report (F). In the TOSSD System, the focus is on multilateral outflows, ie multilateral institutions will report on (D), (E) and (F), which will provide greater visibility on their activities. In the TOSSD system, bilateral provider countries will only report on (A).*

TOSSD can thus measure the UN's contribution to sustainable development in a more comprehensive manner, and thereby help to fill key information gaps on resources supporting the implementation of the 2030 Agenda. For example, TOSSD will provide additional information on the normative or standard setting activities of multilateral institutions in support of sustainable development. These activities are currently not fully captured in ODA statistics, as they do not completely comply with the ODA definition, even though this information is relevant in the context of the 2030 Agenda. UN specialised agencies, such as the ILO and the WHO, conduct normative work at the headquarters level, while their current reporting to the OECD only relates to activities conducted directly with or benefiting ODA-eligible countries. Another example is the UN Convention on Biological Diversity, which has core funding that is currently not ODA-eligible, but which has a prominent role in supporting the implementation of SDG 15. TOSSD will also include more comprehensive information on multilateral organisations' activities funded from flexibly earmarked resources. For example, while current OECD statistics include contributions to UN pooled funds, they do not cover outflows from these pooled funds and therefore do not reflect the actual use of money by country or sector.

With TOSSD, activities carried out by, for example, the Peacebuilding Fund or the Central Emergency Response Fund can be captured and will thus be much more visible.

The 2030 Agenda for Sustainable Development marks a shift to a universal agenda with far-reaching aspirational goals. With TOSSD, the international community, including developing countries, traditional donors, South-South and emerging providers and multilateral institutions, are working together to promote better standards for monitoring resource flows in support of the 2030 Agenda. The development of the TOSSD framework and the current efforts by the UN to implement data standards for UN system-wide reporting of financial data can complement each other to improve transparency and data quality on development finance. While reporting by all relevant UN entities in the current ODA statistical system remains desirable, the TOSSD framework could provide a possibly less burdensome opportunity for UN organisations to report on their contributions to the 2030 Agenda. UN organisations would only report once for TOSSD and ODA, and would no longer have to filter out their expenditures funded through non-core resources before reporting, as is currently the case in the ODA system.

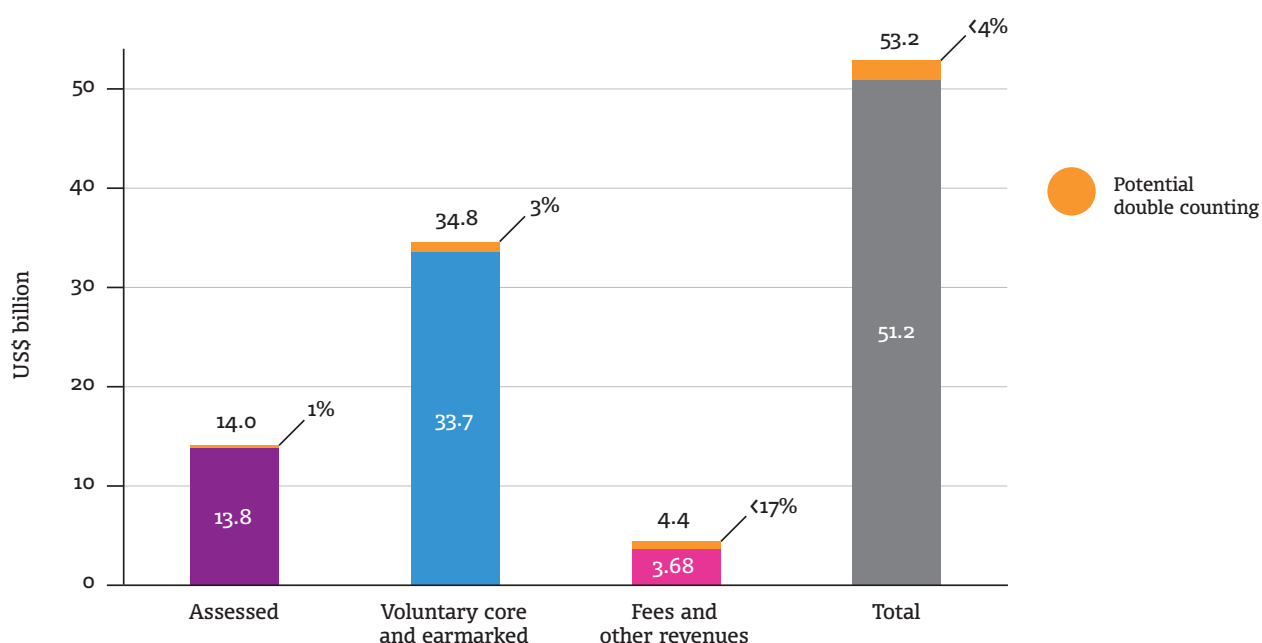
## Double counting

In 2017 and 2018 important steps were taken to enhance the quality of the UN system consolidated financial data. In addition to aligning data standards across all UN system entities, efforts were made to understand, quantify and consequently reduce 'double counting'. In 2019, as part of the implementation of the roadmap for the data standards, the CEB is expecting to finalise guidance on this very topic in order to eliminate, to the extent possible, double-counting of revenues and expenses in its UN system-wide financial reporting.

### 'Double counting' explained

One speaks of 'double counting' whenever the same financial flows (revenues or expenses) are reported by two UN entities to the CEB. For instance, a donor country may provide voluntary resources to a UN entity, which then transfers funds to another UN entity, eg to implement part of a project or as a payment for services. Typically, this revenue and associated expenses will be reflected in the audited financial statements of both UN entities, as it should be. However, if both UN entities report this flow to the CEB, the total UN system-wide revenue (or expense) is partly overstated.

Figure 40: Estimates of double counting in the UN system's total 2017 revenue



Source: Chief Executives Board for Coordination (CEB); UN Pooled Funds Database; 2017 Audited Financial Statements for DPKO, IOM, PAHO, UN, UNDP, UNESCO, UNFPA, UNICEF, UNOPS, UNRWA, UNU, WFP, WHO and WIPO

For notes – see page 185.

Figure 40 provides an overview of the estimated level of double counting per major UN revenue stream, combining voluntary core and earmarked into one. In 2017, entities received US\$ 136 million out of US\$ 14.0 billion in total 'assessed' funding through the Secretariat, which classifies as double counting. In 'voluntary' contributions, about 3% double counting is expected (US\$ 1.1 billion out of US\$ 34.8 billion). This consists of an estimated US\$ 500 million in contributions to UN pooled funds, since not all fund administrators have excluded these flows from their CEB reporting; and US\$ 627 million voluntary revenues which entities label as originating from a UN internal source, for instance, through UN-to-UN transfers for implementation support, management fees or procurement services.

Additionally, some entities used the 'other' revenue category to reflect such UN internal flows in 2017. Although

less detail was collected by the CEB in this category, double counting was found to be at least US\$ 250 million, but no more than US\$ 750 million, after studying the majority of individual financial statements. In summary, out of the US\$ 53.2 billion in total UN system 2017 revenue, approximately US\$ 1.5 to 2.0 billion (which is less than 4%) should be excluded in consolidation.

### Conclusion

Double counting poses a challenge for high-quality UN system-wide consolidated financial reporting. Although not to be trivialised, we estimate potential double counting to be less than 4% of the 2017 total revenue. With clear guidance on double counting under preparation, the CEB should be able to improve the quality of consolidated data even further in the near future, so that the consolidated numbers used for UN system total revenue (and expense) exclude double counting.

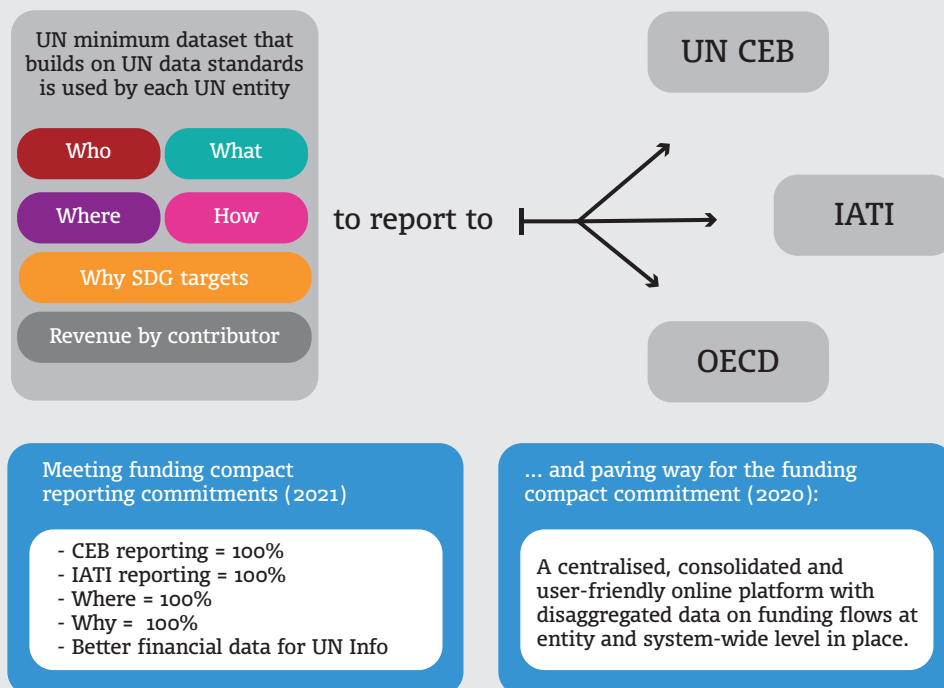


## What else needs to be achieved?

The introduction of data standards is not the end, but rather the beginning of a longer process of improving the UN's system-wide financial data. Much more will need to be done, including:

- **Adjusting Enterprise Resource Planning (ERP) systems:** UN entities need to do the hard work of integrating the UN data standards into their ERP standards. For some of them this will require major investments, notably to be able to automatically generate the data on the geographic location and SDG linkage, which are the two data standards that do not become mandatory for reporting until 1 January 2022.
- **Disaggregated data:** The data standards enable UN organisations to work towards having one common minimum financial dataset for disaggregated data, ie financial data below the level of the financial statements. This minimum dataset could then be used not only for reporting to the CEB, but also for publishing to IATI, and the OECD (see box on TOSSD on page 61 and Figure 41 below). This should ease the reporting burden for all organisations and ultimately enable the UN to have one 'data cube' with disaggregated data across multiple dimensions.
- **Linking the headquarters and country-level data:** The planned common minimum financial dataset with disaggregated data at the headquarters level will need to be linked to financial data required at the country level, notably key data captured in UN Info.
- **Measuring normative:** With the redefinition of the UN functions, there is no longer a system-wide definition that seems to 'measure' the UN's investment in normative work. Alternative ways for calculating the UN's normative expenditure need to be conceptualised and implemented.
- **Bridging the CEB – UNDESA data differences:** The data standards should ideally ensure that the CEB and UNDESA have a joined-up dataset that underpins their reporting. However, it remains to be seen how UNDESA integrates the new data standards in next year's report on the implementation of the Quadrennial Comprehensive Policy Review (QCPR). If it uses the data standards in exactly the same way as the CEB, then the major gaps between their two datasets in terms of 'who is part of the UN system?' should be an issue of the past. Depending on how 'the UN development system' is defined for the 2018 UNDESA dataset, the differences in CEB and UNDESA reporting on 'development assistance' and 'humanitarian assistance' could also be substantially reduced.

Figure 41: UN Data Standards and the Funding Compact



Source: Multi-Partner Trust Fund Office (MPTFO)

- *Continuity in data analysis:* Part One of next year's *Financing the UN development system* report will be based on the new set of CEB and UNDESA data that may be different from what has been used in the 2010–2017 period, and may not be 100% comparable.

## How is the UN steering this process forward?

The UN is working on institutionalising the Data Cube Initiative – that formally ended in December 2018 – through the following three elements:

- 1) *A data strategy:* A multi-year strategy is being developed to achieve quality UN system-wide financial data that is comprehensive, timely and disaggregated. This strategy will take into account the various ongoing initiatives, including the roadmap for the implementation of the data standards. It should also ensure that the UN can meet the key data-related commitments of the Funding Compact, including for reporting to CEB and IATI, and the minimum financial data requirements of UN Info and the OECD. Importantly, it should also help reduce the reporting burden for individual UN entities.
- 2) *A data governance mechanism:* This is bringing together the representatives of key UN data actors (data users, data producers and data consolidators) who will contribute to the design and oversee the implementation of the data strategy. They can also launch joint data-related activities where relevant and, in case additional resources are available, help to prioritise funding needs.
- 3) *A multi-partner pooled financing mechanism for system-wide data:* This would consolidate flexible, earmarked funding in one pool, to be allocated to data improvement initiatives in line with the data strategy.





### Overview of Part Two



### Chapter One: Financing the 2030 Agenda: **The big picture**



### Chapter Two: Earmarking: **Making smart choices**



### Chapter Three: Financing peacebuilding, humanitarian assistance and migration: **Time to invest**



### Chapter Four: **Multilateralism on trial?**

# Overview of Part Two

Part Two of this report is organised into four chapters in which guest contributors discuss some of the key challenges facing development finance today.

In *Chapter One*, contributors were invited to take a big picture view on development finance against the backdrop of the 2030 Agenda.

*Homi Kharas* provides an overview of the state of cross-border financing of the Sustainable Development Goals (SDGs), defined as the financing flows to developing countries that likely finance SDG investments. He sees a significant increase, largely due to private flows, and notes that, broadly speaking, current conditions provide a favourable context for developing emerging market economies to borrow internationally. He warns of the dangers of a funding pile up as a number of large agencies will be competing for funds in their replenishment cycles, coming up for negotiation over the next 18 months. This could make it harder to increase core funding for a number of multilateral agencies already under financial pressure. His concluding analysis looks at the net impact of financial inflows and outflows together and notes that the International Monetary Fund's (IMF) most recent forecast for net flows to developing countries in 2019 is actually zero.

The contribution from *Fiona Bayat-Renoux* is next, and outlines the Secretary-General's strategy for financing the 2030 Agenda. She sees a mixed picture, but stresses that the resources and capacity available today could close the investment gap. She notes that the UN has a long history of supporting Member States on financing for development. The Secretary-General's strategy focuses on three objectives: aligning global financial and economic policies with the 2030 Agenda; enhancing sustainable financing strategies and investments at regional and country levels; and seizing the

potential of financial innovation, new technologies and digitalisation to provide equitable access to finance.

*Navid Hanif* and *Philipp Erfurth* focus on the need to change the narrative from identifying investment gaps to promoting investment opportunities, seeing investment in sustainable development as an exercise in matching investments with investors. They argue that there is a need to change mindsets and perceptions both on the supply and the demand sides. Like other contributors, they emphasise the need to deepen dialogue with institutional investors who have a major contribution to make. They also remind us that investment takes place at the national level and that requires an enabling domestic environment. Developing national financing strategies is another key component. The implication of this new narrative is that the role of the UN moving forward should be interpreted as a match maker and knowledge broker rather than as a gap filler.

For *Ambassador E. Courtenay Rattray*, achieving the objectives of the 2030 Agenda and the targets of the Paris climate agreement requires a massive, global programme of investment in real assets and sustainable infrastructure. Beyond establishing new partnerships between the public and private sectors, he stresses the critical engagement needed by institutional investors. He is committed to creating a mechanism that will bring together buyers and sellers, a theme we have encountered in previous papers. He wants to see Member States taking concrete action and in this regard he describes the launch of the Closing the Investment Gap initiative (the CIG initiative). His paper provides details on the process underlying the implementation of the CIG.

*John W. McArthur* takes us back to the country level in his paper entitled 'Bye-bye, billion to trillions'. He argues that if normal trends of global economic growth continue

until 2030, SDG government spending will grow by US\$ 10 trillion per year, which more than covers the necessary incremental investment cited in the SDG context. Bearing this in mind he argues that the focus needs to shift from volume to purpose and distribution. He warns against discussing financing needs at the aggregate level and he highlights the need to be more specific, with a focus on country level needs. He particularly emphasises the need to differentiate and analyse needs in the poorest countries.

‘How does science and technology policy shape inequality?’... so begins the title of *Pedro Conceição’s* exploration into the relevance of science, technology and innovation policy to the 2030 Agenda and how they will shape inequality. Far from neutral, they may emerge as one of the most consequential policy areas for inequality because of the impacts of the incentives that exist to foster innovation. This leads to the proposition that science and technology policy need to find the right balance between public support on the one hand and incentives for private investments in innovation. The key idea here is that this area has little to do with mobilising resources as such and more to do with the incentives that shape creativity and innovation to advance science and technology in a way that generates widely shared benefits. John W. McArthur’s tale of ‘Bye-bye, billions to trillions’ and Pedro Conceição’s ‘How does science and technology policy shape inequality?’ provide a fitting ending to this first chapter on the big picture.

*Chapter Two* features a number of contributions that explore approaches that seek to go beyond the core vs non-core conundrum.

The first paper in this section by the *UN Multi-Partner Trust Fund Office (MPTFO)* provides an overview of UN pooled funding. The paper discusses some of the advantages that pooled funding has to offer. These include improved aid coordination and coherence, better risk management and providing a broader contributor base for funding the UN system. It is in this context that pooled funding has emerged as an important component in UN reform initiatives and features prominently in the Secretary-General’s Funding Compact. The paper makes a persuasive case that pooled funding can provide quality funding and offers opportunities that might otherwise not be available to the UN system.

This is followed by a paper by *Max-Otto Baumann, Erik Lundsgaarde* and *Silke Weinlich* that explores in detail some of the advantages and disadvantages of non-core funding. Calling for more attention to the best mix of funding, which allows UN organisations to play to their strengths, the paper looks at both the consequences of earmarking on the United Nations development system

(UNDS) as well as some of the challenges presented by donor earmarking practices. The paper sees the Funding Compact as providing a much needed systemic approach that brings together both UN agencies and Member States behind their respective common obligations.

A paper by *Brian Elliott* and *Maximilian Sandbaek* provides an overview of the World Health Organization’s (WHO) approach to strengthening its resource mobilisation efforts as part of its new five year strategic plan. It links WHO’s resource strategy with a range of initiatives, for example WHO’s first ever investment case, the formulation of a draft Global Action Plan and the development of a global draft resource mobilisation and partnership strategy. Overall, the paper stresses the overriding importance of the quality of funding and in this respect attaches specific importance to the launch of the WHO’s inaugural Partners Forum in Sweden in April 2019.

*Guido Schmidt-Traub* shares lessons learned from setting up the Global Fund to fight AIDS, Tuberculosis and Malaria, which was launched in January 2003. His paper argues that success was largely due to the unique design principles of the Global Fund. Initial concerns about how the new Fund would work were warranted since no resource poor country had undertaken the needed scaling up of public health interventions. For Schmidt-Traub, creating quality demand and ensuring effective use of resources were the greatest challenges in the health community. The paper details the specific features integrated into the Fund’s design that were critical to its success and argues that these features have applicability and should be of great interest to sector financing mechanisms as a whole.

The paper by *Silke Weinlich* and *Bruce Jenks* explores the implications of the UNDS reform process on the growth of system-wide funding mechanisms. It argues that the Secretary-General’s UNDS reform proposals and the Funding Compact have put system level funding back on the table as a fundamental component of a reform agenda. The paper identifies five approaches to system-wide funding that merit close attention: pooled funding, funding the revised United Nations Development Assistance Framework (UNDAF), fees for managing globalisation, financing fulcrums and levers and resources for institutional strengthening within the UNDS. It then details the different instruments that comprise the Secretary-General’s Funding Compact. It identifies the establishment of the Joint Fund for the 2030 Agenda and the levy as instruments that over the long time may have significant impact for creating incentives promoting reform and for the overall sustainability of the financial architecture of the system.

*Chapter Three* explores ongoing efforts and innovative approaches to strengthen financing for peacebuilding, sustaining peace, humanitarian assistance and migration in times of greater needs.

In the first piece, the *Dag Hammarskjöld Foundation*, argues that beyond additional resources for peacebuilding, a radical rethink is needed on how financing is structured and how to leverage strong partnerships for more effective resourcing. The paper outlines ten points to help frame the issues that require attention and action by the UN and its Member States in order to allow for more efficient use of existing funds and to ensure that sufficient resources are available to fulfil the commitment of sustaining peace over the coming decades.

*Franck Bousquet*, the World Bank's Senior Director for Fragility, Conflict & Violence (FCV), highlights the success of the World Bank's International Development Association (IDA18) in addressing fragility, conflict and violence. He explains that the scale-up in IDA18 from US\$ 7 billion to US\$ 14 billion for low-income countries impacted by FCV has proven critical and has helped the World Bank adapt a more tailored response to diverse situations of fragility. Laying out concrete examples of the World Bank's work in countries like Ethiopia and Yemen, he goes on to say that IDA 19 will need to put greater focus on and investment in emerging issues – such as regional fragility, human capital deficits or gender challenges.

The third piece by *Catherine Howell* and *Henk-Jan Brinkman* explores innovative financing options for peacebuilding. They call for caution, noting that innovative finance is unlikely to be a panacea that brings the 'quantum leap' for the Peacebuilding Fund that the UN Secretary-General has called for or raise the needed resources for financing peacebuilding more broadly. They explain that donor contributions will remain at the heart of peacebuilding financing, certainly in the near term.

*Ayham Al Maleh* looks at 10 years of Official Development Assistance (ODA) flows to peacebuilding, updating the findings of a 2017 report by the Institute of Economics and Peace and the UN's Peacebuilding Support Office. Looking at the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) data, the article notes that peacebuilding expenditures remain a small and declining proportion of total aid disbursement to all developing countries, although this trend seems to be halting in the most recent years.

Building on the conviction that sustaining peace and sustainable development are complementary and mutually reinforcing, in the fifth piece, *Laura Buzzoni* and

*Henk-Jan Brinkman* from the Peacebuilding Support Office present findings from a portfolio review of projects funded by the Peacebuilding Fund (PBF) from 2015 to 2018. It looks at the projects' contribution to the Sustainable Development Goals and notes that PBF has contributed 83% of its total allocations to the SDGs.

Given the importance of overcoming the silos, the *UN Multi-Partner Trust Fund Office (MPTFO)* offers an insight on a new generation of pooled funds that are helping to bridge the humanitarian-development-peace financing divide. These flexible instruments demonstrate that well-designed pooled funds can quickly pivot when faced with rapidly changing conditions on the ground. They combine, blend and sequence development, peace and humanitarian funding streams in crisis-affected countries. The article argues that they improve cost-efficiency, transparency and collective outcomes not only by pooling resources and delivery systems, but also by sharing, and thereby reducing, the risks that often arise in highly volatile and unpredictable settings.

Looking concretely at humanitarian financing and natural disasters, *Ambassador Lana Zaki Nusseibeh* explains the advantages of 'forecast based financing' as a new preventive tool for humanitarian response to climate change. The article notes that while it is not going to eliminate what is often a US\$ 10+ billion annual gap in humanitarian financing, it could provide, for the first time, a very concrete and politically feasible way to do what the UN and international humanitarian systems struggle so mightily to grapple with: prevent rather than react. According to the Ambassador Lana Zaki Nusseibeh, forecast-based financing is ready to go mainstream in the humanitarian system.

Continuing in the area of disaster risk management, *Michael Bennett* and *Rebeca Godoy* point out that the World Bank takes a multi-layered approach, encompassing technical advisory work, lending and risk transfer. With regards to risk transfers, the World Bank offers a unique type of loan to its member countries that is designed to provide immediate liquidity to countries following a natural disaster – a catastrophe bond (Cat bond). In their contribution, they explain the advantages of cat bonds and how they will expand on this work in the future.

Lastly, the chapter explores new avenues for migration financing. *Jonathan Prentice* looks at ways in which the adopted Migration Compact can be realised and provides details around the US\$ 25 million Migration Pooled Fund. He explains that the aim is to encourage and support the design of projects which can either be scaled up and/or replicated as bodies of best practice.

*Chapter Four* explores new ways to forge a strong multilateral order in times of uncertainty.

Former UN Director General of Geneva, *Michael Møller* sees current instability and period of discontent as an opportunity to revive multilateralism by injecting it with new levels of agility, inclusiveness and partnership. He argues this entails breaking down internal and external silos, forging new and unconventional partnerships, increasing public outreach and promoting openness. Next year's seventy-fifth anniversary of the UN is another opportune moment for Member States to restate their commitment to the organisation and to multilateral cooperation, while encouraging new models of inclusive multilateralism and diplomacy.

In the next piece, *Ulrika Modéer* states that in order for the multilateral system to regain trust and bolster the rule-based and value-driven system, it needs to address discontent and evolve to be 'fit for purpose'. She calls on Member States to show their support for and trust in the ability of the UN development system to meet both the promises and the responsibilities of achieving the SDGs and increase the core-share for more predictable funding. She notes the UN system, however, needs to demonstrate that it is an effective, reliable and efficient partner on the road to 2030.

Multilateralism is a hard option argues *Bruce Jenks* in the next piece 'Multilateralism: An instrument of choice'. To be effective, multilateralism must be a choice that is made because it is the most effective or efficient instrument available to a government. He notes that countries should work multilaterally when it is the most effective way to meet a challenge. It should not become a way of abdicating leadership, it must be a way of exercising it.

*Adriana Erthal Abdenur* brings a perspective on multilateralism from the Global South. In her contribution she highlights that the Global South is increasingly frustrated that global norms are, too often, set by global powers, and that – recent restructuring efforts notwithstanding – deeper reform of the system is hampered by geopolitics and outdated, unjust power structures that date back to the post-World War II period. She argues that three particular steps are needed to boost the engagement of the Global South in the defense of multilateralism.

In the final piece *Kanni Wignaraja* reminds us how important Millennial Investors are in shaping the next multilateral order. She notes that the millennial generation – as leaders, consumers, self-starters and investors – can dramatically move the needle on influencing SDG investments, locally and globally. She highlights how the UN Development Programme is expanding its knowledge on Millennial Investors and engaging with

them so they can transition from considering financing of the SDGs as fringe philanthropy to being mainstream better-business for all.

# Financing the 2030 Agenda: The big picture



## International financing of the Sustainable Development Goals

by Homi Kharas



## The United Nations Secretary-General's strategy for financing the 2030 Agenda for Sustainable Development

by Fiona Bayat-Renoux



## Investment Gappportunities: Changing the narrative on investment in sustainable development

by Navid Hanif and Philipp Erfurth



## Driving development finance to the ground: Closing the investment gap

by Ambassador E. Courtenay Rattray



## Bye-bye, billions to trillions

by John W. McArthur



## How does science and technology policy shape inequality?

by Pedro Conceição

# International financing of the Sustainable Development Goals

By Homi Kharas

## Private finance is rising

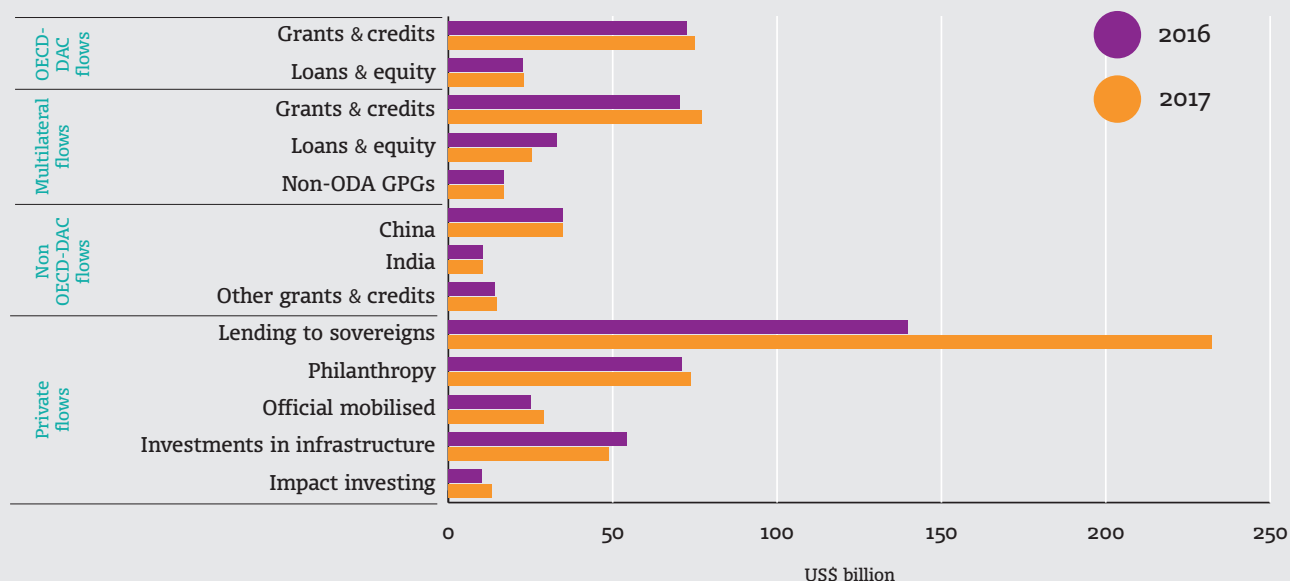
Cross-border financing of the Sustainable Development Goals (SDGs), when defined as the flows to developing countries of financing that likely finance investments directly related to the SDGs, rose to US\$ 675 billion in 2017, up by 17.1% in nominal terms from 2016. The increase was largely due to private flows that rose by almost US\$ 100 billion (Figure 1).

Among the various components of private flows, sovereign lending had the largest increase. At least 92 developing countries now have a bond rating from one of the three major rating agencies. Most countries with ratings conducted in 2017 or later had stable outlooks, with the exception of Venezuela, whose rating has deteriorated. This outlook, combined with low interest rates on world capital markets, and continued search for yield, provided a favourable context for developing and emerging market economies to borrow internationally. This has generated

Homi Kharas is Interim Vice President and Director at the Brookings Institution, which is a non-profit public policy organisation that brings together more than 300 leading experts in government and academia from all over the world. Homi Kharas studies policies and trends influencing developing countries, including aid to poor countries, the emergence of the middle class, global governance and the G20.

some concerns about rising debt levels, and the International Monetary Fund (IMF) finds that 24 countries, mostly in Africa, are at high risk of debt distress, while seven countries are already in debt distress.<sup>1</sup> There is, however, a marked difference between the market and IMF perceptions: the former gives far more weight in creditworthiness analysis to institutional factors such as the rule of law and policy space (which are improving in 2017), while the IMF gives more weight to debt ratios (which are deteriorating).

Figure 1: Broadly-defined international development contributions (current US\$ billion)





Aside from sovereign lending, private loans mobilised by official finance (ie where projects are jointly funded by public and private sources) also recorded rapid growth of 15.6% in 2017, although volumes remain much smaller at US\$ 29.2 billion. The trajectory for private mobilised finance is upwards, with several leading organisations, such as the International Finance Corporation, set to receive a capital increase that will allow it to expand in this area, and other specific funds like the World Bank International Development Association (IDA) 18 private sector window supplying dedicated official funding to this purpose. In the same vein, impact investing into developing countries had a substantial 27.4% increase in 2017, reaching a level of US\$ 13.1 billion in new flows. Here, too, the trajectory is positive. Industry reports suggest that impact investing is becoming mainstreamed, with considerable demand from institutional investors.

Other components of international financing for the Sustainable Development Goals did not fare as well. Private investments in infrastructure (excluding projects done jointly with official agencies) fell slightly, largely due to macroeconomic effects in selected countries where much activity was concentrated, like Brazil and Turkey. Grants and credits rose by 6%, mostly through multilateral sources, while bilateral grants and credits were fairly flat. Grants for financing global public goods, a perennial issue for organisations that set global norms and standards, barely changed. Net disbursements on loans from multilaterals, mostly to middle-income countries, fell by US\$ 8 billion to US\$ 25.5 billion.

There is little fresh evidence on the volume of development cooperation from China and India, so in Figure 1 on the previous page the volumes are assumed to be constant. It is noteworthy, however, that these flows are far lower than flows from private markets, suggesting that

the rhetoric of China's contribution to over indebtedness may be exaggerated. Of course, the aggregate figures may disguise issues that arise in a particular country context, but here too, analytical work suggests that China's Belt and Road Initiative is 'unlikely to cause a systemic debt problem in the regions of the initiative's focus.'<sup>2</sup>

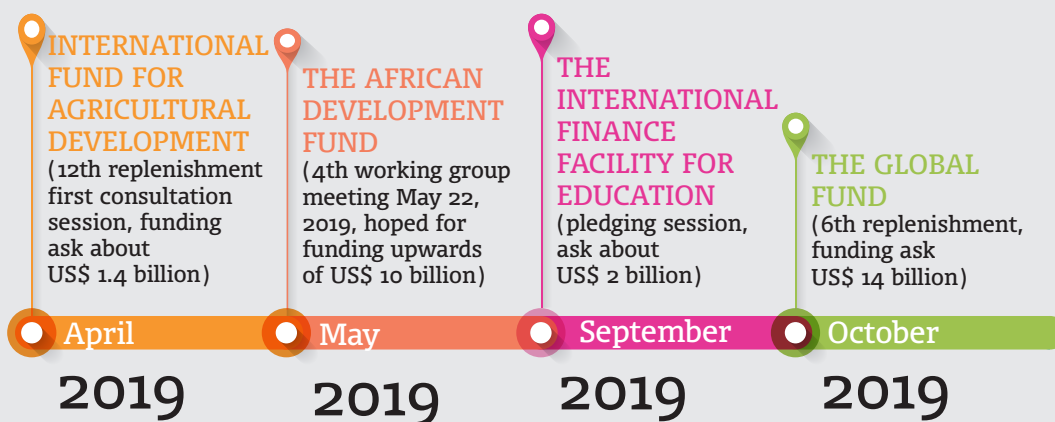
The changes in development financing reflect likely medium-run trends: tight grant budgets with limited scope for expansion, difficulty in raising funds for global public goods, rising but volatile private flows, and expansion of blended finance and impact investing innovations.

### A difficult aid environment

Typically, aid to a particular multilateral agency has been allocated on a case-by-case basis, dependent on past giving, burden sharing, fit with donor priorities and institutional effectiveness. Aid budgets would adjust to these cycles in new aid demands. But in 2019 and 2020, a period when aid budgets will be tight, the replenishment cycles of several large agencies are overlapping, so aid for one entity might result in reduced aid for another (see Figure 2).

The total for these eight institutions approaches US\$ 70 billion. Of course, this figure has to be interpreted in proper context. Unlike annual aid flows, the replenishments are for multiple years. Nevertheless, they represent a sizable fraction of the aid budgets of individual countries. Already, donors are expressing preferences as to what they will or will not fund. For example, the United States has indicated it will not pledge to the new Green Climate Fund replenishment (and indeed will not honour its US\$ 3 billion pledge to the initial round), and while others, including Germany have offered to compensate in part by doubling their contribution, it is unclear who else will follow.

Figure 2: The compressed current cycle of replenishments





The choices made by donors on how to allocate their aid will have a considerable bearing on sustainable development. The tight budget envelope will make it harder to increase core funding for multilateral agencies already struggling to maintain their daily work on setting norms and standards. It will also imply more pressure on ad hoc requests for humanitarian assistance and responses to natural disasters. New agendas requiring collective action such as ocean management, migration, refugees or cybersecurity will need to be horseshoed into donor budgets.

## The big picture

Low-income countries rely on aid to achieve even minimum public spending levels. A typical Minister of Finance of a low-income country may have only US\$ 100 per capita to allocate for health, education, water and sanitation, poverty and social assistance, food and nutrition, security, roads and energy. Unsurprisingly, this does not permit choices that would meet the SDG needs. This is one reason why aid is so important for low-income countries. The private sector is often not a major player in low-income countries or in fragile states. This is why there is a special window in IDA18, to encourage more private sector involvement in these areas. But actual disbursements from this window, specifically from the guarantee mechanism, are moving slowly, showing how difficult it is to encourage these kinds of flows. Thus, the growing flows of private funding is of cold comfort to many low-income and fragile countries who rely primarily on aid.

For these countries, recent news is not very good. The Organisation for Economic Co-operation and Development (OECD) reports that development aid, excluding in-donor-country refugee costs, was flat from 2017 to 2018, and that less aid went to Least Developed Countries and African countries where it is most needed.<sup>3</sup>

Even for middle-income countries, private flows are not a full substitute for aid. They are volatile, and more experienced middle-income countries recognise they need to build reserve buffers to offset this volatility, or risk being caught in a crisis. The need to build reserves, however, offsets some of the benefits of getting private sector financing in the first place. It means the net flows available to finance SDG investments are reduced. The private sector (domestic and international) also shifts money out of developing countries (the so-called base erosion and profit shifting issue) and sometimes just takes money out, regardless of laws against capital flight (the illicit financing problem). When all is said and done, these kinds of outflows exactly offset the inflows that developing countries receive from aid and private financing. The IMF's most recent forecast for net flows to developing countries in 2019 is ... zero.

## Footnotes

<sup>1</sup> International Monetary Fund, 'List of LIC DSAs for PRGT-Eligible Countries As of January 21, 2019', (list, IMF, 2019). <https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf>

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# The United Nations Secretary-General's strategy for financing the 2030 Agenda for Sustainable Development

By Fiona Bayat-Renoux

In 2030 when the world assesses whether the Sustainable Development Goals (SDGs) and the Paris climate agreement should be hailed as multilateralism's greatest triumph or failure, achievements will be evaluated in real terms against SDG indicators, and in financial terms against SDG investments. If the world was to measure progress on key financial indicators related to the SDGs and the Paris Agreement today, how would we fare?

Since signature of the Paris Agreement, coal-fired capacity has grown by over 92,000 MW, with another 670,000 MW in the pipeline, driven by investments of over US\$ 478 billion by the financial industry.<sup>1</sup> Global flows of foreign direct investment (FDI) fell by 23% in 2017<sup>2</sup>, and private investments in key SDG-related infrastructure in developing countries are lower today than in 2012.<sup>3</sup> On a more positive note, sustainable investing is on the rise – reported at US\$ 30.7 trillion in the five major developed markets at the start of 2018<sup>4</sup> – signalling a recognition by the financial industry of the value of long-term sustainable investing and the importance of considering climate risks into investment decision-making.

However, sustainable investing represents only a fraction of the US\$ 200 trillion in global private sector financial assets, and the lack of common definitions, standards and impact measurement means that such numbers should be treated with caution. This is particularly evident when compared against the estimated SDG financing gaps – for example – an annual US\$ 2–3 trillion investment gap to achieve the SDGs in developing countries<sup>5</sup>; an annual US\$ 2.5–3.5 trillion infrastructure investment gap to meet the SDGs and the goals of the Paris Agreement<sup>6</sup>; and over US\$ 1.1 trillion of annual investment needed in clean energy alone.<sup>7</sup>

Closing the investment gaps to create the world envisioned in the 2030 Agenda, a world of prosperity for all people and safety of our planet is possible given, firstly,

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the size, scale and level of sophistication of the global financial system.<sup>8</sup> In 2017, gross world product and global gross financial assets were estimated at over US\$ 80 trillion<sup>9</sup> and US\$ 200 trillion respectively.<sup>10</sup> Secondly, investing in the SDGs makes economic sense. It has been estimated that investing in the SDGs could open up US\$ 12 trillion of market opportunities and create 380 million new jobs by 2030<sup>11</sup>, and that action on climate change would result in savings of US\$ 26 trillion.<sup>12</sup> Yet, current investment levels are far from the scale and speed required to realise the SDGs and goals of the Paris Agreement by 2030, creating an urgent need for action by public and private stakeholders at global, regional and country levels.

## The UN Secretary-General's Financing Strategy

The United Nations has a long history of supporting Member States on financing for development. The UN supports intergovernmental processes at the highest levels, and provides technical and programmatic expertise on a range of financing issues, including investment, trade finance, debt sustainability, public fiscal management and green finance. The UN also plays an important convening, partnership-building and knowledge management role, increasingly to strengthen the engagement of the private sector and financial industry in sustainable finance.

To enhance the UN's support, the Secretary-General launched his Strategy for Financing the 2030 Agenda for

Sustainable Development during the UN General Assembly in September 2018.<sup>13</sup> The Strategy builds on the Addis Ababa Action Agenda (AAAA), as the global framework agreed by Member States for financing sustainable development, and on the work of the UN development system. It is designed to address the barriers and leverage the opportunities to transform the financial system from global to local levels in support of achievement of the 2030 Agenda. The Strategy focuses on three objectives, namely: aligning global economic policies and financial systems with the 2030 Agenda; enhancing sustainable financing strategies and investments at regional and country levels; and seizing the potential of financial innovation, new technologies and digitalisation to provide equitable access to finance.

This chapter discusses each of the Strategy's three objectives, highlighting the role of the United Nations system to accelerate financing for the 2030 Agenda, in collaboration with key partners, including the World Bank Group (WBG), the International Monetary Fund (IMF), regional development banks and the financial industry. The paper concludes by outlining the Secretary-General's three-year roadmap and key initiatives to support execution of his Financing Strategy, notably within the context of the landmark summits and mandated high-level meetings taking place during this year's 74th session of the UN General Assembly.

***Objective one: Aligning global economic policies and financial systems with the 2030 Agenda***

The current global economic context is characterised by uneven growth and increasing inequality. Rising public debt levels constrain governments from undertaking large-scale fiscal stimulus measures, while trade tensions have led to more than half a trillion dollars' worth of goods subject to trade restrictions, a seven-fold increase over last year.<sup>14</sup> The aftermath of the 2008 global financial crisis, including years of historically low interest rates and ample liquidity may have created unintended risks for economic stability and inequality.<sup>15</sup> The post-2008 regulations, including capital requirements, have also created further disincentives for long-term investing, notably in infrastructure. Within this context, financial markets are susceptible to perceptions of risk, leading to financial instability and contagion.<sup>16</sup> At the same time, the rapid 'digitalisation of the economy' is creating new challenges for international tax cooperation – countries are unable to tax profits of certain new business models that do not require a physical presence in that market to derive such profits. This consequence of the digital economy has also contributed to falling levels of FDI.

Against this backdrop, the Secretary-General's Financing Strategy highlights the critical role that public policies play in realigning incentives and perceptions of risks,

which in turn influence the allocation of capital, limit excessive financial volatility and encourage the financial system to strengthen resilience to economic shocks. Leveraging the UN's unique role in terms of global norm setting, the Strategy advocates for embedding the principles of the 2030 Agenda in global financial and economic policies. This includes aligning investment and trade regimes with sustainable development; promoting more responsible and transparent borrowing and lending practices; and encouraging a more inclusive and effective approach to address fundamental and frontier tax-related issues in support of the 2030 Agenda (such as taxation of the digital economy and consideration of the gender and environmental implications of taxation).

The Strategy also highlights the importance of addressing barriers related to the lack of globally agreed definitions, standards and harmonised measurement and reporting frameworks for sustainable investing. For example, while green bond issuance has increased enormously – from US\$ 2.6 billion in 2012 to US\$ 167.6 billion in 2018<sup>17</sup> – it represents only about 1–2% of total bonds issued globally.<sup>18</sup> The current lack of harmonised standards, as well as challenges related to transparency about the use of proceeds, hampers its further development.<sup>19</sup> The UN is working with policy-makers and the financial industry to frame discussions around definitions, standards, and measuring and reporting methodologies to guide the evolution of SDG-related financial instruments and deepen financial markets for sustainable development. The UN also catalyses partnerships across financial institutions, financial markets and corporations to align private investment policies and practices with long-term investment in the SDGs and the goals of the Paris Agreement.

***Objective two: Enhancing sustainable financing strategies and investments at regional and country levels***

The Addis Ababa Action Agenda recognises that significant additional domestic public resources, supplemented by international assistance as appropriate, as well as private investment, are critical to realising sustainable development. However, developing country governments are constrained by limited fiscal space and institutional capacity, weak financial systems, poor pipelines of bankable SDG-investment projects and illicit financial outflows. Least Developed Countries (LDCs), graduating and newly graduated LDCs<sup>20</sup>, countries affected by conflict, and Small Island Developing States (SIDS), given their vulnerabilities to the impacts of climate change, face the greatest challenges in terms of mobilising long-term, affordable finance for sustainable development.

The Secretary-General's Strategy recognises that harnessing the financial system and promoting consistent levels of long-term investment is essential for developing

countries to transition to low-carbon, inclusive and sustainable development pathways. The Strategy emphasises the important role of the UN to support countries to identify and address the barriers and opportunities for greater alignment of national and regional financial systems with sustainable development, including through regulatory, policy and financial incentives. Developing and promoting investment policies that place sustainable development at the heart of efforts to attract and benefit from investment is vital. The UN will continue to strengthen the capacity of national and sub-national governments to develop SDG-aligned investment promotion policies and incentives, and formulate a pipeline of bankable projects. The UN will also step up efforts with the financial sector to better align lending practices, develop financial products that support the SDGs, and strengthen credit markets for micro, small and medium enterprises (MSMEs).

The Secretary-General's Strategy highlights the importance of strengthening the effectiveness of tax systems to generate domestic public resources to meet the SDGs. The UN will continue to support countries to promote SDG and gender-responsive tax systems, and strengthen regional and national capacity to improve tax transparency and reduce tax crime, base erosion and profit shifting. Recognising the enormous negative impact of illicit financial flows, the Secretary-General's Strategy puts a spotlight on the need for the UN, in collaboration with other institutions, to support developing countries to curb such flows. The UN's work in this area includes analysis and advocacy, regional and country capacity building to tackle illicit financial flows and corruption, and support to international cooperation efforts to facilitate the recovery and return of stolen assets.

In order to enable countries to mobilise sufficient resources from all sources to implement national development strategies, the AAAA highlights the need for integrated national financing frameworks (INFFs). The Inter-Agency Task Force on Financing for Development (IATF), convened by the Secretary-General to follow up on the AAAA and comprised of over 50 United Nations entities and other relevant international institutions, including the WBG and IMF, sets out the building blocks for developing such frameworks in its 2019 Report. These steps include assessing financing needs, flows and risks; developing a financing strategy that identifies required public and private financing policy action; putting in place mechanisms for monitoring and review; and setting up high-level governance and coordination mechanisms.<sup>21</sup>

In order to 'leave no one behind', the UN closely supports LDCs, graduating LDCs, countries affected by conflict and SIDS. Official Development Assistance

(ODA) and concessional finance in line with the principles of national ownership are critical in these countries. The UN plays an important role in collaborating with development and International Financial Institutions (IFI) partners to better understand the challenges such countries face and assessing the potential for blended and special financing instruments that bring both sustainable development and financing additionality.

***Objective three: Seizing the potential of financial innovation, new technologies and digitalisation to provide equitable access to finance***

The Secretary-General's Strategy emphasises that access to adequate, accessible and affordable finance is one of the pre-requisites of sustainable and equitable development, particularly for women and MSMEs, which are recognised engines of economic growth and job creation. However, the current financing gap for MSMEs in developing countries is estimated at US\$ 5.2 trillion per year because of a number of barriers, including difficulties MSMEs face in terms of providing collateral and ensuring transparency with respect to their creditworthiness.<sup>22</sup> These barriers are particularly acute for women-owned MSMEs.

Financial innovation, new financial instruments and the digitalisation of finance<sup>23</sup> are demonstrating their ability to address some of these barriers and unlock access to new and traditional sources of finance and financial services. The revolutionary impact of mobile money on financial inclusion is well known, with mobile accounts in sub-Saharan Africa nearly doubling since 2014 to 21%.<sup>24</sup> Powered by the interaction of innovations in digital finance and the real economy, new business models are driving e-commerce and making investment in sustainable sectors commercially viable.<sup>25</sup> For example, leveraging mobile payments platforms, financial technology has unlocked pay-as-you-go solar units, which has increased investment in, and access to clean energy, particularly for poor, rural and underserved households. The combination of big data, artificial intelligence and automation is also creating alternative models to assess creditworthiness. This has unleashed a range of online marketplace lending platforms, which either provide direct financing or enable financing by matching lenders and investors with borrowers. Similarly, financial technologies leverage large volumes of data to better identify, assess and price investments, making it cheaper and faster to integrate environmental, social and governance (ESG) considerations into investment decision-making. Financial technologies also improve measuring, validating and tracking the 'greenness' of investments, and facilitate regulatory compliance – all of which can help to increase private investment in sustainable development.



At the same time, financial technologies create new risks for customers and financial market stability, as well as unintended economic, social and environmental consequences. Serious concerns are surfacing about the use and protection of vast amounts of consumer data generated by technology. Concerns are also arising around the safety, fairness and trustworthiness of artificial intelligence, where biases in algorithms that make increasingly important decisions affecting people's livelihoods, including access to finance, could increase exclusion, especially for poorer communities, minorities and women. Similarly, low-skilled workers and women are most likely to experience job losses as technology increases investments in certain sustainable business models, while creating job losses in other sectors. Environmental impacts are also likely to grow as smart devices and certain digital technologies are increasing energy and data centre demand.<sup>26</sup>

The UN has a unique role to play in bringing together policy makers, regulators, civil society, companies and innovators from the financial and technology industry, as well as from the real economy to identify the implications of digital finance and financial innovation both in terms of the opportunities for financing the SDGs, and in terms of the risks.

### Execution of the Secretary-General's Financing Strategy

In his Financing Strategy, the Secretary-General commits to providing a three-year roadmap of actions and initiatives to mobilise investment and support for financing the 2030 Agenda. The roadmap identifies specific initiatives where the Secretary-General's leadership can galvanise action and enhance the work by the UN system to support Member States in mobilising such needed investments.

As part of the roadmap, the Secretary-General has already initiated a number of actions. For example, in order to harness the potential of digital financial technologies and mitigate the risks, the Secretary-General has established a Task Force on Digital Financing of the SDGs.<sup>27</sup> The Task Force was launched in November 2018, with a mandate to identify opportunities, challenges and ways to advance the convergence of digital technology, the financial ecosystem and the SDGs. The Task Force is co-chaired by the Administrator of the UN Development Programme (UNDP) and the Chief Executive Officer (CEO) Emeritus of Absa Holding, one of South Africa's leading banks, and its membership includes leaders of fintech companies, commercial and development banks, central bank governors and ministers and UN agencies. The Task Force is supported by a Secretariat led by the UN Capital Development Fund. Through a wide range of consultations and research, the

Task Force will provide an interim progress report in advance of the High-Level Dialogue on Finance, scheduled to take place during the UN General Assembly in September 2019, and a final report, with actionable recommendations in early 2020.

In April 2019, the Secretary-General announced the establishment of a CEO alliance of Global Investors for Sustainable Development (GISD). This unique alliance, comprising of 25 to 30 CEOs, is aimed at harnessing the insights of private sector leaders on ways to unblock impediments and implement solutions for scaling long-term investment for sustainable development. The GISD builds on the membership and experience of various networks and initiatives in the UN system and beyond with the purpose of bringing together business solutions and policy initiatives.

The Secretary-General will also promote a more strategic, systematic and coordinated collaboration between the UN system and multilateral development banks (MDBs). The work of the UN across humanitarian, peace and security, climate change, financing and sustainable development issues complements the mandate and institutional expertise of MDBs to provide and catalyse investments for sustainable development. A stronger and more effective partnership between the UN and MDBs, which better leverages the respective comparative advantages of each institution, could significantly accelerate international cooperation to achieving the 2030 Agenda and Paris climate agreement.

The Secretary-General's initiatives are particularly relevant within the context of the 74th session of the UN General Assembly, where a series of summits and mandated high-level meetings will be held, aimed at taking stock of progress made on the SDGs since 2015, and increasing commitments to scale up SDG implementation and climate action. Notably, the Secretary-General's Climate Action Summit will provide a global platform to dramatically increase ambition in climate action and will enable a specific focus on climate finance. The High-level Dialogue on Financing for Development will provide an opportunity for the world to bring forward pathways that can unleash the might of the global financial system and real economy to realise the ambitions of the 2030 Agenda. Together, these and other efforts at global, regional and country levels demonstrate that we can use the power of financing to combat the impacts of climate change, and create a world of peace and prosperity for all.

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# Investment Gappportunities: Changing the narrative on investment in sustainable development

By Navid Hanif and Philipp Erfurth

Searching for ‘SDG investment gap’ on a popular online search engine yields over a thousand results, a search of ‘SDG investment opportunity’ only seven. Omitting ‘SDG’ from this search, yields a reverse result: Investment opportunity produces a multiple of the results of investment gap. If we take this as an indication of perceptions on investing in sustainable development, what conclusions can we draw from these results?

## Minding the gap: The role of public investment

First, as many of the search results underline, there is, undoubtedly, a need to accelerate our efforts to mobilise financing for sustainable development. Further efforts to mobilise public resources, both at the national and global level, will be at the heart of this endeavour.

Public resources represent a primary means to implement the 2030 Agenda, enabling governments to finance public goods and services and empower those left behind. Public resources also play a critical role in setting incentives, including for the private sector, and in fostering macroeconomic stability by enabling counter-cyclical policy action.

Recent trends in national and global public resources suggest modest, yet slow, progress. There has been a slight increase in tax revenue, which represents a backbone of domestic resource mobilisation. Growth in Official Development Assistance (ODA), which is a critical pillar of development finance, has plateaued in real terms and, thus far, falls short of commitments.<sup>1</sup> Illicit financial flows, meanwhile, continue to deprive countries of much needed resources.

Overall, there thus remains significant scope to further accelerate the mobilisation of public resources. Yet, alone, public resources will not be sufficient in financing sustainable development.

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*The views expressed in this article are those of the authors and do not necessarily reflect positions of FSDO/UNDESA.*

## Investing in opportunities: The case for investment in sustainable development

This leads us to the second conclusion from our online search exercise: rather than focusing on an investment ‘gap’ in sustainable development, further efforts are needed to promote the opportunities that investments in sustainable development can offer, including to more effectively attract private capital.

This will not be an easy task. It will require a major rethink of sustainable development financing paradigms and a commensurate redesign of financing frameworks at global and national levels. In order to crowd-in investments, including from private sources, the narrative on investing in the SDGs needs to be recalibrated from a focus on closing a gap towards opening investment opportunities and turning financing needs into value propositions for investment in sustainable development.

Studies have underlined the enormous potential of implementing the 2030 Agenda for Sustainable Development. A recent report, for instance, suggests that investments in Africa of US\$ 600 billion per year – more

than half of which could be addressed by the private sector – could unlock opportunities for business in the order of US\$ 2 trillion a year by 2030.<sup>2</sup> Another study<sup>3</sup> estimates that, in just four economic sectors, implementing the 2030 Agenda could unlock up to US\$ 12 trillion by 2030. Yet, while these large numbers are attention grabbing, they do not provide an incentive for resource mobilisation from the private sector, as they do not define a concrete value proposition.

Large headline numbers, including those seeking to quantify an aggregate investment gap, oversimplify the heterogeneity of investments needed to achieve the 2030 Agenda. Investment opportunities in sustainable development vary widely in their scope, scale and context. In addition, not every investment is for every investor. Efforts to foster investment in sustainable development should thus garner momentum for accelerated action on specific investable projects at the national and subnational levels, supported by a re-envisioned global framework.

Aggregate estimates of a financing gap also obscure underlying trends in financing for sustainable development. In order to achieve the thrust of the 2030 Agenda for Sustainable Development to ‘leave no one behind’, efforts to mobilise means of implementation need to be sensitive to trends in resource mobilisation for the most vulnerable. A renewed focus should thus be placed on exploring investment opportunities and financing needs of countries and groups that are most at risk of being left behind, including small economies, which may face challenges in designing projects that reach investable scale.

Rather than a gap filling exercise, investment in sustainable development is an exercise in matching investments with investors. The path to 2030 should not be seen as a track to closing the investment gap, but represents an investment juncture, encompassing all meanings of the word juncture, ie as 1) a critical moment in time; 2) a place which unites, in this case investments with investors; and 3) a state of affairs requiring decisive action.

But what action can be taken at this critical moment in time to unite investments and investors? While there is no silver bullet for achieving this, there are actions at global and national levels that are worth a shot: at the global level, action is needed to change mind-sets and perceptions on the ‘supply-side’. At the national level, action is required to empower the ‘demand-side’ to generate investable projects that can attract private capital.

## The global level:

### Changing mind-sets on the supply side

Four years after the agreement of the 2030 Agenda and the Addis Ababa Action Agenda (AAAA), it has become

increasingly clear that more needs to be done to align incentives in financial markets with sustainable development objectives and to amend risk perceptions. It is also clear that there is no ‘natural’ catalyst to steer the up to US\$ 300 trillion, managed by capital markets globally, into investments for sustainable development.

To accelerate progress, alignment needs to be advanced in a dual fashion: first, existing investments need to be optimised and sources of capital need to be aligned with sustainable development objectives. Second, we need to generate new opportunities for investment into sustainable development.

### Old dogs, new tricks

Optimising existing investment to be aligned with sustainable development objectives means looking for opportunities in balance sheets to create greater value for investors and society. There has been a notable trend of increased investment into assets considered to be aligned with sustainability factors, which is referred to, sometimes interchangeably, as impact investment, Economic, Social and Governance (ESG) investing and innovative finance.

The lack of universally accepted definitions of commonly used concepts has hampered the proliferation of strategies, as managers and advisors have found it difficult to effectively communicate benefits as well as distinguish best practices from efforts to greenwash investments. Approaches in the field have been so broad that the Financial Times argued that referring to ‘sustainable investment’ as a broad concept ‘would probably be one of the biggest understatements in investment’.<sup>4</sup>

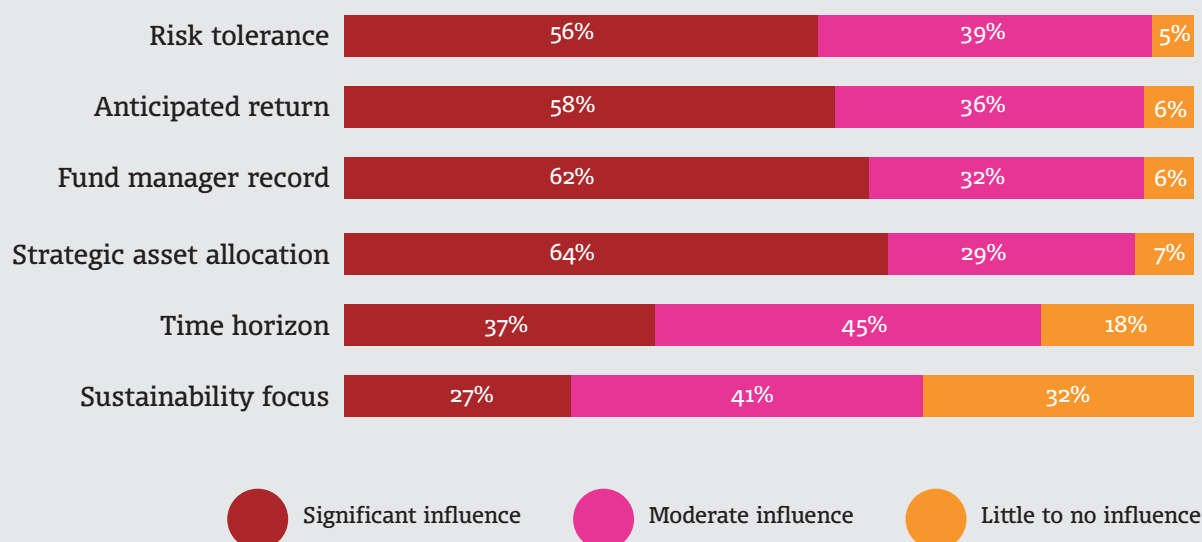
Beyond issues of definition and despite some positive trends, investing according to ESG criteria is far from being the norm. A recent Schroders study<sup>5</sup> (see Figure 1 on the next page) found that less than a third of investors surveyed stated that sustainability had a significant influence on their investment decision. A third meanwhile stated that sustainability had little to no influence.

The study found that investors that were more concerned about sustainability also had longer investment horizons and looked more closely at risk-adjusted returns. The survey also found that 95% of respondents see risk tolerance as playing a significant or at least moderate role in their investment decisions. Half of the respondent cited performance concerns and particularly a lack of transparency and difficulty in assessing risks as the main hindrance for sustainable investment.

Such survey results support the notion that, as long as investment decisions are based overwhelmingly on risk and return considerations, strategies to promote



Figure 1: Investment decision survey



Source: Schroders Institutional Investor, 'Institutional Investor Study 2018 Institutional perspectives on sustainable investing', (report, Schroder Investment Management Limited, 2018).

investment according to ESG criteria need to focus on potentially positive risk-return considerations, rather than solely on sustainability aspects.

Recent evidence suggest that this case can be made for both risks and returns: studies have shown that investing according to ESG criteria is largely positively correlated with financial performance.<sup>6</sup> This has been particularly the case in emerging market contexts<sup>7</sup>, where ESG performance indicators are being used as predictors for long-term value creation.<sup>8</sup> There is, in fact, evidence that investments in emerging markets in companies with strong ESG performance significantly outperform similar investments with inferior ESG profiles.<sup>9</sup>

We also need to do better in addressing concerns relating to risk. While there is no evidence that investments in sustainable development generally carry excess risk, perceived risks are still acting as impediment to investment in sustainable development. Altering risk perceptions will thus be critical in changing investor behaviour.

It also needs to be stressed that ignoring ESG criteria can be a risk in itself. Currently, negative ESG impacts are not widely and adequately priced-in, particularly for projects with a long-term horizon that face heightened risks relating to climate change. Investments in fossil fuel industries, for instance, undermine long-term prosperity and thus run counter to the objectives of investors oriented towards the long term.

As the evidence points overwhelmingly to investment in sustainable development as a win-win for investors and sustainable development, there is a strong case to be made for accelerated global action to promote an alignment of investment with sustainable development. This has to include efforts to step up advocacy by investment professionals themselves, normative frameworks as well as concrete policy action. The sustainable investment disclosure framework of European Union member countries, agreed in March 2019, represents one recent example of regulatory action geared to achieve this. The framework regulates the integration of ESG risks and opportunities in the due diligence process as well as the need to price-in negative ESG impacts.

In light of the performance of sustainable investments, some have argued that we are increasingly moving 'from a "why?" to a "why not?" moment in sustainable investing'.<sup>10</sup> So why don't we let performances speak for themselves? To achieve a broad-based transformation, investors that have successfully invested in sustainable development, need to make their voices heard and get new investors on board.

### The new kids on the block

In order to generate new investment flows into sustainable development, better promoting the business case for investing in sustainable development will be a *condicio sine qua non*. For different categories of investors, such value propositions may vary. For institutional investors, for instance, investment in sustainable development can

help to match long-term liabilities with long-term returns, while providing diversification and new sources of returns in a low-yield environment.

Particularly investments in infrastructure can match long-term liabilities, such as those faced by pension funds, life insurance and sovereign wealth funds, with long-term returns. Infrastructure investments also have additional attractive attributes such as long-term stable and predictable cash flows, low sensitivity to the ups and downs of the business cycle, low correlation with equity markets, some inflation hedging and low default rates.<sup>11</sup>

Despite these characteristics, infrastructure investments still only represent a marginal share of institutional investor's portfolios. It is estimated that no more than 2% of pension funds are currently invested in infrastructure. In comparison, public pension funds currently hold close to 6% of their assets in no- or low-yield cash and cash equivalents.<sup>12</sup>

There is thus significant scope to further push for an alignment of investments with sustainable development particularly for investors whose investment horizons are well aligned with sustainable investments. But why hasn't this happened yet, despite a strong business case?

Over the past years, there has been a trend towards short-term investments, characterised by a falling holding period of stocks as well as significant holdings in liquid assets, including listed equities, bonds and cash equivalents. Large holdings of cash and cash equivalents, in particular, represent resources that sit idle. Such resources will not pave the way to value, both in an investment and sustainable development sense. Instead, such resources need to be put to work to pave actual roads and realise investments that generate value for investors and sustainable development alike. In the SDG era, cash is no longer king, but cash is cost – a cost to investors and society.

## **The national level:**

### **Where implementation meets investment**

To pave the way towards new investment paradigms in the SDG era, commensurate action is also required at the country level.

It is most obvious at the national level that there is not 'one' investment gap: Investment needs vary significantly. Each country (and even region and city) has distinct needs and priorities. The sources of financing that need to be tapped, depending on context, are as diverse as investment needs of countries. To incentivise private investment in concrete projects, value propositions need to be developed.

There has been notable, yet varying, progress at the national level to achieve this, as countries are taking active steps to facilitate investment in sustainable development. Approaches focus on two priorities: fostering a more supportive domestic enabling environment and putting in place national financing strategies and frameworks.

## **Creating an enabling domestic environment**

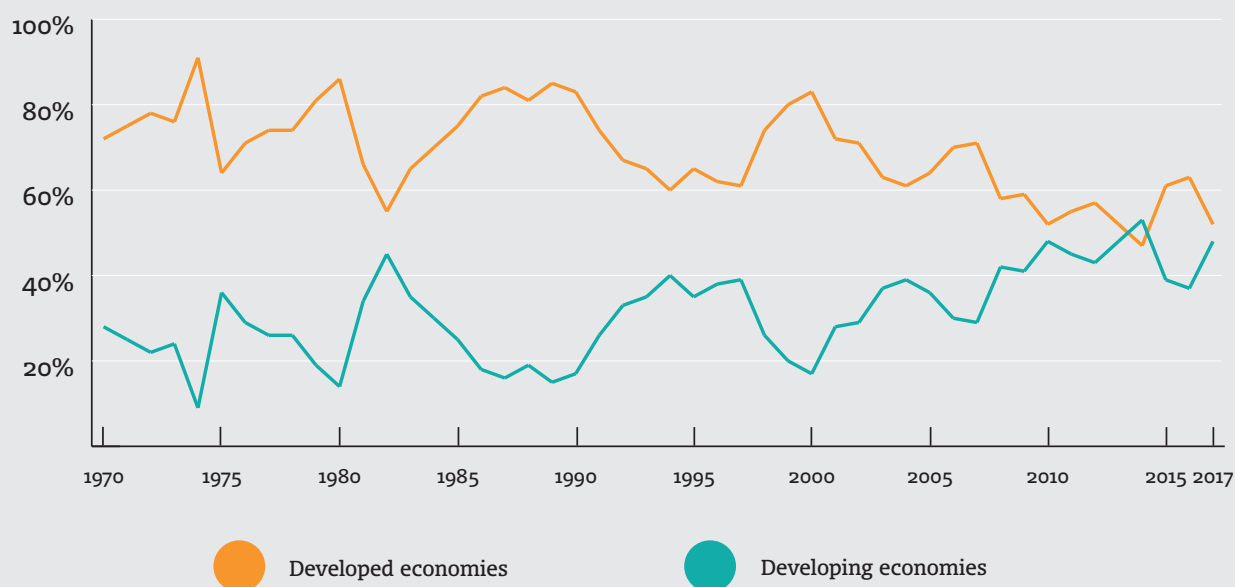
As we have seen, risk considerations exert a particular influence on investors. Perceived and actual risks of investments in sustainable development and thus the cost of tapping private resources is inextricably linked to the domestic environment. If it is perceived as 'high-risk', cost of finance is likely high. To improve enabling domestic environments, countries are actively implementing a record number of reforms.<sup>13</sup> This has included actions to strengthen regulatory and institutional frameworks. Countries have also taken steps to build more inclusive financial systems. However, despite some progress, success of these measures has been uneven. There is thus a strong case to support capacity development, particularly for countries at risk of being left behind.

Actions to improve the domestic enabling environment benefit domestic and foreign investors alike. It can contribute to the mobilisation of domestic private resources, including by providing incentives that may reduce capital outflows – particularly from developing countries into low-yielding assets in developed countries. To achieve this, there is also the need to build capacity and strengthen national capital markets to more effectively mobilise domestic investors for national sustainable development. Infrastructure is one of the sectors that may benefit from this, not just in developing but in developed countries as well, where domestic investment in infrastructure remains limited.<sup>14</sup>

Many countries have also been implementing dedicated policies to attract increased flows in Foreign Direct Investment (FDI). Developing countries have been able to attract significant FDI inflows over the past decades. A milestone was reached in 2014, when – for the first time – FDI inflows into developing countries outpaced flows into developed countries, as Figure 2 on the next page highlights.

While FDI continues to be a major external source of financing, current trends are suggesting plateauing growth and even a slight decline in 2018.<sup>15</sup> Moreover, there has been a trend, particularly in developing countries, towards relative decline in the share of growth-enhancing greenfield investment, ie investments into new productive capacity, compared to cross-border merger and acquisitions (M&A) activity, in which existing assets change hands and for which development

Figure 2: FDI Inflows into Developing and Developed Countries (as % of total)



Source: Author's calculations, United Nations Conference on Trade and Development (UNCTAD)

impacts may be limited.<sup>16</sup> These recent trends suggest that further action is needed to promote greenfield investment aligned with sustainable development objectives. Current trends suggest the opposite is currently the case: primary resource extracting sectors have seen growth in greenfield investment, while inflows in other sectors have declined.<sup>17</sup>

### Developing national financing strategies

This leads us to the final frontier of our analysis. In order to attract additional capital for investment into sustainable development, new project pipelines need to be developed in which new capital can flow into. Pipelines with investable projects need to be aligned with integrated country-owned financing frameworks. While countries have taken strides in developing national strategies for sustainable development in line with the 2030 Agenda, many countries have not elaborated comprehensive plans on how they can be financed. The Voluntary National Reviews at the High-level Political Forum for Sustainable Development represent an opportunity to highlight such national financing challenges and opportunities.

The past four years have highlighted that more support is needed to align national development plans with financing frameworks and identify what needs to be financed and how. A critical first step is identifying financing needs and opportunities within existing

national sustainable development plans. Such efforts should go beyond identifying budgetary resources to include the whole range of available sources of financing, depending on the respective context. Assessing risks and reviewing progress on implementing national financing frameworks and their impact are a critical component of this exercise.

Some countries are also undertaking action to address impediments to national financing frameworks. This includes efforts to overcome the inherent short-termism of political cycles, by putting in place medium-term expenditure frameworks or medium-term revenue strategies. Yet, in many instances, there is scope to strengthen the alignment of such strategies with national sustainable development plans and priorities.

The benefits of implementing national financing frameworks can be manifold. It enables countries to enhance coordination for sustainable development at the national level and to identify financing sources for national development priorities. As part of their integrated national financing frameworks, countries can elaborate specific financing strategies which are aligned with long-term priorities and prepare project pipelines of investable projects that can provide concrete opportunities for investment, including from the private sector, if it is deemed a suitable financing source.

This is not an easy task, particularly for countries facing capacity constraints. To elaborate concrete project pipelines, national capacity needs to be strengthened including in the structuring and negotiation process of deals. Strong country ownership is thereby a necessary precondition for successful implementation. The elaboration of pipelines also carries a cost, including of conducting pre-feasibility and feasibility studies, which requires resources and capacities that may be unavailable, particularly in Least Developed Countries (LDCs). Thus, enhanced support is needed from international actors, including international organisations and multilateral development banks to overcome gaps in capacity.

### Concrete actions taken by the UN

The UN can play a role in supporting action at all levels of implementation on a majority of priority areas outlined in this article. The analysis in this article supports the notion that the role of the UN should be interpreted as a match maker and knowledge broker, rather than as a gap filler.

The repositioning of the United Nations development system (UNDS) represents an important step in strengthening this role at the country level.<sup>18</sup> The reorganisation of the UN country teams, in particular, will open new avenues for the provision of more targeted and strategic support to Member States, including through the redesigned resident coordinator offices. Going forward, UN country teams will step up their support to realign, mobilise and leverage financing for sustainable development, building on the strengthened financing capacity of resident coordinator offices, which will be staffed with a dedicated financing and partnerships expert as well as an economist.

The repositioning of the UN development system will allow the system to accelerate efforts to finance the 2030 Agenda, strengthening capacity and supporting countries to design and leverage investments into sustainable development. The Financing for Sustainable Development Office of the UN Department of Economic and Social Affairs (UNDESA) is well positioned to help country teams and to support governments in mobilising such investment into sustainable development.

The AAAA provides the overarching framework for efforts taken by the UN on the financing of sustainable development. A recent initiative to accelerate resource mobilisation on the path to 2030, aligned with the Addis Agenda, is the Secretary-General's Strategy for Financing the 2030 Agenda for Sustainable Development (2018–2021).<sup>19</sup> The strategy proposes concrete actions to better align global economic policies and financial systems with the 2030 Agenda and enhance sustainable financing strategies at the regional and country levels.

The Financing for Sustainable Development Report (FSDR) of the Inter-agency Task Force is providing thought leadership through its analytical work and reporting. In its 2019 edition, the FSDR provides analytical guidance and policy recommendations on integrated national financing frameworks, which can act as a tool for resource mobilisation and for a better alignment of financing with sustainable development strategies.<sup>20</sup>

The FSDR also acts as the major substantive input to the Economic and Social Council (ECOSOC) Forum on Financing for Development follow-up (FfD Forum), which is the intergovernmental platform to assess progress in all seven action areas of the AAAA.

A recent initiative to more effectively mobilise long-term investors for sustainable development is the SDG Investment (SDGI) Fair, which is held concurrently with the FfD Forum. The SDGI Fair builds on the convening power of the UN to bring together governments and investment professionals to facilitate the matching of investable projects with investors. The 2019 SDGI Fair also marked the announcement of the establishment of a Global Investors for Sustainable Development (GISD) Alliance of global CEOs, convened by the UN Secretary-General, which engages thought-leaders to share their experiences in investing in sustainable development in order to shift mind-sets in the wider investment industry. The GISD Alliance is not only a channel for advocacy on sustainable investment, but also acts as catalyst for the scaling up of sustainable investment strategies.

### Conclusion

At the heart of a new narrative for investment for sustainable development needs to be the notion that 'closing the investment gap' should not be seen as a fundraiser, in which a pledging goal needs to be fulfilled, but rather as an exercise of matching investment demands with appropriate strategies and financing sources. In this vein, new narratives on investment should move beyond traditional notions of supply and demand for capital. Ideally, investment in the SDG era should entail matching demand and demand, ie demand for investment with demand for investment opportunities.

Mobilising resources that sit idle, such as those 'parked' in cash instruments, represent one low hanging fruit that is ripe to be picked and steered towards generating value for investors and sustainable development. After all – and this holds for investors and societies alike – investing in sustainable development is an invaluable value proposition.

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# Driving development finance to the ground: Closing the investment gap

By E. Courtenay Rattray

The spectre of devastating global climate change darkens the prospects for development in both industrial and developing countries. The global climate system has already entered dangerous territory, with the impacts of man-made emissions increasing the probability of extreme weather events and irreversible damage to the global environment. During 2018, deaths from extreme weather events exceeded 5,000 people and more than 28 million required emergency or humanitarian aid. Munich Re, a global leader in the reinsurance sector, estimates that disasters, including tornadoes, hurricanes, wildfires, tsunamis, earthquakes and droughts, cost the global economy approximately US\$ 160 billion last year.

Looking forward, one thousand experts surveyed by the World Economic Forum for its 2018 Global Risk Report indicated that extreme weather events were the most likely threat to disrupt the global economy over the next decade, representing a greater danger than weapons of mass destruction, cyber-attacks, or data fraud and theft. 'Extreme weather events were ranked again as a top global risk by likelihood and impact', according to Alison Martin, Group Chief Risk Officer of the Zurich Insurance Group.

The Intergovernmental Panel on Climate Change has concluded that the world has just 12 more years to prevent the irreversible damage that would be caused by a human-induced collapse of the climate system. In the face of these imminent and dire threats, it is the role and responsibility of the UN system to join with Member States on a path that can lead to stable, balanced, and sustainable development.

## The challenge before us

There is no terrible and evil force threatening us with global climate change. The sources of the risks lie in economically important activities in all UN Member States. And the impacts will be felt in all countries. But the challenge before us today is even more complicated than that posed by the threat of future climate change alone. Several factors add complexity to the challenge. The UN

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Population Fund (UNFPA) estimates that, if current trends continue, the world's population will increase by 2 billion people by the year 2050. Most of these new members of our human family will arrive in urban areas of Africa and in East and South Asia, where the infrastructure needed to meet their basic human needs is not currently in place.

Unless a major effort is begun immediately, the real assets needed to provide energy, water, food security and mobility will not be sufficient to meet future demand. This shortfall, combined with the projected impacts of climate change in these regions, is likely to increase dramatically the number of cross-border migrants and internally displaced persons throughout the affected areas. Irrespective of future efforts to limit greenhouse gas emissions, the impacts of climate change that are already 'in the pipeline' due to past emissions will make the challenge of sustainable development more difficult for all, necessitating a growing public emphasis on adaptation and efforts to enhance resilience.

## The path to stable, balanced and sustainable development

Despite these challenges, the future is not necessarily grim. The UN's Agenda 2030, the Sustainable Develop-

ment Goals (SDGs), and the Paris climate agreement illuminate a path to stable, balanced, and sustainable development through which no one will be left behind. Following this path will create hundreds of millions of decent jobs; advance national development strategies; protect the global environment; and enrich the patrimony that we leave to our children. And it will do all of this while reducing the risks of war and conflict.

Achieving the objectives of the 2030 Agenda and its associated SDGs while achieving the targets of the Paris climate agreement will require a massive, global programme of investment in real assets and sustainable infrastructure to meet the needs of our entire human family. However, the capital requirements of such a programme vastly outweigh the public capital resources available today, or in the foreseeable future.

Making the necessary investments will require establishing new partnerships between the public and private sectors. The only resources sufficient to meet the challenges ahead at the speed and scale with which the risks are growing are those managed by institutional investors, ie, the guardians of the global savings pool. But these institutional investors, viz pension funds, insurance companies, asset managers and sovereign wealth funds are necessarily conservative and risk averse: their fiduciary obligations often prohibit the application of these funds in situations that might put their principal capital at risk. For them to join with governments and international financial institutions in the battle for sustainable development will require that we create investable propositions that are equitable, cost-effective and capital-efficient. And these investments must earn a return on capital deployed that is commensurate to the assessed risk, while ensuring that the public good is advanced.

### **A growing investment gap arises from a continuing market failure**

Today's reality is stark and scary: the gap between current rates of investment in infrastructure and the level needed to meet projected demand during the next thirty years is estimated, by some measures, to be US\$ 5–7 trillion per year. Yet, as the need for investment in climate and sustainable development solutions becomes increasingly urgent, we face a collective market failure where 'buyers' and 'sellers' of capital cannot find each other.

Many developing countries have high-priority, environmentally-sound, sustainable infrastructure projects that are critical to the success of their national development strategies, but they cannot find adequate capital for these investments. At the same time, investors, especially institutional investors, who are seeking good opportunities to put capital to work, cannot find credit-worthy or 'bankable projects' that can ensure sufficient operating

cash flows to generate a reliable and adequate return on investment.

How can the UN, its Member States, international financial institutions, and the private sector bridge this yawning financing gap, while mitigating catastrophic climate change and adapting to the overwhelming risks that such climate change will unleash on real assets across the full breadth of the global economy?

### **Closing the investment gap in sustainable infrastructure**

To address these interlinked challenges, in a cooperative manner, we must create a mechanism to stimulate co-investment by private sector investors, working alongside governments, multilateral development banks (MDBs), national development banks (NDBs), and other international financial institutions. Such a mechanism must be designed to catalyse new coalitions of co-investors that will seize the opportunity to invest in real assets in developing countries. Early investors whose mandates and risk-return appetites allow them to do so could take short-term or even first loss positions in the development and construction stages of infrastructure projects, secure in the knowledge that institutional investors are prepared to step in with long-term, 'takeout' financing for these projects, once they are operational and can provide a reliable revenue stream.

Getting to this position will likely require changing the operational style of many MDBs and NDBs. International financial institutions must find a way to shift their annual disbursements of capital away from direct lending to sovereigns and increasingly toward the provision of assurances, guarantees and other fee-for-service credit enhancements that raise the confidence of private investors. They should also make a higher proportion of their capital available as direct or even indirect equity investments, as opposed to concessional or non-concessional debt financing. This will have a greater development impact by allowing them to engage more deeply in developing countries and emerging markets, while reducing the debt burdens and contingent liabilities constraining most developing country economies. And, because of the widespread scarcity of domestic public resources, all of this must be accomplished in a way that enables developing countries to deploy the absolute minimum amount of public capital in each project financing structure.

The Closing the Investment Gap Initiative (the CIG Initiative) provides such a mechanism. It creates a UN-aligned investment platform that brings together public investment project pipelines and private investors, with the goal of creating favourable conditions for accelerating investments into new sustainable infrastructure assets

in developing countries. The UN Group of Friends of SDG Financing, co-chaired by the Ambassadors to the UN of Jamaica and Canada, in tandem with the Government of Denmark and the University of Maryland, is collaborating on the CIG Initiative to advance investment projects within the sustainable infrastructure/ renewable energy sectors of developing countries.

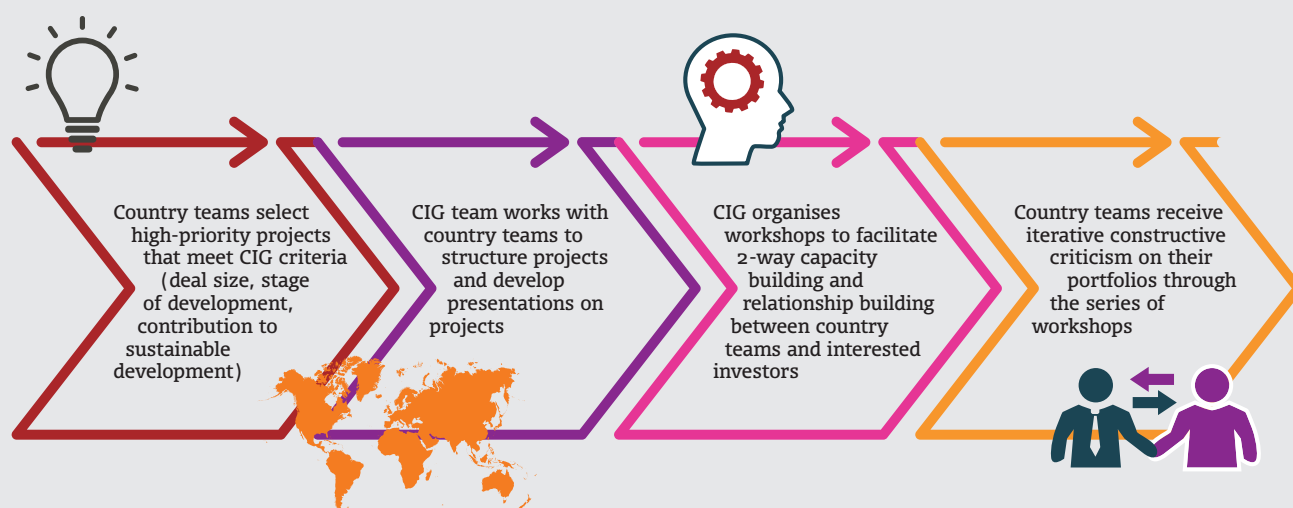
The CIG Initiative has developed a robust, practical platform of private sector engagement. It has also established a targeted capacity-building process that strengthens the ability of developing countries to transition from funding key projects solely with domestic resources, commercial loans, grants, Official Development Assistance (ODA) and concessional finance, to being able to finance their projects through cost-effective, capital-efficient partnerships with private investors. Through this initiative, public and private sector participants engage and learn together via invitation-only workshops and retreats.

On the one-hand, capacity building in the CIG Initiative focuses on helping developing countries to learn the

dynamics of the private financial sector, in order to help them better understand how private sector finance leaders analyse and assess investment options. On the other hand, senior leaders in the private financial services sector, who engage as mentors and guides to the developing country investment teams, gain a better understanding of the actual risks and potential rewards of expanding investment into developing country markets. This heightened understanding helps participants to break through the stereotypes and outdated perceptions that exist among many private investors, which have slowed the pace of long-term, productive, sustainable development investments in developing country markets.

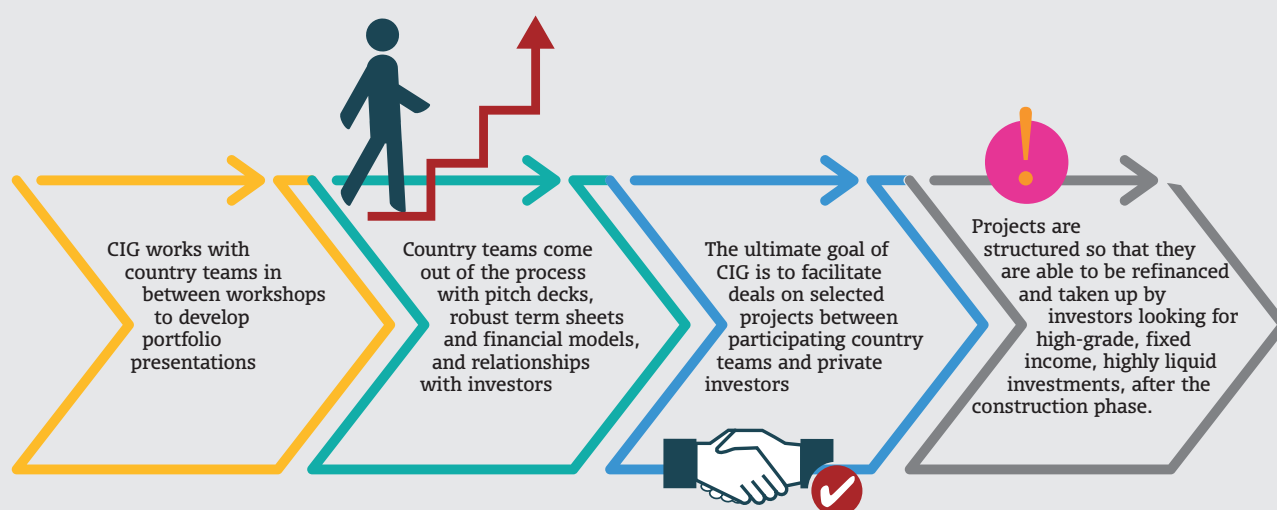
The CIG Initiative is preparing to take three of the developing country teams that participated during its 2018 'proof of concept' phase on a series of investor consultations to meet with investors in major financial centres. It is anticipated that at least two of these first three countries will have reached a first financial commitment in time to present their portfolios at the UN Secretary-General's 2019 Climate Summit (New York, September 2019).

Figure 1: The CIG Initiative





While getting three countries to a first financial commitment and advancing their high-priority projects is an exciting outcome, it is not nearly enough. Once successfully demonstrated, this model must be replicated and expanded over time to many more developing countries. In this way, developing country participants will gain the capacity to forge cost-effective, capital-efficient partnerships around high-priority sustainable infrastructure projects. The projects must be secure, robust, and large enough to achieve liquidity in the secondary global bond market. Only by rapidly expanding and scaling-up investments in sustainable infrastructure projects to developing countries, especially those most vulnerable to the projected effects of climate change, can we hope to meet the challenges ahead at the speed and scale at which they are approaching.



# Bye-bye, billions to trillions

By John W. McArthur

If trying to grow a plant in the Sahara, it is no help to track the world's total rainfall. Likewise, investing to protect a Caribbean farm from a hurricane has little bearing on a Pacific island's resilience to typhoons. For most people, the intuition is clear. International precipitation aggregates are simply not meaningful for specific places and communities grappling with too little rain, too much rain or the wrong type of rain.

Unfortunately, an equivalent mismatch between global sums and local problems tends to persist in many conversations about financing the Sustainable Development Goals (SDGs). This is amplified by the 'billions to trillions' (B2T) mantra, typically linked to a call for multi-trillion dollar SDG investment increases, especially from the private sector. But such large-scale assertions misrepresent both the composition and scale of the global SDG financing challenge. Too often, they amount to measuring one region's flood as if it were a solution to another region's drought. It is time to drop the global B2T rhyme, and refocus on the underlying reasons why SDG financing is required.

## Some context

In fairness, the B2T frame was originally put forward with many good intentions. In the lead-up to the 2015 adoption of the SDGs, some people wanted to widen the aperture of policy debates, in light of the SDGs' dramatic expansion of sectoral scope and geographic scale, compared to the predecessor Millennium Development Goals.<sup>1</sup> Others drew attention to the multi-trillion dollar annual investment requirement needed to tackle the SDG infrastructure challenge.<sup>2</sup> The international financial institutions wanted to make the case for reforming financing vehicles to leverage the world's enormous private capital markets.<sup>3</sup>

An emphasis on trillions also aligns with the scale of the world economy, which has grown so large that it can be difficult to get one's mind around the absolute magnitudes involved. Today, gross world income is approximately US\$ 80 trillion per year, having more

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than doubled in nominal terms over the past two decades. When adjusted to account for differing price levels around the world, the corresponding figure is roughly US\$ 130 trillion in purchasing power parity terms, having more than tripled in scale over the same period. Around 40 to 50% of the overall growth has been driven by Asia, depending on the underlying metrics used.

Against that backdrop, total current SDG-focused public expenditures around the world – not even counting private expenditures – are already around US\$ 20 trillion per year. That number comes from a study I recently published with my colleague Homi Kharas, in which we estimated every country's government spending on health, education, infrastructure, agriculture, social protection, biodiversity conservation, and access to justice as of 2015, as a broad if incomplete cross-section of SDG spending domains.<sup>4</sup> Because government expenditures tend to track growth in the overall economy, we further estimate the corresponding figure as on course to reach around US\$ 30 trillion by 2030. In other words, if the normal trends of global economic growth continue out to 2030, SDG government spending will grow on its own, in constant dollar terms, by roughly US\$ 10 trillion per year.

This is much more than the US\$ 2–7 trillion dollars of ‘needed incremental investment’ often cited in the SDG context.

The issue, of course, is that adding US\$ 10 trillion of SDG public spending tells us nothing about which resources will be allocated to which purposes in which places, and hence nothing about whether or not they will help any countries achieve specific SDG outcomes. This underlines the fatal flaw of the B2T narrative. By directing attention to the multi-trillion dollar aggregates required for the SDGs, the conversation often amounts to a focus on how to create the tallest possible stack of SDG dollars, regardless of their type or purpose. This is about as clever as adding up total global precipitation flows to figure out whether every community has the right amount of rain. It ignores, and too often overshadows, the particular mixes of resources required – including public resources essential for supporting people being most profoundly left behind.

To illustrate the problem further, consider two extreme cases. At one end of the spectrum, global SDG spending growth of US\$ 10 trillion per year tells us nothing about whether public health financing is adequate in Chad or the Central African Republic. These countries have two of the world’s highest child mortality rates as of 2017 and hence the furthest to go to achieve the relevant SDG target for child survival. According to the World Bank, Central African Republic’s total health spending was only US\$ 16 per person per year in 2016, with only US\$ 2 of that coming from the domestic government. Chad’s health spending added up to only US\$ 32 per capita the same year, with only US\$ 6 of that from the domestic government. Both of these are well short of the US\$ 57 per capita public health expenditure recently estimated as an absolute minimum for achieving the SDGs in the poorest countries.<sup>5</sup>

At the other end of the spectrum, achieving SDG health targets in a country like the United States is not a matter of spending more money. Total American health spending is already the highest in the world at approximately US\$ 10,000 per person per year, roughly half of which is covered by the public sector. At the same time, average American life expectancy has recently been declining and more than a third of the country’s adults are grappling with obesity. These are not ‘more money’ problems. Solving them requires targeted and outcome-based budgeting across the health system, improved access to relevant services for those who cannot afford them, and more innovative approaches to promoting wellbeing, with active leadership from both public and private sectors.

### Three big SDG financing problems

Given the scale and complexity of the world economy, it is always dangerous to risk oversimplifying the task at hand. But a universal SDG agenda does not imply a single universal financing answer. In saying goodbye to the B2T narrative, the world needs to differentiate among at least three distinct types of SDG financing challenges.

First, the poorest countries need adequate support to tackle extreme poverty-related issues of survival and basic needs. In the UN’s 2015 Addis Ababa Action Agenda on sustainable development financing, paragraph 12 commits to ‘a new social compact’ delivering social protection and essential public services for all. A focus on global trillions obscures the fact that a few dozen low-income countries still face the greatest resource constraints alongside the most severe consequences of funding shortfalls, often measured in life-and-death terms. Homi Kharas and I estimate that the minimum package of public services costs perhaps US\$ 300 per person per year in the poorest countries, where price levels are generally lowest.

Official Development Assistance remains crucial for delivering the promised social compact in low-income environments. For example, a US\$ 5 billion annual funding shortfall for the Global Fund to Fight AIDS, TB, and Malaria would represent less than one one-thousandth of the natural global growth in SDG public spending by 2030, but the specific gap would likely result in millions of lives lost. Similarly, a persistent global education investment gap on the order of US\$ 15–25 billion per year in developing countries will be of enormous long-term consequence as the world welcomes its largest ever generation of young people. The most important SDG financing problems are often still defined on a scale of billions of dollars needed and millions of lives at risk.

Second, the richest countries need to focus on ensuring universal access, promoting targeted innovations, advancing outcome-based budgeting, and leading by example in protecting natural assets – rather than blindly spending more. This is not meant to suggest that every high-income country’s national budgets are fully adequate to the SDGs. It is meant to suggest that governments have unique responsibility to ensure their own public resources are targeted to ensuring no one is left behind, such as through social protection programmes to cut domestic poverty by half (SDG target 1.2).

Governments also have a special responsibility to protect the environment, ranging from common resources of the atmosphere to the vast depths of the high seas that lie beyond any current jurisdiction. On many challenges, governments need to find ways to crowd in private sector action too. The global obesity epidemic, for

example, is affecting all countries, and scaled solutions will only be found through outcome-focused learning and collaboration across government, business, academia, and civil society.

Third, emerging economies need to tackle their own respective combinations of the aforementioned 'low-income problems' and 'high-income problems', while also building the environmentally sustainable infrastructure required to support rapid economic change. They all need to build the urban, transport, energy and telecommunications infrastructure that will support unprecedented growth of cities and improved living standards while dramatically lessening the human footprint on the natural environment. Importantly, middle-income countries as a group have a balanced current account, so their central challenge will be to mobil-

ise the right combination of domestic resources, both public and private, for SDG-consistent action, rather than external resources. But even then the issues are still country-specific; some will need outside investment too.

### The microclimates of SDG finance

Ultimately, the SDGs draw attention to specific problems, in specific places, faced by specific people. The scale of resource requirements is vast because the scale of the global economy is vast. But the world's economic complexity and dynamism should not distract from the distinct practical challenges embedded within the SDGs. It is time to say bye-bye to 'billions to trillions' and instead focus on the component SDG financing problems. Success requires much more than a simplistic downpour of resources. It needs the right amounts, of the right types, in the right places.

### Footnotes

<sup>1</sup> Arakawa, Hirohito, Sasja Beslik, Martin Dahinden, Michael Elliott, Helene Gayle, Thierry Geiger, Torgny Holmgren, Charles Kenny, Betty Maina, Simon Maxwell, John W McArthur, Mthuli Ncube, Ory Okolloh, Zainab Salbi, Mark Suzman, and Jasmine Whitbread, 'Paying for Zero: Global Development Finance and the post-2015 Agenda', (report, World Economic Forum, 2014)

Guido Schmidt-Traub, 'Investment needs to achieve the Sustainable Development Goals: Understanding the billions and trillions', (working paper, Sustainable Development Solutions Network, 2015).

<sup>2</sup> 'World Investment Report 2014 – Investing in the SDGs: An Action Plan', (report, UNCTAD, 2014).

<sup>3</sup> 'From Billions to Trillions: Transforming Development Finance', (Development Committee Discussion Note, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Monetary Fund and World Bank Group, 2015).

<sup>4</sup> Homi Kharas and John W McArthur, 'Building the SDG economy: Needs, spending and financing for universal achievement of the Sustainable Development Goals', (working paper, Brookings Global Economy and Development Working Paper, 2019).

<sup>5</sup> Karin Stenberg, Odd Hanssen, Tessa Tan-Torres Edejer, Melanie Bertram, Callum Brindley, Andreia Meshreky, 'Financing transformative health systems towards achievement of the health Sustainable Development Goals: a model for projected resource needs in 67 low-income and middle-income countries', The Lancet Global Health, Volume 5, Issue 9, (2017), Pe875–e887.

# How does science and technology policy shape inequality?

By Pedro Conceição

A long-held tenant of development policy is that economic growth is of prime importance. Growth expands incomes, and without a growing national income there is little or nothing to redistribute. Without a growing pie, the political and social dynamics would revert to a zero-sum game and thus, an expanding income makes it politically more feasible to redress inequality. Also, growth drives poverty reduction, and that is the overriding objective of development – and of social policies around the world.

Furthermore, some hold the view that inequality is even needed for growth – or, to be more precise, for economic efficiency. After all, those that work hard, that are talented, and that take risks in new ventures, need to be rewarded. We could worry about equality, maybe for ethical reasons, but that would have to happen at the expense of efficiency.

And then there is the question of whose business is it to care about inequality? Isn't it a domestic policy issue? Different societies have different levels of tolerance for inequality. Perhaps because they emphasise efficiency, either as a matter of values or because they need to grow – otherwise they would be distributing poverty, not income.

So, it is not surprising that, when the Millennium Development Goals (MDGs) were put forward at the turn from the 20th to the 21st century, there was no goal explicitly addressing inequality. For a multilaterally agreed compact to guide and mobilise development cooperation, the priority surely had to fall on reducing income poverty.

Yet, the MDGs were already a little behind the times when they were adopted. Starting in the 1990s, there was a sharp increase in interest in 'global inequality'. Figure 1 on the next page uses the Ngram viewer from Google to track the use of the expressions 'global growth' and 'global inequality' in all digitally accessible

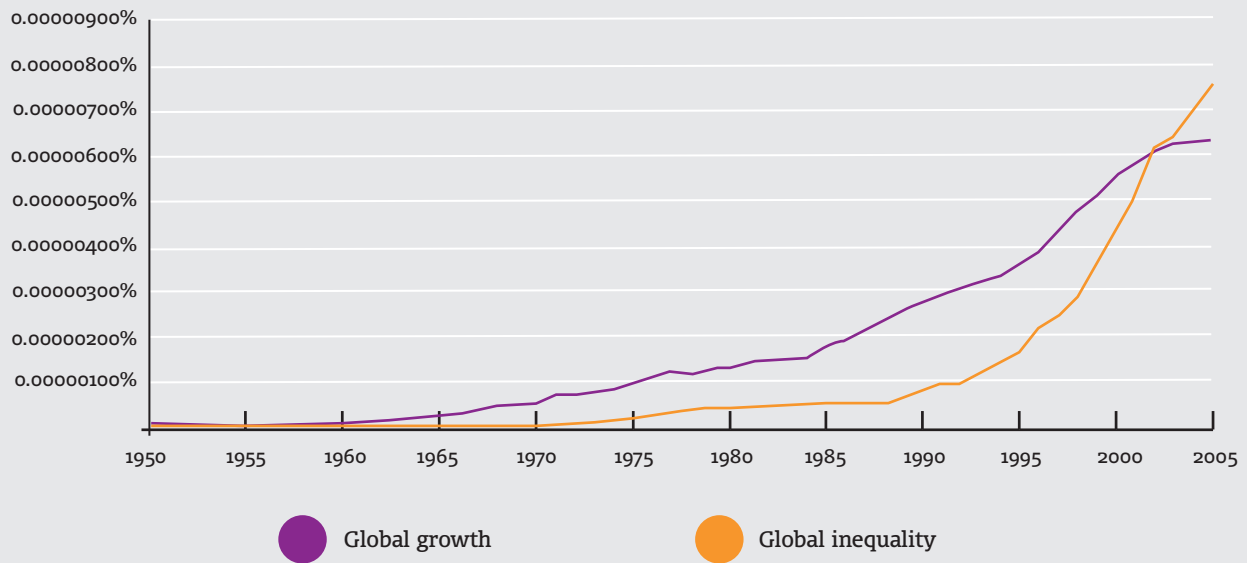
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*Pedro Conceição is grateful for comments on his contribution to this report from Hoi Wai Cheng, Leonard Goff, Xiao Huang, Marcelo Lafleur, Christina Lengfelder, Brian Lutz, George Gray Molina, Shivani Nayyar, and Heriberto Tapia.*

publications since 1950. It is clear that 'global growth' reigned supreme for most of the time, with 'global inequality' only creeping up a little bit in the early 1990s, but really taking off in the mid-1990s. So much so that, just after the MDGs were adopted, 'global inequality' overtook 'global growth'.

Further validation of the growing interest in inequality was provided by the surprise bestseller *Capital in the 21st Century*, by Thomas Piketty. Published originally in French in 2013, the book is a weighty tome (though engrossing for economists), with dozens of graphs and tables documenting patterns of income and wealth distribution going back to the 18th century. An English translation was published a little less than a year after

Figure 1: Ngram Viewer: 'Global inequality' and 'global growth'



Source: Google Ngram site, <https://books.google.com/ngrams>

the original publication. From there, the book became a publishing phenomenon in multiple countries.

Capturing the zeitgeist, the 2030 Agenda for Sustainable Development included not only a specific Sustainable Development Goal (SDG) on inequality (SDG 10) but objectives to redress inequality permeate the whole Agenda and several of the SDGs.

The question addressed in this essay is not: what happened? Rather, the essay takes as a given that concerns with inequality represent a defining challenge of our time, because people care and because inequality has been enshrined in the 2030 Agenda and the SDGs. The question to explore, rather, is what to do about it?

### Redressing inequality through the fiscal system

As with much of the discussion on achieving the 2030 Agenda, the immediate impulse is to look at finance. Gaps are big, it is claimed. More needs to be mobilised, therefore. Shift private financing to SDG-aligned investments, in addition to the mobilisation of more public resources for (national and global) public goods. All of which are valid arguments. But how to address inequality? What is the gap to be filled? What are the changes needed when it comes to private investment and what kind of incentives are needed to achieve those changes?

Well, the most direct channel is to shift income from those that have more to those that have less – using the fiscal system, meaning, through taxes, transfers and the provision of public health and education – that can have a powerfully equalising effect, as the analysis of Nora Lustig shows.<sup>1</sup> In fact, Thomas Piketty's own theory can be summarised by the famous formula:  $r > g$ , where  $r$  is the rate of return on capital, and  $g$  is the economic growth rate. The hypothesis states that, in the 21st century, the owners of capital earn higher returns on the wealth they already own than the rate at which additional income (through economic growth) is generated.<sup>2</sup> So economic growth is always failing to catch up – wealth begets more wealth, at a higher pace than the generation of income for the whole society, and the inevitable consequence is growing inequality. The obvious solution, therefore, is to tax wealth.

Whether one agrees with Piketty's hypothesis or not – and the debate continues in the literature – there is no question that the fiscal system is a powerful instrument for redressing inequality. In fact, it is already used around the world to do just that. See Figure 2 that compares the Gini coefficient (a measure of inequality that runs from zero, with perfect equality, to 1, where all the income is accumulated at the top) for market income (before taxes and transfers) and post-fiscal income (after taxes and transfers). It shows that the Gini always goes down, in many countries quite substantially.



Figure 2: Differences in income inequality pre- and post-tax and government transfers for selected countries, 2013

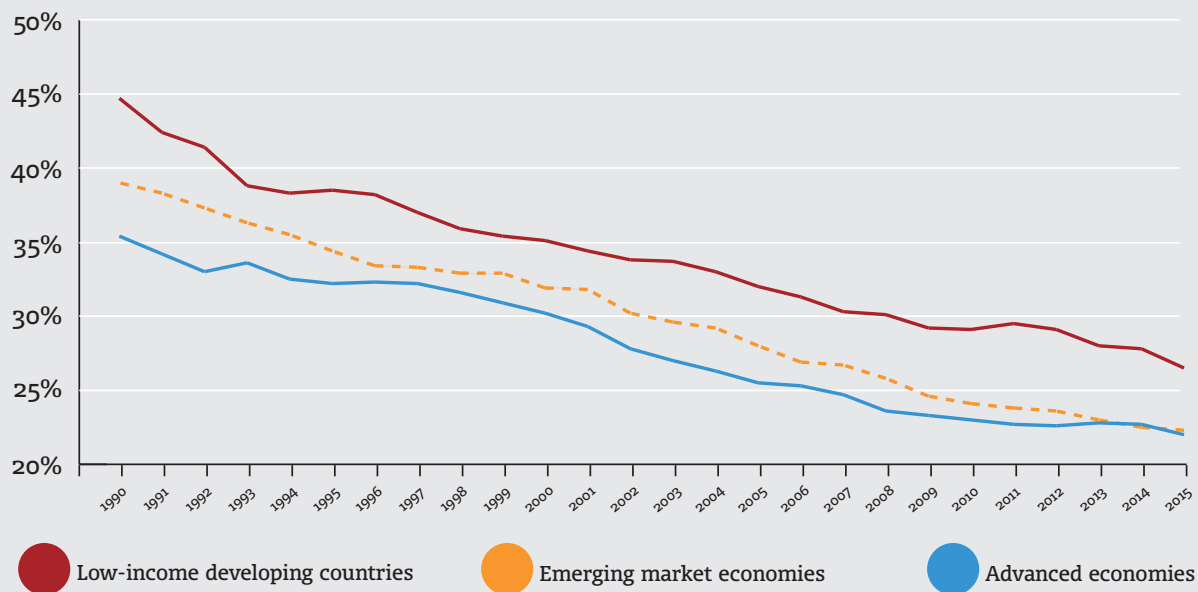


Source: Data from OECD (2019). 'Gini, poverty, income, Methods and Concepts', (database, OECD, 2019).

Further arguments to revert to the fiscal system to redress inequality are linked to recent trends, around the world, on decreasing corporate and high personal income tax rates, as shown in Figures 3 and 4 – they show,

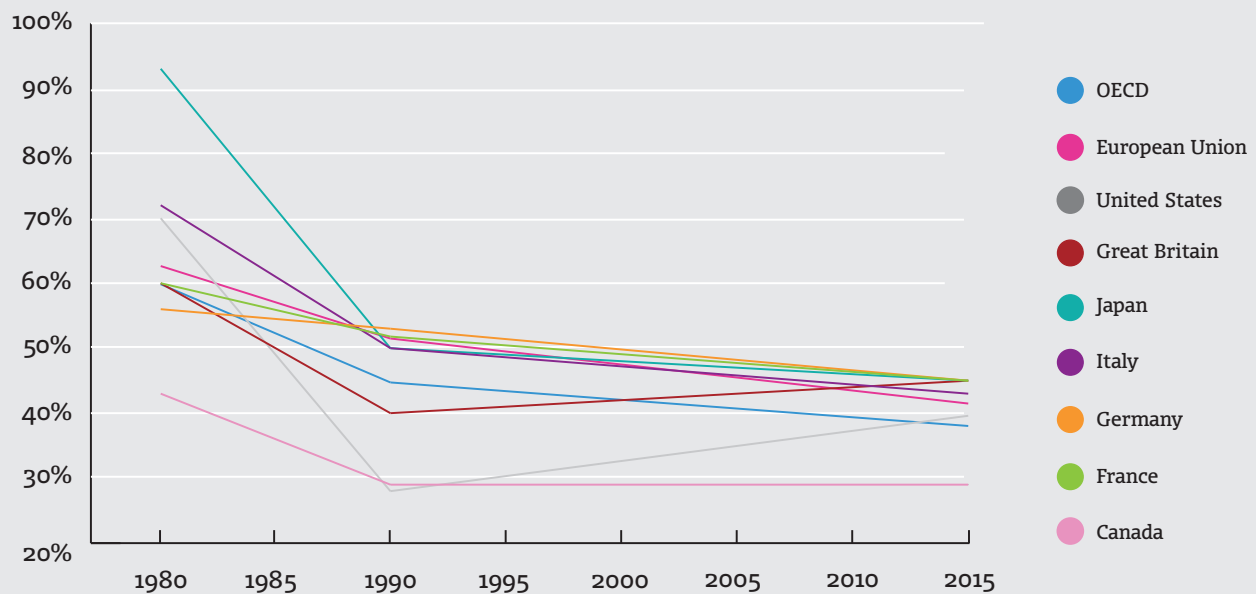
respectively, the evolution of statutory corporate income tax rates and of top personal income tax rates – perhaps a hint as to why there is growing concern with inequality?

Figure 3: The evolution of statutory corporate income tax rates, 1990-2015



Source: Data from IMF (October, 2017). 'Corporate Taxation in the Global Economy', IMF Policy Papers, 19(007) (2019).

**Figure 4: The evolution of top personal income tax rates, selected advanced economies, 1980 – 2015**



Source: Data from IMF (October, 2017). 'IMF Fiscal Monitor: Tackling Inequality', (database, IMF, 2017)

## Accumulation of market power and links to wealth inequality

Even if one were to accept the importance of stopping, or even reversing, these trends on taxes, to drive reductions in inequality, it is not immediately obvious what could trigger those policy changes. Advocacy for action is strong and compelling. Civil society and media have circulated widely data on the accumulation of income and wealth at the very top, along with information showing that there is significant tax evasion and avoidance (with multinational firms and wealthy individuals particularly inclined to engage in these practices).

It may be that what is happening on taxation, and on the accumulation of income and wealth at the top, reflects some broader changes that are affecting our economies and societies. For instance, over the course of this century there has been a sharp increase in mark-ups by firms around the world, led by firms that are already in the top ten percent of the distribution of mark-ups.<sup>3</sup> Mark-ups are the ratio between prices charged by firms and the marginal cost of production, and they would be expected to be close to one in competitive markets – otherwise, there would be a strong incentive for new entrants to charge a little less, provided they can access the same production technology. High and increasing mark-ups, therefore, reflect progressive increases in the market power of some firms, driven by those that had already acquired even more market power than the others.

The concentration and accumulation of market power in firms is likely to have direct linkages with the high income and wealth inequality<sup>4</sup> although the exact nature of the relationship between the two is not yet fully understood. One argument is that increased market power of firms leads to a higher share of income going to capital, rather than labour – and thus is partially responsible for the decrease in the labour share of income that has been documented for many countries over the last couple of decades or so. While this channel remains contested in the literature, it is certainly plausible, and shows how the accumulation of disparities can be self-reinforcing.

Market power concentration can also open divides in innovation capability: leading firms can use their dominant positions to squeeze the margins of new entrants, which disincentivises these competitors from innovating. In developing countries, especially the smaller ones, this can be exacerbated if multinationals engage in anticompetitive practice to make it even harder for domestic firms to compete, hampering developing countries' national innovation systems and widening the technological gap between countries.<sup>5</sup>

There are some clever proposals to use taxes to curb market power, such as Paul Romer's idea to target on-line advertising revenue of some specific activities of big tech US firms with taxes.<sup>6</sup> But the challenge of market power is more widespread than big tech, and



Romer's motivation for his proposal goes beyond addressing market power – it is not even, in fact, the primary motivation. It is probably fair to assume that taxes can only do so much<sup>7</sup>, since all firms should be subject to roughly the same (statutory, at least<sup>8</sup>) tax treatment. The realm of action to address this type of inequality lies elsewhere, in competition policy – both its design and implementation. Thus, we start seeing how addressing the challenge of redressing inequality is something that calls for the consideration of a wider range of policies, including some that are outside the purview of the tax and transfers actions that tend to take centre stage in debates related to inequality.

But we can go even further and ask if there is anything common to the firms that are accumulating market power – other than the fact that they tend to be the ones that already had some. The evidence shows that the answer to this question is not simple, and needs some nuance, because the trend of increased market power is widely shared across all sectors and industries.<sup>9</sup> But there is growing evidence suggesting that firms in sectors that are intensive in the use of information and communications technologies have witnessed more rapid, and greater, increases in mark-ups.<sup>10</sup> Thus, there is possibly something to the argument that more technologically intensive firms are accumulating relatively more market power – perhaps because of dynamics such as network externalities, that is, firms for which the value of using that firm's services increases the higher the number of existing users (such as in social network or social media companies).

### Technological change and distribution of income

To circle back to the impact of technology on labour markets, there is strong evidence that information and communication technologies have sharply reduced the relative price of investment goods, generating incentives for firms to replace labour with capital. Some argue that further advances in technology, linked to advances in automation and artificial intelligence, can further accelerate these dynamics of displacing labour – other than those with the skills and talent to be immune to the threat of being replaced by robots or algorithms.<sup>11</sup>

There is a large, and growing, body of literature addressing this question, with widely divergent views on the net impact of technological change on labour markets, but there is little question that the technologically-driven transformation from industrial to digital or knowledge-based economies will be consequential to the distribution of income, wealth – and market power by firms.

And that brings us, finally, to the relevance of science, technology and innovation policy. Traditionally seen perhaps as neutral or innocuous when it comes to having any sort of impact on inequality, it may actually emerge as one of the most consequential policy areas for inequality.<sup>12</sup> In part because some of the incentives that exist to foster innovation are themselves premised on the award to inventors of (temporary) monopoly power, in the form of patents and other intellectual property rights, that have expanded to algorithms and beyond, with the inherent and well-recognised risks of segregating access to technologies depending on purchasing power that can drive inequality.

More fundamentally, science and technology policy needs to find the right balance between public support, on the one hand, and incentives for private investments in innovation.<sup>13</sup> The more the public side retracts to rely on private incentives for innovation, the higher the risk that science and technology will further drive inequality – in part because of intellectual property rights, but also because that will limit the space for policies to shape the evolution of science and technology in a way that serves people.

### Generating shared benefits through science and technology

Thus, beyond taxes and transfers, and beyond competition policy, science and technology policy can be a powerful driver to redress inequality. This has little to do, necessarily, with mobilising financing, and more with the incentives to shape creativity and innovation to advance science and technology in a way that generates widely shared benefits – rather than further exacerbating the accumulation of wealth, market power, and even political power of those that already have a lot. This is not, alas, an original idea. As with many things related to inequality, it was first proposed by Tony Atkinson.<sup>14</sup> If anything, recent developments have further confirmed the relevance of that prescient suggestion – and made it more relevant than ever, if we are to meet the inequality-related SDGs by 2030.

## Footnotes

<sup>1</sup> See <http://commitmenttoequity.org/>

<sup>2</sup> Thomas Piketty (Arthur Goldhammer, Trans.), *Capital in the Twenty-First Century*, (Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 2014).

<sup>3</sup> Federico J. Diez, Jiayue Fan, & Carolina Villegas-Sánchez, 'Global Declining Competition', (working paper, International Monetary Fund, 26 April 2019). <https://www.imf.org/en/Publications/WP/Issues/2019/04/26/Global-Declining-Competition-46721>

<sup>4</sup> Federico J. Diez, Jiayue Fan, & Carolina Villegas-Sánchez, 'Global Declining Competition', see Footnote 3

<sup>5</sup> I am grateful to Hoi Wai Cheng for this point.

<sup>6</sup> Paul Romer, 'A Tax That Could Fix Big Tech', (news article, The New York Times, 6 May 2019). <https://www.nytimes.com/2019/05/06/opinion/tax-facebook-google.html>

<sup>7</sup> Marcelo Lafleur suggested that, given that there is much evidence showing that tax structures, including the corporate tax structure, have a higher incidence on labour than on capital, if there is a link between market power and returns to capital then one can ask whether tax structures that benefit capital can be changed to reduce market concentration.

<sup>8</sup> As Hoi Wai Cheng pointed out in his comments to this essay, in practice, large multinationals have more capability to engage in tax evasion and avoidance, which may allow them to gain unfair competitive advantage over smaller firms and new entrants.

<sup>9</sup> Federico J. Diez, Daniel Leigh, & Suchanan Tambunlertchai, 'Global Market Power and its Macroeconomic Implications', (working paper, IMF, 15 June 2018). <https://www.imf.org/en/Publications/WP/Issues/2018/06/15/Global-Market-Power-and-its-Macroeconomic-Implications-45975>

<sup>10</sup> Federico J. Diez, Jiayue Fan, & Carolina Villegas-Sánchez, 'Global Declining Competition', see Footnote 3.

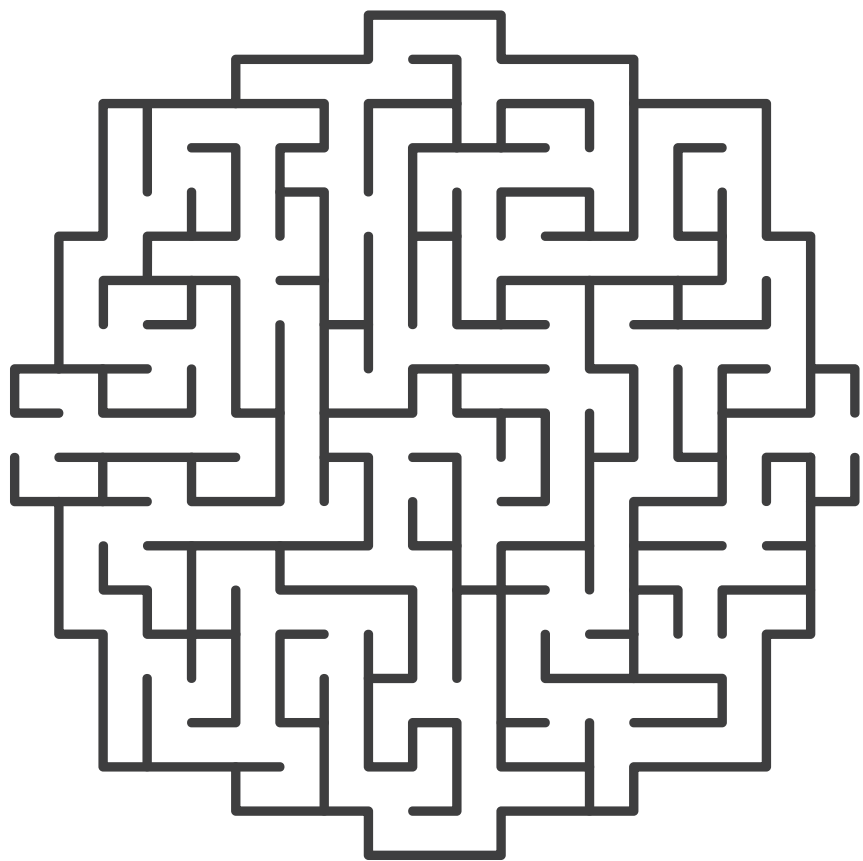
<sup>11</sup> Jason Furman & Robert Seamans, 'AI and the Economy', (academic article, Innovation Policy and the Economy 19, 2019) p 161-191. <https://doi.org/10.1086/699936>

<sup>12</sup> Jason Furman & Robert Seamans, 'AI and the Economy', see Footnote 11.

<sup>13</sup> UNDESA 'World Economic and Social Survey 2018: Frontier Technologies for Sustainable Development', (report, World Economic Survey, 2018). [https://www.un-ilibrary.org/economic-and-social-development/world-economic-and-social-survey-wess\\_69d42e13-en](https://www.un-ilibrary.org/economic-and-social-development/world-economic-and-social-survey-wess_69d42e13-en)

This report explored how the current patent system enables some firms to engage in anticompetitive behaviour. The use of divisional patent is an example (a set of patent applications that all derive from an earlier, related application, but each of them is examined separately and have a separate publication schedule). High patent litigation costs – which has persistently increased for years – also favour larger firms. Patent thickets – dense web of overlapping intellectual property rights that a firm must navigate through to commercialise a new technology, pose a barrier for entry.

<sup>14</sup> Anthony B. Atkinson, 'After Piketty?', (academic article, The British Journal of Sociology, 17 December 2014), p 619-638. <https://doi.org/10.1111/1468-4446.12105>



# Earmarking: Making smart choices



## UN pooled funding: 'Healthy' financing for better multilateral results

by the UN Multi-Partner Trust Fund Office (MPTFO)



## Shades of grey: Earmarking in the UN development system

by Max-Otto Baumann, Erik Lundsgaarde and Silke Weinlich



## Improving the World Health Organization's financing

by Brian Elliott and Maximilian Sandbaek



## Lessons from health on how to invest wisely in development

by Guido Schmidt-Traub



## Current and future pathways for UN system-wide finance

by Silke Weinlich and Bruce Jenks

# UN pooled funding: 'Healthy' financing for better multilateral results

By the UN Multi-Partner Trust Fund Office (MPTFO)

The 2030 Agenda has brought not only a new paradigm about how governments address sustainable development for their citizens' present and future, but it has also triggered a reinvigorated and rare appetite for a new generation of partnerships around Sustainable Development Goals (SDGs): true multi-stakeholder partnerships where governments, investors, international organisations, private sector and civil society can come together to tackle complex problems. The United Nations development system entities with different mandates have been instrumental in germinating and bringing about SDGs and thus are particularly well-placed to articulate and convene these types of partnerships.

While not all partnerships with the UN require a large scale, inter-agency and multi-stakeholder type of collaboration, increasingly the more complex problems of our current times, from humanitarian responses to protracted crises to climate action, from peacebuilding to safe, orderly and regular migration or from ending violence against women and girls to empowering youth worldwide require a new scope of joint action and financing, are where the UN is particularly well positioned to deliver. But this requires solid, flexible, robust, transparent and reliable financing instruments that underpin this type of action – a departure from the highly-fragmented landscape that prevails today.

This helps explain why UN pooled funding has been increasingly recognised as a key financing instrument in the discussions about how to fund the UN, to deliver on the SDG promise and improve how the UN fulfils its mandate, with sweeping changes in three streams of UN reform: development, management and peace and security.

Meeting the SDGs hinges on securing new levels of financial ambition, and on expertise and investments that build and complement a financial architecture that assures 'no one is left behind'. Inter-agency pooled

The Multi-Partner Trust Fund Office is the UN centre of expertise on pooled financing mechanisms. Hosted by UNDP, it provides fund design and fund administration services to the UN system, national governments and non-governmental partners. The MPTF Office operates in over 110 countries and manages a total portfolio of US\$ 12 billion in pooled funds, involving more than 150 contributors and over 85 participating organisations.

finance offers a flexible, collaborative and efficient way to support SDG finance and reach those furthest behind.

## Pooled funding at the core of UN reform

UN leadership and its Member States recognise pooled finance as an effective instrument for improving collaboration and reducing fragmentation with and within the UN – a major tenet of the reform process, across all of its pillars. In May 2018, the UN General Assembly (UNGA) resolution on repositioning the UN development system<sup>1</sup> committed to reducing fragmentation and to 'double inter-agency pooled funds to a total of US\$ 3.4 billion' per year by 2023.

The resolution also welcomed the UN Secretary-General's call for a Funding Compact. This Compact has since been agreed by UN Member States and the UN development system. It contains a series of mutual commitments between the UN and its Member States to raise the quality of funding and delivery with regard to development assistance. It includes commitments to double the share of contributions to UN pooled funds by 2023, to raise the number of contributors to pooled funding as well as to fully capitalise two key flagship funds: the Joint SDG Fund and the Secretary-General's Peacebuilding Fund. The commitments on the UN side of the Funding Compact ask for increased efficiency and effectiveness of development-related inter-agency pooled funds through a series of common management features. These include critical performance features, such as clear

theories of change, solid results-based management systems, well-functioning governance bodies, transparency, visibility and arrangements for the evaluation of pooled funds.

In addition to this recent commitment to double development-related pooled funding, at the 2016 World Humanitarian Summit it was agreed to increase the contributions to UN country-based pooled funds to 15%.

The call for doubling contributions to UN pooled funds can be translated into action. Based on provisional numbers for 2018 from UN pooled fund administrators, UN pooled funds mobilised an estimated US\$ 2.5 billion, an increase of approximately 25% compared to the US\$ 2.0 billion in 2017 (as shown in Figure 33 on page 42 in Part One of this report).

### The benefits of good pooled funding: What's the fuss?

So why this renewed interest? UN pooled financing has been used for more than 15 years, when the UN Multi-Partner Trust Fund Office (MPTFO) was established to administer a pooled fund for Iraq – the United Nations Development Group (UNDG) Iraq Trust Fund. Since then, knowledge and expertise in pooled financing has been increasingly accumulated. Wide research and reports have shown the benefits of pooled financing. For example, in a discussion paper, the UNDG<sup>2</sup> unpacked five key comparative advantages of pooled financing mechanisms:

- Improve aid coordination and coherence.
- Promote better risk management.
- Broaden the contributor base for the UN system.
- Facilitate transformative change.
- Bridge the silos between humanitarian, peace and security, and development assistance.

While much of the discussion has centred on the financial element of pooled funds, less focus has been on the fact that pooled funds are uniquely placed to allow certain types of collaboration that require a multi-dimensional approach: where the UN has a strong convening power to address complex financing and where higher levels of risk management and trust are required. Almost four years into SDG implementation we have started seeing the new type of multi-partner collaboration pooled financing mechanisms allow. Take for instance, the Peacebuilding Fund, which has recently seen its largest growth in terms of commitments and transfers – approaching the ‘quantum leap’ asked by the UN Secretary-General. This has come with new modalities of collaboration (direct implementation by non-UN organisations, blended capital options and funding schemes for the humanitarian-development-peace nexus).

Pooled funding also helps to prevent the mushrooming of small, discreet projects and encourages the alignment of action under a global umbrella, enabling transformational change. The Spotlight Initiative is a good example of this. A large-scale partnership between the European Union and the UN to address violence against women and girls, the initiative has so far launched programmes in 13 countries and regionally in Southeast Asia, providing the adequate level of funding for this pervasive universal problem (exemplified not least in the #MeToo movement). In many of the countries where the Spotlight Initiative operates, it is helping to align a myriad of actions which were otherwise dispersed until recently. In sum, global, well-designed and professionally managed, pooled funds provide overarching financing umbrellas that are aligned with the new generation of UN Cooperation Frameworks in-country.

### What will it take to double the share of inter-agency pooled funds?

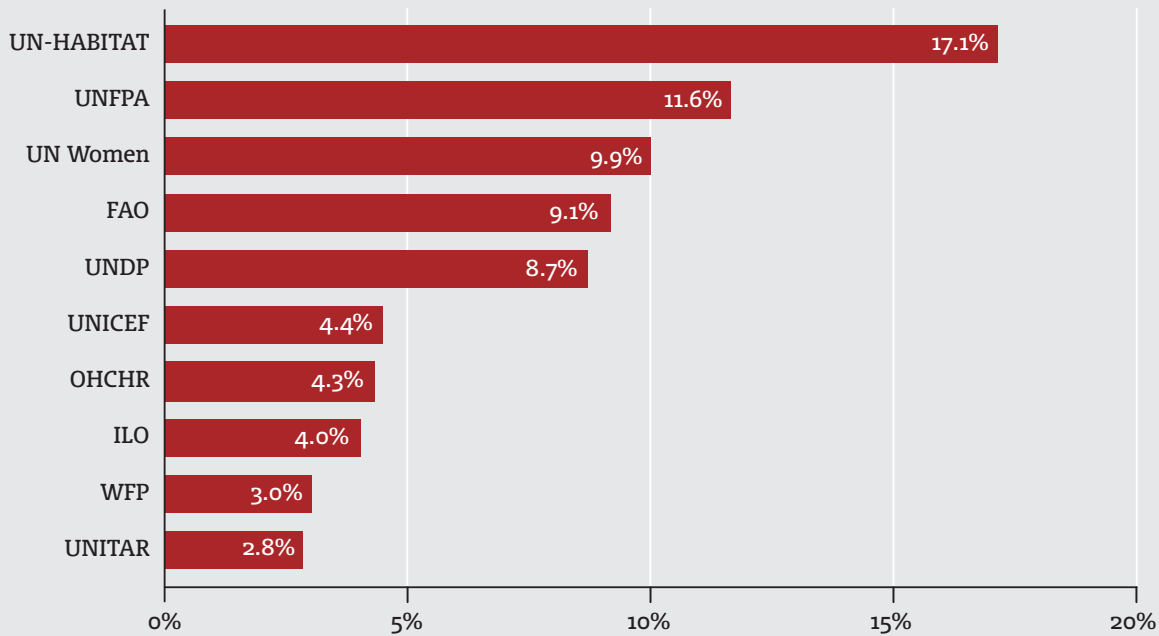
Taking into account all of the benefits of inter-agency pooled funds, Member States and the UN development system have committed to an inspiring target within the Funding Compact: to double the percentage share from 5 to 10% of inter-agency pooled funds within the total non-core resources for development related activities. In spite of the recent growth of pooled funds in absolute terms, data compiled for the 2019 United Nations Economic and Social Council (ECOSOC) Operational Segment signals this percentage still stood at 5% in 2017.<sup>3</sup> Thus, reaching the target of 10% of non-core contributions through inter-agency pooled funds will require additional efforts both by Member States and the UN development system.

*First, it will be necessary to enlarge the number of contributors that are heavily engaged in inter-agency pooled funds.*

As described in Part One of this report, the source of financing of inter-agency pooled funds is still concentrated to a relatively small number of contributors. The top 12 contributors together accounted for 90% of all funding to inter-agency pooled funds.<sup>4</sup> Almost two thirds of all contributions to inter-agency pooled funds come from the governments of United Kingdom (22.0%), Germany (17.8%), Sweden (12.6%) and Norway (10.5%). Among all Member States, only 13 provided at least 10% of their non-core contributions for development activities to inter-agency pooled funds (United Kingdom, Sweden, Norway, Canada, Ireland, Qatar, Australia, Slovakia, Liechtenstein, Israel, Lithuania, Liberia and Somalia).

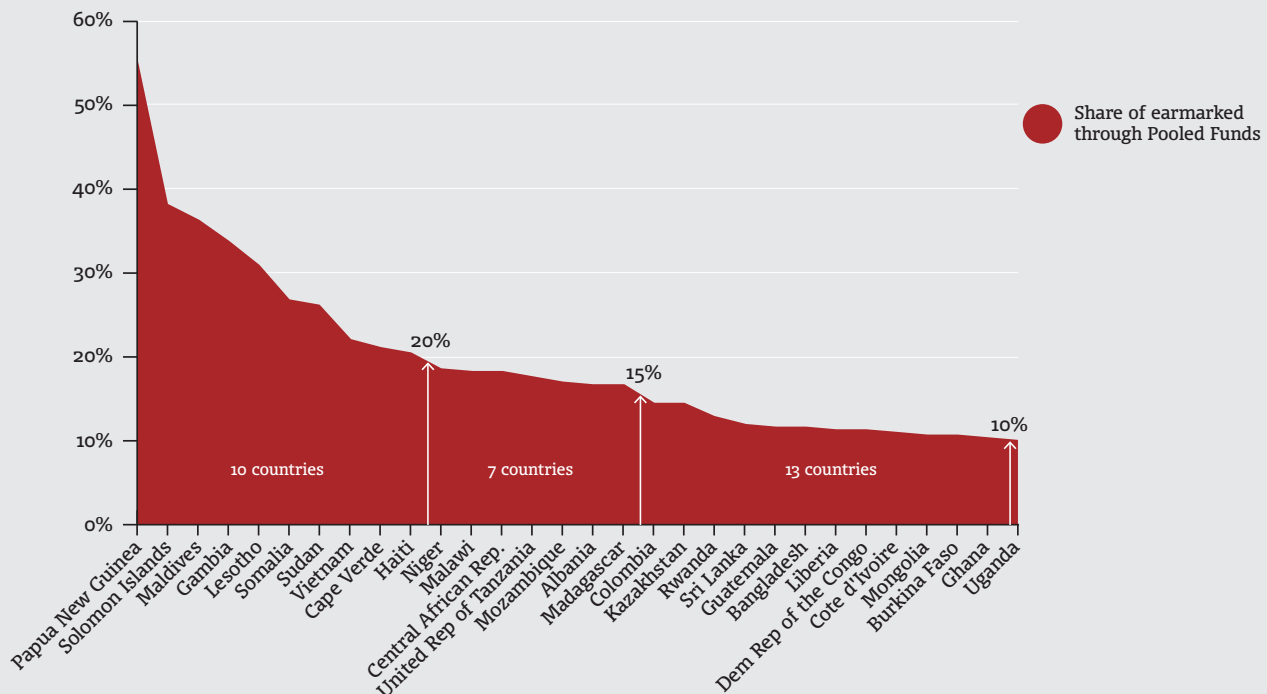
*Second, UN entities will need to increase their participation in pooled funds.* As shown in Figure 1 on the next page, only five UN entities as of today receive more than 5% of their earmarked revenue from inter-agency pooled

Figure 1: Ten UN entities that receive the highest share of earmarked contributions through UN inter-agency pooled funds, 2017



Source: Report of the Secretary General (A/74/73 – E/2019/4) and UN Pooled Funds Database

Figure 2: Countries with 10% or more of earmarked development related expenditure comes from UN inter-agency pooled funds (30 countries, 21 in 2015)



Source: Report of the Secretary General (A/74/73 – E/2019/4) and UN Pooled Funds Database



funds – United Nations Human Settlements Programme (UN-HABITAT), United Nations Population Fund (UNFPA), United Nations Entity for Gender Equality and the Empowerment of Women (UN Women), Food and Agricultural Organization of the United Nations (FAO) and United Nations Development Programme (UNDP). There are only three UN entities where pooled funds represent more than 10% of non-core resources. Inter-agency pooled funds will need to continue to explore what the incentives and obstacles are for more active participation of UN entities in the implementation of pooled funds. There is also great potential for non-resident UN entities, those without offices in a country but whose mandate and expertise can make a substantial development contribution, to participate in pooled funds.

And third, *inter-agency pooled funds at the country level should be reimagined* by, for example, recognising them as flexible ‘core’ like contributions for inter-agency work within the UN Sustainable Development Cooperation Frameworks. The total percentage of non-core development related expenditures that come through inter-agency pooled funds, varies highly from country to country, as shown in Figure 2 on the previous page, but in only 30 countries is the share over 10%.

Experience in joined-up approaches might be a factor that explains greater engagement in pooled funds. Many of the countries with the highest rates of funding through inter-agency funds had previously requested the UN development system to adopt the Delivering as One approach (Papua New Guinea, Maldives, Lesotho, Vietnam, Cape Verde, Niger, Malawi, United Republic of Tanzania, Mozambique or Albania, for example). In addition, countries with support from transition funds (such as Somalia, Sudan or Colombia) also performed well in this regard, demonstrating that pooled funds can be a particularly good fit for the humanitarian-development-peace nexus (for more information on this, see Part One of this report).

Pooled funds are particularly well-positioned instruments to finance the new generation of UN Sustainable Development Cooperation Frameworks at the country level, as inter-agency pooled funds can act as the most flexible, predictable and coherent financing instrument under the leadership of the UN Resident Coordinator. As argued by Weinlich and Jenks in their contribution in Part Two of this report (page 119), it is necessary to develop country-level resource strategies to finance system-wide action.

At the global level, the resolution on the UN development system repositioning acknowledged the important role of the Joint SDG Fund and the Peacebuilding

Fund. There is now an opportunity to rethink the role of pooled funds for financing system-wide action and results under the UN Cooperation Framework. These actions, taken together, might be among the most viable strategies to reach the ambitious target of doubling from 5% to 10% of non-core development resources channelled through pooled funds. To make this happen, there is a wealth of experience to learn from.

### The good cholesterol: Making pooled funds healthy pooled funds

Pooled funds can be good or bad, like cholesterol, and similarly it is not only about levels but quality.

Continuing with this metaphor, badly designed high-energy-consuming pooled funds can be heavy, block circulation and ultimately lead to heart problems. High cholesterol can be inherited, but it is often the result of unhealthy lifestyle choices, which makes it preventable and treatable. A healthy diet and regular exercise can help make big strides in improving one’s cholesterol. What then are the healthy habits one can pursue when talking about pooled funds?

- First, *commitment*. As we move into a relatively new behaviour (and not always desired by all at the start), we need strong commitment. Commitment and leadership from contributors, implementing partners and national governments. The Funding Compact is a strong starting expression of this commitment.
- Second, *enablers*. An independent professionalised trustee function enables implementing partners to focus on programmatic results and facilitates governance mechanisms to exercise oversight and overall accountability. The systems, arrangements and logistics for their commitment should be in place. Each type of partnership may need different types of enablers and in this regard instruments have been developed that allow the initiation, funding and implementation by a variety of partners.
- Third, *socialising*. This requires simplifying and facilitating the participation of a variety of non-traditional partners. The value of pooled funds is about co-mingling, innovation, inclusion, flexibility and embracing these new behaviours together (socialising the results and lessons learned).
- Fourth, *accountability*. Governance of the fund should allow for mutual accountability and provide a space to voice concerns and needs of all stakeholders involved, as well as accommodate important aspects of visibility that can sometimes be downplayed in a pooled platform.



The learning and investment curves can be steep initially but as experience shows smart and healthy investments clearly pay off in the long term. In the same vein, smart pooled funds are central for an agile, fit and relevant UN – picking up the pace and momentum for the long run.

## Footnotes

<sup>1</sup> United Nations General Assembly, ‘Resolution adopted by the General Assembly on 31 May 2018, Repositioning of the United Nations development system in the context of the quadrennial comprehensive policy review of operational activities for development of the United Nations system’, (resolution, A/RES/72/279, UNGA, 1 June 2018). <https://undocs.org/A/RES/72/279>

<sup>2</sup> UN Development Group, ‘The Role of UN Pooled Financing Mechanisms to Deliver the 2030 Agenda’, (report, UNDG, 2016). <https://undg.org/document/the-role-of-un-pooled-financing-mechanisms-to-deliver-the-2030-agenda/>

<sup>3</sup> UN General Assembly Economic and Social Council (UNGA ECOSOC), ‘Funding analysis of Operational Activities for Development – Addendum 2’, (resolution, A/74/73-E/2019/4 Add. 2, UNGA ECOSOC, 18 April 2019). [www.undocs.org/A/74/73/Add.2](http://www.undocs.org/A/74/73/Add.2)

<sup>4</sup> A/74/73-E/2019/4 Add. 2, UNGA ECOSOC, 18 April 2019, see Footnote 3.

# Shades of grey: Earmarking in the UN development system

By Max-Otto Baumann, Erik Lundsgaarde and Silke Weinlich

Do we know enough about the various forms of earmarked funding arrangements to inform decision-making? What positive and negative marks have three decades of earmarked contributions left on the UN development system (UNDS)? What challenges do donors face in managing earmarked funding? And what perspectives on the earmarking conundrum at the UNDS are helpful in identifying entry points for reform? This contribution provides some answers to these questions, drawing on findings from our broader study on earmarking in the multilateral development system. Towards the end of the piece, we reflect on how to take the recently adopted UN Funding Compact forward.

## The many facets of earmarking

Earmarked funds come in many varieties but share three features:

- a) they are always voluntary in nature,
- b) contributors specify a purpose for which they are used and
- c) statutory multilateral governance bodies are not responsible for their allocation.

Typically, earmarked funding has been juxtaposed with multilateral core funding. Core or general purpose funding is crucial in ensuring that UN entities function and that their multilateral assets are protected. However, assessing core funding against non-core or earmarked funding conceals the multifaceted nature of earmarking approaches.

Earmarking arrangements differ in terms of their advantages and disadvantages for donors, UN entities and recipients. Instruments range from multi-donor trust funds that allow a better coordination of humanitarian aid, to single donor trust funds where one contributor strengthens an organisation's work in one particular programmatic area to single donor project funding whereby an organisation receives funds, often in the field, for a specific project/output in a clear geographic location and specified target group of beneficiaries. Given their

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different properties, these funding arrangements can widely vary in their effects on individual UN entities, on the broader multilateral development system and of course on the effectiveness of development interventions. They also vary with regard to the influence, control and accountability that donors allegedly seek.

Earmarking is thus a matter of degree, ranging from very tight, highly customised, donor-driven projects, to quasi-core support. If we accept this premise, multilateral funding choices are no longer about an either/or of core

and non-core funding, but rather about the best mix of various forms of funding which allows UN organisations to play to their strengths and the system to become more than the sum of its parts. If well-managed and aligned, earmarked funding can strengthen multilateralism and the ability of organisations to help implement the 2030 Agenda. The Funding Compact provides a step toward achieving this goal.

Knowledge about earmarked funding in the UNDS has accumulated over the last five years, not least through the work of the United Nations Department of Economic and Social Affairs (UNDESA) and this very report. The recently adopted Data Cube standards for system-wide reporting will provide an even better data basis that helps measure progress on the Funding Compact indicators. Yet in our research, we found that existing data and classifications still have significant gaps when it comes to shedding light on important facets of earmarking. Parameters such as the number of donors in funding agreements, duration, governance arrangements, alignment to programmatic frameworks or level of purpose specification are not yet made transparent, but they can have a big impact.

The largest category of earmarked funding in the UNDS (programme/project funding) is in essence still a black box at the system level, though UN entities are using their transparency portals to reveal more information, yet unevenly so. The decision to apply the one percent levy on funding in this category reflects the assumption that it is the most disruptive form of funding. But not all varieties seem to be equally harmful – funding of parts of country programmes (or in the future funding for Country Coordination Frameworks) actually provide welcome support. At the same time, there is evidence that more restrictive forms of earmarking occur within some thematic or interagency funds, potentially reducing their usefulness for UN entities.

### Consequences of earmarking on the UNDS

Earmarking has existed for nearly three decades in the UNDS, and for more than 20 years the share of non-core funds has been larger than core funds across the system, though the importance of earmarked funds in the individual funding profiles of UN entities varies. Earmarked funds have ensured that the UNDS has broadly kept its overall share of multilateral Official Development Assistance (ODA) and thus allowed the UNDS to evolve and stay relevant, enabling a broad expansion of activities. There are also other positive effects. The close involvement of donors through earmarking, not only at the country level, might amplify UN entities' activities and provide support in difficult situations. The need to meet accountability requirements and demonstrate efficiency, agility and success has shaped UN systems and

operations in recent years, and provided an impetus to be more entrepreneurial. Last but not least, pooled funding arrangements can bring the system, and at country-level also donors and host countries, more closely together to join forces to better address country needs. Global pooled funds may act as catalysts and allow field offices to take more risks.

These positive impacts of earmarked funding should not lead us to neglect its downsides across the system. A low share of core and a supply-driven system threaten the principled, problem-oriented allocation of resources and the execution and strengthening of multilateral core functions. Earmarked funding tends to be short-term, and this generates a trend towards low-hanging fruits rather than addressing complex socio-economic challenges in the spirit of sustainability. It drives competition and hinders coordination and cooperation, thereby conflicting with the requirements of the 2030 Agenda. And while earmarking may have made the UN more cost-conscious, it comes with transaction costs which are arguably a source of even larger inefficiencies. Finally, it creates an extreme donor-orientation in all phases of the programming and implementation process ('tunnel vision', 'tyranny of the urgent'), which may undermine development effectiveness.

UN agencies have been playing an active part in mobilising earmarked resources, while at the same time trying to mitigate the more negative aspects. Decentralisation of decision-making authority to the country level played an important role. Once in place, field offices have incentives to sustain themselves financially. Coordination mechanisms inside and across entities – notwithstanding some positive examples – have so far not been strengthened to an extent that allow a firmer corporate stand against earmarked funding proposals that fall outside an organisation's thematic priorities or are too restrictive. Last but not least, the deliberate use of core resources to leverage non-core contributions is further driving earmarking. This is not bad per se, but there is risk of reverse leveraging whereby donors bind agencies' core resources for their bilateral purposes.

### Donors: challenges in earmarking practices

Based on document analysis and interviews, we have identified common challenges around the earmarking practices of Germany, Sweden, the United Kingdom and the European Commission, which might impact these donors' ability to adopt the behavioural changes requested by the Funding Compact. First, and not surprisingly, administrative costs of earmarking arrangements also arise for donors, although there is little actual assessment of these costs. Delegating the implementation of projects and programmes to UN entities through earmarked funding channels also requires continued

engagement and administrative oversight on the part of the donor. Second, across bureaucracies, it becomes apparent that capacity constraints undermine oversight, accountability and control, which were among the primary motives for earmarking in the first place. Third, decision-making related to earmarked funding tends to be dispersed, whether between headquarters and the country level, or across the headquarters of different ministries and implementing agencies. This dispersion renders the application of overarching strategic objectives more difficult.

While there is a variation in terms of the strategic nature of donor approaches, all have difficulties communicating their multiple funding decisions in many different contexts via an overarching strategy. Without clearly described options, including guidelines and trade-offs, there is a limited basis for ensuring that dispersed funding flows are working together to advance a common agenda. In practice, decisions to provide earmarked funds reflect the combination of thematic agendas, development needs in specific contexts, the availability of alternative funding channels, the legacy of past decisions, budgetary restrictions and other considerations. Changes in the funding mix of donors thus require overall political support for the Funding Compact that goes beyond those only responsible for UN reforms and institutions, and a thorough strategic approach that may help enforce greater funding discipline.

### **Earmarking at the UNDS: A collective action problem**

How can we best make sense of the bigger picture of UN funding? Taking more abstract perspectives never does justice to overly complex realities, yet it allows us to identify crucial entry points that could help secure a healthier funding basis for the UNDS. One focus could be on the dyadic relationship between one donor and an organisation to reflect on how to improve that relationship – through thematic funds, strategic funding dialogues and the like. To add some layers of complexity, we could then secondly assume that neither the donor nor the UN organisation are unitary actors, and that in the end, it is also about political and other priorities of programme countries and societies. This would shift the focus to issues of coordination and alignment, and related incentives, eg the fit of funding arrangement with Sustainable Development Cooperation Framework, and institutional strategies to ensure greater discipline.

A third perspective embeds the relations between organisations, funders and recipients into a larger systemic view and interprets it as a set of collective action problems. In a way, the multilateral assets of the UNDS (such as convening power, the link between normative and operational work, broad country presence, knowledge

and expertise, perception of impartiality) can be considered common goods in themselves. Through earmarking, these common good are depleted, with the extent depending on the form of funding arrangements, cost recovery, the overall ratio of core/non-core, and the like. The more that contributors engage in earmarking, the more it becomes a rational strategy for others to do so, even if these practices might diminish the unique multilateral UN assets that make delegation to the UN so interesting in the first place.

Relatedly, the provision of core funding becomes less and less attractive, potentially also for those countries from the South that are now in a better position to contribute. And the more UN agencies accept thematically undue or overly restrictive earmarking arrangements, the more it becomes rational for other agencies to do the same, even if in the long run, it is in no one's interest. Thus, the more the UN is used as an implementing agency, the more it turns into one – and other multilateral qualities lose out.

How can such a vicious circle be slowed down and potentially reversed? From literature about commons, we know that communication, reputation, reciprocity, trust and sanctions are helpful, as is better knowledge of the long-term benefits.

### **Taking the Funding Compact forward**

The Funding Compact represents a much-needed systemic approach that brings together both UN agencies and Member States behind their respective common obligations in terms of funding and performance. It aims to establish a better funding mix across the UNDS and enable inter-agency cooperation and collective responses for more effective support to the implementation of the 2030 Agenda.

Several elements that could help overcome the collective action problems outlined above are already part of it. For example, the Compact's implementation will be periodically discussed and reviewed. This involves communication among UN Member States and UN entities and provides opportunities to reciprocate changes by others – this is the essence of a compact. Both states and agencies can gain (or tarnish) their reputations as reform champions in implementing their commitments. To raise the stakes, Member States should use their voluntary national reviews to the High-Level Political Forum for reporting on the implementation of commitments, also to bring the various policy and reform strands more closely together. All in all, the Funding Compact and related, transparent policy changes may translate into greater trust among Member States and between states and agencies.

However, improving the performance of the system and building a stronger case for core contributions requires sustained dedication and political will on the side of Member States and UN entities, and perhaps steps that go beyond the content of the compact. All Member States need to make UNDS reform a political priority that shapes not only their funding mix but also their behaviour towards UN entities and the UNDS at large. Member states and UN entities need to increase transparency on country-level funding and activities. Earmarked programme/project funding, which accounts for 60% of UNDS funding and often involves substantial

co-financing from regular budgets, is currently under insufficient scrutiny by boards or the wider public. Furthermore, agencies should develop greater resistance against earmarking by strengthening their internal mechanisms, as well as inter-agency coordination, where the Resident Coordinator needs to have a greater role in aligning funding with the Sustainable Development Cooperation Framework. Such changes will not cure all of the UNDS funding ills – yet they might eventually interrupt the vicious circle described above and nurture the UN’s multilateral assets that the world needs more than ever in the UN’s 75th year of existence.

# Improving the World Health Organization's financing

By Brian Elliott and Maximilian Sandbaek

The World Health Organization (WHO) has launched an ambitious five-year strategic plan through its 13<sup>th</sup> General Programme of Work (GPW) 2019–2023, which was approved by the Seventy-First World Health Assembly in May 2018 (resolution WHA71.1). With its mission to ‘Promote health, keep the world safe, serve the vulnerable’, the GPW 13 outlines a clear vision for achieving three strategic priorities through its triple billion targets:

- **achieving universal health coverage** – 1 billion more people benefiting from universal health coverage;
- **addressing health emergencies** – 1 billion more people better protected from health emergencies; and
- **promoting healthier populations** – 1 billion more people enjoying better health and wellbeing.

The GPW 13 is fundamentally aligned with the Sustainable Development Goals (SDGs) and provides a pathway to achieving some of the health-related SDGs. The triple billion targets support the same ambitious aims as the Goals and take forward the United Nations 2030 Agenda for Sustainable Development.

Furthermore, in formulating and implementing the WHO transformation agenda, the Organization has demonstrated its full commitment to and engagement in the United Nations development system reform. WHO supports the strengthening and simplification of inter-agency mechanisms to enhance cooperation within business operations, while at the same time avoiding possible duplication of functions.

Strengthening WHO’s approach to resource mobilisation represents one of the major shifts in GPW 13. Building on the extensive reform process initiated in 2011, WHO’s new mission, as outlined in GPW 13, will require a shift to optimise the World Health Organization’s strategic approach and operational model for global fundraising. Going forward, resource mobilisation will be understood as a strategic partnership between Member States, non-state actors and the WHO Secretariat.

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

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

WHO has already started to implement several initiatives. These include the launch of a WHO first-ever investment case, the formulation of a draft Global Action Plan to drive collective action by global health actors, the development of a draft resource mobilisation strategy, the introduction of thematic and strategic funds, the implementation of initiatives to improve partner visibility and, in April 2019, an Inaugural Partners Forum in Sweden.

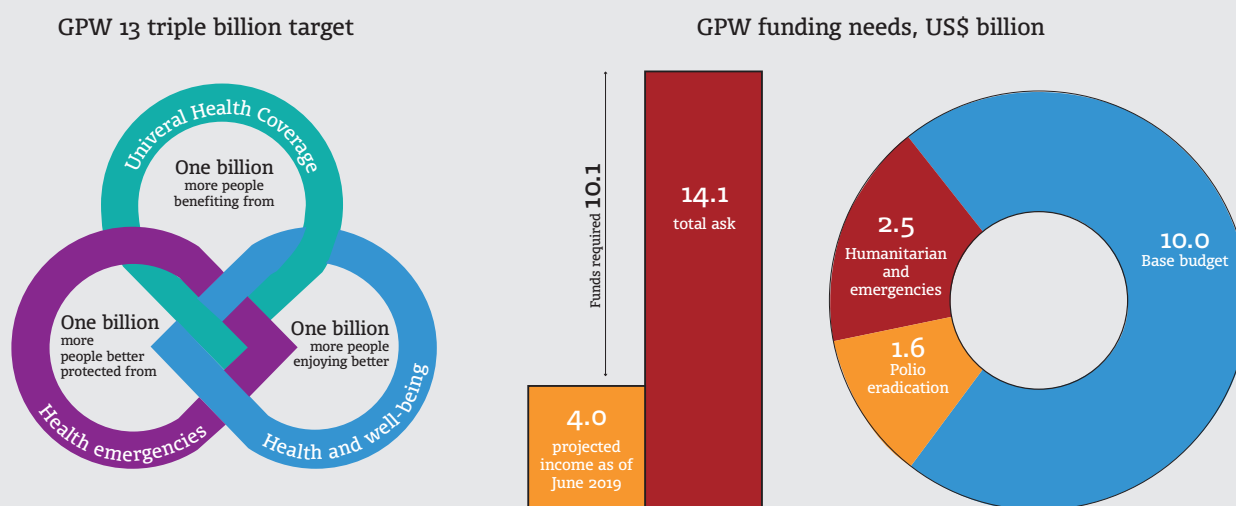
## Investment case

In order to achieve the targets set out in the GPW 13, WHO published its first investment case<sup>1</sup> in September 2018, setting out the transformative impacts on global health and sustainable development that a fully-financed WHO could deliver over the next five years.

The investment case describes how WHO, working together with its Member States and partners, could help to save up to 30 million lives, add up to 100 million years of healthy living to the world’s population and add up to 4% of economic growth in low and middle-income countries by 2023. Achieving these results would require an investment of US\$ 14.1 billion from 2019 to



Figure 1: GPW 13 targets and funding needs



Source: World Health Organization (WHO)

2023, representing a 14% increase in WHO's base budget over the previous five-year period.

In doing so, the investment case shows how a stronger, more efficient, and results-oriented WHO will serve and guide governments and partners in their efforts to improve the health of their populations. It highlights new mechanisms to measure success, ensuring a strict model of accountability, and sets ambitious targets for savings and efficiencies.

Furthermore, the investment case emphasises WHO's focus on equity, gender and rights-based approaches that aim to close gaps in health service coverage and empower individuals and communities to ensure no one is left behind.

Finally, the investment case outlines WHO's critical role as a partner, convener, and driving force in coordinating efforts across the global health arena. Figure 1 above shows the GPW 13 triple billion targets along with the current financing levels of the estimated GPW 13 funding needs.

## Global Action Plan

To accelerate progress towards the health-related Sustainable Development Goals, global organisations active in health, coordinated by WHO, worked together to develop the draft Global Action Plan<sup>2</sup> for healthy lives and wellbeing for all. The draft Global Action Plan represents a historic commitment to advancing collective action, including coordination of resource mobilisation

for healthy lives and wellbeing for all. It is expected that additional organisations will pursue this joint effort to achieve the ambitious Sustainable Development Goals leading to a healthier, more prosperous, inclusive and resilient world. The final draft of the Global Action Plan will be submitted to the United Nations General Assembly in September 2019 and will provide context for WHO's work going forward.

The Secretariat will step up its leadership for the implementation of the future Global Action Plan and convert various multilateral commitments of the Organization into collective and tailored action aimed at supporting countries in accelerating progress towards the health-related Sustainable Development Goals. By fully aligning the plan with the Sustainable Development Goals, WHO is making a commitment to the goals' mission to 'leave no one behind'.

## Resource mobilisation strategy

Considering the ambitious goals set by GPW 13, the required resources as specified in the investment case, the initiation of a Global Action Plan for healthy lives and wellbeing for all, and the World Health Assembly approval of WHO's Programme Budget 2020-2021, a draft resource mobilisation strategy has been developed to help drive resource mobilisation efforts over the period 2019-2023.

To this end, an information note giving a high-level overview of the resource mobilisation strategy will be brought to the WHO Executive Board in January/



February 2020. The draft resource mobilisation strategy 2019–2023, aims to increase financing based on the following four pillars to meet the financial target set in WHO’s investment case:

- employing tailored approaches to grow, diversify or maintain funding from government partners;
- building effective partnerships and increasing funding from philanthropic partners;
- maintaining and increasing funding from funds, international development banks, and multilaterals; and
- exploring innovative financing and the funding potential of revenue-producing activities.

Currently, projected income against the US\$ 14.1 billion target is US\$ 4 billion, which includes income from assessed contributions and long-term pledges. This means WHO needs to raise US\$ 10.1 billion (see Figure 1 on the previous page) for the next five years. Despite the overall financing situation being positive, funds are not evenly distributed between major offices and across the programmes and results structure due to earmarking of voluntary contributions and internal mechanisms for distribution of funds.

Additionally, financing from flexible funds currently covers approximately one third of the programme budget requirements. As stressed in the GPW 13, ‘the quality of funds is almost as important as their quantity’

– not least given the need for WHO to work in an integrated manner to deliver programme results. Within the US\$ 14.1 billion needed to ensure successful implementation of GPW 13, appropriate levels of flexible, aligned and predictable funding will be critical. To ensure that WHO is fit for purpose under the transformation agenda, all of the above approaches will therefore build on the concepts of improving the quality of funding (including increased predictability and flexibility), increasing funding potential at country level and strengthening overall resource coordination.

### Thematic and strategic funds

One of the highlighted initiatives to improve the quality of funding, whilst meeting partner expectations, is the greater emphasis placed on thematic and strategic funding. This funding aims to meet partners’ requirements for reporting, visibility and accountability, while providing more effective and efficient earmarked funding for WHO. Figure 2 below captures at a high level the proposed options for the types of themes that partners could explore with WHO, based both on their requirements and on meeting the Organization’s funding goals. In 2018, WHO started recording, and will continue to advocate for, contributions which meet the flexible nature of thematic funds along with contributions that are negotiated at a corporate level and in so doing meet the strategic needs of partners and the Organization.

**Figure 2: Proposed thematic and strategic engagement funding model to finance GPW 13 and Programme Budget 2020–2021**

### Available options for thematic funding windows

Options	Sources and approach	Flexibility level
01	<b>Triple billion targets</b> Formulation of one high-level thematic funding window per triple billion target	
02	<b>PB 2020-21 results framework</b> Definition of thematic funding windows based on the outcome and output structure as per proposed PB 2020-2021	
03	<b>GPW 13 Impact Framework</b> Development of thematic funding windows based on GPW13 Impact Framework	
04	<b>Cross-cutting themes</b> Derivation of 30-40 cross-cutting themes based on output structure as per proposed PB 2020-2021	

Source: World Health Organization (WHO)

## Partner Visibility

Under Partner Visibility WHO has recently been focusing on attracting a wider contributor base, helping to ensure more flexible and increased overall funding, improving recognition for its partners' contributions to WHO's work and providing a higher overall level of partner visibility.

To satisfy these needs in the short-term, WHO has started developing dedicated impact sheets for some of its key partners, highlighting joint achievements through inspiring and concise stories on new projects, agreements reached and impacts achieved. This initiative has so far been well received by its partners and their related key stakeholders. WHO will continue to develop impact sheets/webpages for additional key partners going forward.

In the medium term, however, WHO is striving for a more holistic and systematic approach to increasing visibility for its partners with the ambition to make visibility an integral part of WHO's strategic engagement with partners. In so doing and as a first step, partner recognition guidelines to support greater visibility have been developed and communicated with all WHO staff involved in resource mobilisation, communications and partner engagement across the three levels of the organisation. This is intended to ensure alignment and give guidance on future visibility measures.

## Inaugural partners forum

Building on the lessons learned from the Financing Dialogue, and against the background of the ambitious goals set by GPW 13, WHO, together with the Government of Sweden, launched the 'Inaugural WHO Partners Forum' in Sweden in April 2019.

With more than 200 participants, including representatives of Member States, intergovernmental organisations and relevant non-state actors (academic institutions, civil society organisations, philanthropic foundations and private sector entities), the event offered a unique opportunity for participants to inform WHO's strategic direction. The event was also an important element of the Director-General's vision of a WHO that is more open, transparent, collaborative and innovative.

Participants acknowledged the importance of supporting WHO to realise its vision, meet its triple billion targets and to address both the quality and quantity of resources required as specified in the investment case to implement GPW 13 and, in so doing, to lead implementation of the health-related SDGs. In this respect, participants welcomed WHO efforts to enhance collaboration with its partners through its innovative 'multi-year collaborative endeavour', including annual partners fora and focus group discussions with experts from a wide variety of sectors.

As part of the outcome of the Inaugural WHO Partners Forum, participants also highlighted recommendations for WHO and its partners on partnerships and efficient and effective financing, with an emphasis on predictability and flexibility. These recommendations include:

- *improving effective partnership* – participants recommended that WHO better enable countries to lead their health programmes but take a stronger role in coordination, advocacy and communications, while also standardising processes to reduce transaction costs. For partners, participants felt they should better define their added value; set objectives and project parameters in partnership with WHO; and better coordinate with others and ensure sustainability.
- *improving effective financing of WHO* – participants believed WHO should do more to define its impact and return on investment; look at new models to finance interventions; be a stronger advocate for greater domestic investment in health; and focus on securing more flexible funding. The priorities that participants felt were important for partners included financing programmes that also address factors that impact health; pooling resources with others; leveraging WHO's other values beyond funding and focus more on national ownership of health programmes and financing.

With regard to WHO's longer-term collaborative endeavour, many felt the event represented a 'good start' to a more collaborative and open approach by WHO and asked WHO to continue the dialogue in the following months and years to come. For example, some participants suggested follow-up 'touch points' on topics such as flexible funding, working with civil society and better engagement with the private sector be explored.

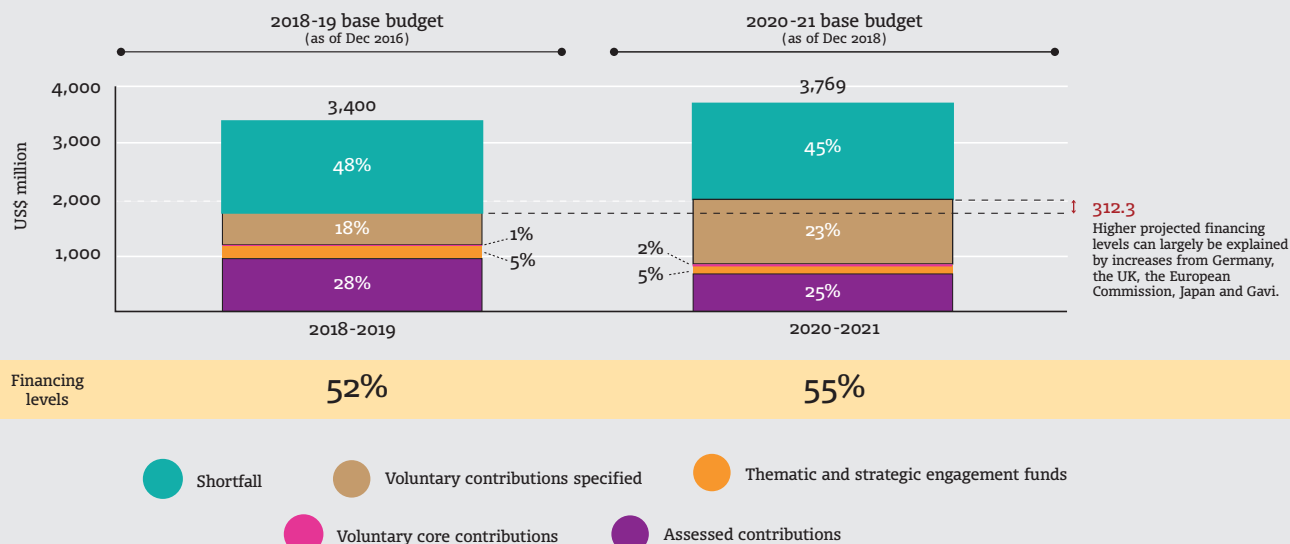
The importance of an annual Partners Forum was also emphasised by many participants. A general desire was expressed for in-depth discussions and an opportunity to seek new perspectives.

## Outcomes

The meeting resulted in the following:

1. An energised and diverse community of partners to further support WHO over the coming five years to secure the resources necessary to deliver GPW 13;
2. Shared understanding of how to strengthen partnerships and improve the effective financing of WHO, with an emphasis on predictability and flexibility; and,
3. Enhanced trust and confidence in a transformed, impactful and value for money WHO.

**Figure 3: How realistic is the budget increase for 2020-21?**  
Comparison of projected financing levels



Source: World Health Organization (WHO)

Note: Comparison of projected financing levels for Programme Budgets 2018–2019 and 2020–2021 (US\$ million)

## What has the impact of all these actions been so far?

The current financial outlook for the approved Programme Budget 2020–2021 already shows an improvement. As shown in Figure 3 above, projected financing levels for 2020–2021 are higher than what was projected for 2018–2019 at a similar point in the biennium (55% versus 52% or an increase of US\$ 312.3 million increase in available funding for the base Programme Budget 2020–2021 as of 31 December 2018 compared with the available funding for Programme Budget 2018–2019 as of 31 December 2016).

The forecasted increase in funding levels not only highlights the role that traditional contributors can play in providing additional funding, but also emphasises that new contributors and innovative financing mechanisms are expected to play a larger role in bridging the gap in financing WHO for the next 5 years.

## Conclusion

While WHO's GPW 13 and transformation agenda are at the early stages of implementation, the above actions have started to show some promise in the area of resource mobilisation. Nonetheless, monitoring and evaluating the true impact of all of these efforts will take time. Rather, the introduction of the described initiatives should be considered as the beginning of a shared

journey between WHO and its partners. It can neither endure nor advance without trust. Trust is built and maintained by many small actions over time and WHO needs to continue to do its utmost if the organisation wants to successfully deliver on its ambitious five-year strategic plan, fulfil its mission and 'leave no one behind'.

## Footnotes

<sup>1</sup> World Health Organization (WHO), 'WHO launches first investment case to save up to 30 million lives', (news release, WHO, 19 September 2018). <https://www.who.int/news-room/detail/19-09-2018-who-launches-first-investment-case-to-save-up-to-30-million-lives>

<sup>2</sup> World Health Organization (WHO), 'Towards a Global Action Plan for healthy lives and well-being for all: Uniting to accelerate progress towards the health-related SDGs', (report, WHO, 2018). <https://apps.who.int/iris/handle/10665/311667>

# Lessons from health on how to invest wisely in development

By Guido Schmidt-Traub

In a recent International Monetary Fund (IMF) study, the head of the IMF's Fiscal Affairs Department and his colleagues show that achieving the Sustainable Development Goals (SDGs) will require a large increase in public and private investments.<sup>1</sup> Low-income developing countries with average per capita incomes below US\$ 2,700 per year cannot finance these investments out of domestic resources or debt financing alone – even though domestic resource mobilisation can and needs to be expanded substantially in many countries. Neither will the private sector come to the rescue, as many SDG investments cannot generate commercial returns. The IMF concludes that Official Development Assistance (ODA) and other forms of concessional finance must increase if the SDGs are to be achieved, a point also echoed in a 2018 report by the Sustainable Development Solutions Network.<sup>2</sup>

The IMF conclusions run counter to the prevailing zeitgeist shaped by tight budgets in many traditional donor countries, growing opposition to multilateralism and a rising belief in the power of markets to solve complex development problems. ODA is seen by some as a relic of the past, and many donor agencies' strategies centre around blended finance. Public acceptability of aid is falling. Meanwhile, large volumes of additional development finance have been mobilised by China and other new development partners, but these resources focus on infrastructure and other investments that generate high economic returns.

If the IMF's call for more ODA is to be heeded, we need to answer two critical questions. The first issue concerns the effectiveness of aid. How can taxpayers and policy-makers be convinced that their tax dollars generate high returns and go towards the countries most in need? As discussed below the answer to this question will inter alia require greater volumes of high-quality multilateral aid. So the second issue becomes how to convince China and other providers of large volumes of development assistance who are not part of the Organisation for

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Economic Co-operation and Development's Development Assistance Committee (OECD-DAC), the 'club' of traditional donors, to provide more concessional finance for the development needs identified in the IMF study.

## The health sector pointing a way forward

The aid community has been discussing criteria for aid effectiveness for a long time, giving rise to the 2005 Paris Principles of Aid Effectiveness and the Busan Declaration, which underscore the importance of national ownership and result-based financing. These principles are important, but they do not address some of the most critical questions and trade-offs for Official Development Assistance under the SDGs. Fortunately, the experiences of the health sector, specifically the large increases in spending on combating infectious diseases and increasing access to vaccination under the Millennium Development Goals, point towards a way forward.

When G7 governments willed the means to tackle the HIV/AIDS pandemic, address malaria and combat tuberculosis at their 2001 summit in Genoa, the need for increased international financing was clear and well established. However, most observers questioned that the funds could be invested effectively, as countries lacked the capacity to design and implement effective national-scale programmes.<sup>3</sup> These concerns were warranted since no resource-poor country had undertaken the needed scaling up of public health interventions.

Indeed, the knowledge of how to design and implement ambitious national scale programmes did not exist. Creating ‘quality demand’ and ensuring effective use of resources were therefore the greatest challenges in the health community.

Remarkably and against widespread expectations, the health sector succeeded in generating such quality demand in a short period of time. The US President’s Emergency Plan for AIDS Relief (PEPFAR) programme started disbursing funds in 2002 and the Global Fund to Fight AIDS, Tuberculosis and Malaria followed in January 2003. By the time of Round 8 in 2008, the knowledge of how to design and implement ambitious national-scale programmes had spread to virtually all countries in the world.

This success was made possible in large measure due to the unique design principles of the Global Fund shared also by the Global Alliance for Vaccines and Immunization (Gavi).<sup>4</sup> However, the set-up and functioning of these two institutions are surprisingly unknown outside the health community. For example, when the Sustainable Development Solutions Network convened a meeting of all head of multilateral sector financing institutions in late 2014 in the run-up to the Addis Ababa conference on Financing for Development, this was the first time many of these organisations met or spoke with one another. All admired the Global Fund for its capacity to attract large volumes of donor financing, but they did not understand how the fund operates or how lessons might be applied to their own mechanism, even though they all shared essentially the same donors. It is therefore worth reviewing the design principles of the Global Fund (and Gavi) briefly.

### Unique design features of the Global Fund

During the first ten years of its existence the Global Fund ran a demand discovery process, which was replaced in 2011 by a more traditional allocation-based system. During this ‘rounds-based mechanism’, eligible countries could submit funding proposals for each of the three diseases asking for as much money as they thought was needed. The Global Fund did not specify a model or check-list for the applications, so countries were encouraged to innovate. To ensure broad buy-in in every country, applications had to be approved by a specifically-designed Country Coordinating Mechanism, comprising representatives from government and other stakeholders, including people living with the diseases.

Members of the Global Fund’s independent Technical Review Panel (TRP) reviewed all country proposals and scored them on their technical merit. During the early years, TRP members were instructed to consider only the technical merit of the proposal and not its financing

requirements. Since countries’ proposals fell into one of three disease categories, TRP members could compare all proposals for malaria, tuberculosis or AIDS, which allowed for direct comparison and benchmarking.

The Global Fund Board then voted on the funding recommendations of the TRP. In an important twist the Board was only allowed to approve or reject the entirety of TRP recommendations. This prevented picking off individual country proposals on political or other grounds and ensured that funding decisions were grounded solely in the technical quality of each proposal, as determined by the TRP. And since all proposals and TRP recommendations became public, countries could quickly learn from successful proposals. The TRP worked with ‘technical partners’, including the World Health Organization (WHO), the Joint United Nations Programme on HIV/AIDS (UNAIDS), Roll-Back Malaria, the United Nations Children’s Fund (UNICEF) and many bilateral technical cooperation agencies to distil lessons from each round, so that they could be incorporated into subsequent funding proposals. Finally, Global Fund-funded programmes were audited to ensure sound use of resources and subject to independent evaluations to distil and publish lessons from implementation.

In collaboration with PEPFAR, the Global Fund enabled a rapid scaling up of resources to the health sector. But it also turned down many funding requests, such as China’s first two applications for AIDS funding. The two proposals were deemed technically unsound by the TRP because they lacked needle exchange programmes for injecting drug users (‘harm reduction’). The TRP did not recommend them for funding despite vocal opposition from the Government.<sup>5</sup> In response, the Chinese government changed its approach to tackling the disease and experienced dramatic improvements in health outcomes, which have been credited in parts to establishment of an independent Country Coordination Mechanism.<sup>6</sup> Similar policy reversals and public health successes were observed in Russia, Eastern Europe, but also in the poorest countries of the world. Such impact would not be conceivable for multi- or bilateral programmes that lack truly independent technical evaluation of funding proposals and could therefore not entirely turn down funding request without generating political fallout.

### Fostering innovation and learning

A final critical feature of the Global Fund is its support for innovation and experimentation. Funds can be disbursed to any type of partner approved by the Country Coordinating Mechanisms, including government entities, local or international non-governmental organisations, businesses or international organisations. This has enabled countries to choose different routes



towards success and to divide up work among the entities best suited. For example, while the health ministry might manage funds for treatment programmes offered through the country's health system, local non-governmental organisations might be best placed to promote awareness, prevention and testing among vulnerable populations.

In countries with weak governments, treatment can be provided through other partners, as illustrated by the successful tuberculosis (TB) treatment programme in Somalia operated by Médecins Sans Frontières (MSF) with funding from the Global Fund. Remarkably, fragile states and the poorest countries fare as well as others in attracting Global Fund resources and generating results under the programmes.<sup>7</sup> This sets the Global Fund apart from funding mechanisms in other sectors, which usually do not cater to the full range of countries.

Through its unique design, the Global Fund has managed to deal with an important dilemma of international development cooperation. It has reconciled national ownership with results-based financing and strict accountability for how funds are spent. The demand discovery process without ex-ante country allocations has encouraged national ownership, while the TRP ensured that funds would only go to programmes adhering to the latest best practice. Rigorous and systematic audits with tough penalties for misuse of funds ensured full accountability. In this sense, the Global Fund has been a tough donor without undermining national ownership and initiative on the design of programmes. In my experience both donor and recipient countries have been very happy with this balance struck by the Global Fund.

Since its creation in 2002, the Global Fund has fostered tremendous innovation and learning. Whereas in 2001 governments and the international community did not know how to design and implement national-scale programmes to treat and control the diseases, this has now become common practice across the developing world. While 'quality demand' has become ubiquitous for the three infectious diseases and vaccine programmes, there has not been a similar transformation in education and other sectors. Whereas health sector officials in developing countries can describe the finest operational details of their scaling up strategies, most other sectors lack this operational knowledge. The experience from health suggests that this deficit is in parts due to the fact that these sectors lack dedicated financing mechanisms with the design features of the Global Fund.

Therefore, sector financing mechanisms, such as the Global Environment Facility, the Green Climate Fund, the Global Partnership for Education, the International

Fund for Agricultural Development and many more should study the design features of the Global Fund. While the model needs to be tailored to individual sectors, the key design principles apply across sectors: national multi-stakeholder processes to design programmes; rigorous independent technical evaluation of proposals; en bloc funding decisions; ability to provide funding to different types of recipient organisations; no earmarked funding; ability to operate across fragile as well as non-fragile countries; long-term, predictable funding; and systematic and rigorous auditing and technical evaluation of programmes.

### The rise of new development partners

The Global Fund experience illustrates the manifold advantages of well-designed multilateral financing mechanisms. They offer far lower transaction costs compared to the same volume of funding going through a large number of bilateral programmes. Moreover, and this is critical, they can uphold independent technical reviews of proposals as well as results-based financing in ways that are hard to replicate for bilateral programmes, which are invariably more influenced by political considerations on both the donor and recipient sides.

This takes us to the second critical challenge for today's international development cooperation, which is how to promote multilateral approaches to meeting the financing challenge of the SDGs and to increase the overall volume of concessional development finance. The recent and much welcomed rise of China as a major provider of international development finance might lead to a bifurcation. Either, multilateral financing mechanisms can adapt to welcome China and other 'new development partners' on their boards and among their donors, or the former become relegated to being mechanisms of the OECD-DAC members only, which represent a shrinking share of world gross product.

To date, China has not played an active role in the Global Fund. This is partly driven by suspicion on both sides, but the governance of the fund would allow for full Chinese participation in the board. Of course, such full participation should also be conditional on China providing a fair share of financing to the Global Fund. In turn, China should have the same say as other donors on the board.

For other multilateral financing mechanisms, the challenge will be to increase the role played by independent technical evaluation and, correspondingly, to reduce the discretion enjoyed by individual board members in promoting and approving individual funding proposals. The Global Fund provides a model that should be studied in particular by convention-based financing mechanisms.

## Emulating and improving the Global Fund governance model

We live at a time when demand for development assistance is more focused on the poorest countries, but as shown by the IMF, substantial increases in concessional international finance will be needed. At a time of stagnating aid budgets and a falling share of world gross product accounted for by members of the OECD-DAC, we need to ask hard questions about how development assistance can be made more effective and transparent in the eyes of taxpayers.

The Global Fund to Fight AIDS, Tuberculosis and Malaria provides an important model in two ways. On the one hand it has succeeded in generating quality demand and ensuring results-based financing across a broad spectrum of countries. These lessons can be applied to non-health SDG investment priorities identified by the IMF and others. On the other hand, the Global Fund's governance model should allow China and other

new development partners to join as funders on an equal footing. It may provide a model that other financing mechanisms can emulate to ensure efficient and wise investments in development.

The October 2019 replenishment round of the Global Fund provides an important opportunity for the international community to become more familiar with its unique design principles and to consider their application in other sectors and financing mechanisms. It is of course also a critical opportunity for traditional OECD-DAC donors, but also new development partners and private philanthropy to recognise the unique achievement of the Global Fund and to meet its full funding needs to end the three diseases and strengthen health systems. A successful replenishment round of the Global Fund will not only set the world on course for achieving SDG 3 on health, but it will also send a strong signal that the international community is rallying around the Sustainable Development Goals.

### Footnotes

<sup>1</sup> Vitor Gaspar, David Amaglobeli, Mercedes Garcia-Escribano, Delphine Prady, and Mauricio Soto, 'Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs', (IMF Staff Discussion Note SDN/19/3, International Monetary Fund, 23 January 2019).

<sup>2</sup> Jeffrey D. Sachs, Vanessa Fajans-Turner, Taylor Smith, Cara Kennedy-Cuomo, Teresa Parejo, and Siamak Sam Loni, 'Closing the SDG Budget Gap', (report, Move Humanity and Sustainable Development Solutions Network, 2018). <http://unsdsn.org/resources/publications/closing-the-sdg-budget-gap/>

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<sup>4</sup> Jeffrey D. Sachs, and Guido Schmidt-Traub, 'Global Fund lessons for Sustainable Development Goals', p32–33. See Footnote 3.

<sup>5</sup> Ru-Bo Wang, Qing-Feng Zhang, Bin Zheng, Zhi-Gui Xia, S.-S. Zhou, Lin-Hua Tang, Qi Gao, Li-Ying Wang, and Rong-Rong Wang, 'Transition from control to elimination: impact of the 10-year global fund project on malaria control and elimination in China', (academic article, *Advances in Parasitology*, 2 December 2014), p289–318. <https://doi.org/10.1016/B978-0-12-800869-0.00011-1>

<sup>6</sup> Ren Minghui, Fabio Scano, Catherine Sozi, and Bernhard Schwartländer, 'The Global Fund in China: success beyond the numbers', (academic article, *The Lancet Global Health*, February, 2015), e75–e77. [https://doi.org/10.1016/S2214-109X\(14\)70366-3](https://doi.org/10.1016/S2214-109X(14)70366-3)

<sup>7</sup> Guido Schmidt-Traub, 'The role of the Technical Review Panel of the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria: an analysis of grant recommendations', (academic article, *Health Policy and Planning*, 4 January 2018), p335–344. <https://doi.org/10.1093/heapol/czx186>



# Current and future pathways for UN system-wide finance

By Silke Weinlich and Bruce Jenks

The reform agenda for the UN development system (UNDS) has been dominated for some 30 years by analyses and initiatives relating to coherence. The most significant reform proposal during this period – the Delivering as One initiative – was contained in a report dubbed the Coherence Report. Reform has been clearly associated with organisational and structural reform: how can an overly complex system comprising more than thirty entities that differ in size, mandate and governance be consolidated or, at minimum, better coordinated?

The role of system-wide financing has tended to be treated separately from discussions about coherence. In a way, coherence discussions circled around how to address the effects created by the erosion of a central funding vehicle (a role originally envisaged for the United Nations Development Programme (UNDP)) and the centrifugal forces unleashed by restrictive forms of earmarked funding from the 1990s on. They neglected to fully explore how and which kinds of system-wide funding can create incentives to help the UN system work effectively together and make better use of its collective assets.

The Secretary General's UNDS reform proposals and the Funding Compact have put back on the table the importance of system-level funding as a fundamental component of a reform agenda. The Funding Compact formulates targets for pooled funds amounting to US\$ 1.1 billion annually. Pooled funds have emerged as an important mechanism benefitting the system as a whole, as well as individual entities. The reform proposals introduce an innovative levy to counter fragmentation, and make entities foot a larger part of the cost for running the resident coordinator system. There also exist other forms of system-wide funding that it is worthwhile reflecting upon. Moreover, in the long run, ways must be found to further incentivise system-wide strategic finance. This is the finance that is required to position the UN as a system in a rapidly changing world.

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This paper is organised into three parts: Part I discusses the need to go beyond the core vs non-core conundrum and Part II identifies five approaches to UN development system finance that merit closer attention: pooled funding, funding the revised United Nations Development Assistance Framework (UNDAF), fees for managing globalisation, financing fulcrums and levers, and resources for institutional strengthening within the UNDS. Part III details the five different instruments that comprise the Secretary General's Funding Compact:

the Special Purpose Trust Fund (SPTF) for the Resident Coordinator System, charging agencies, the levy on fragmentation, a contribution to the Peacebuilding Fund, and the Joint Fund for the 2030 Agenda.

## 1. Core vs non-core: Beyond a stagnant duality

Reform in the financing of the UNDS has been dominated by the evolving relationship between core and non-core finance. Core contributions are general purpose funding; they lose their national identity and are comingled without restrictions. They are used and allocated as each organisation sees fit, in accordance with the specific mandates as well as guidelines, priorities and goals established by governing bodies. While core contributions for specialised agencies come in assessed and voluntary forms, for funds and programmes they are only voluntary in nature. In the 1990s, funding patterns to the UN development systems began to change drastically. From the mid-1990s on, non-core contributions have exceeded core funds for many UN agencies. Non-core funding may come in many varieties but has three common features: it is voluntary, contributors specify a purpose for its usage, and regular multilateral governance bodies are not responsible for its allocation.

For a very long time, the battle cry of UN agencies and many UN Member States alike has been to underline the crucial role of core as the bedrock of the multilateral development system, calling for an increase in the share of core contributions. Indeed, restrictive forms of earmarked funding come with challenges for individual agencies and the UN system as a whole, as well as the work they engage in. Nearly three decades of an increasingly lopsided ratio of core – non-core contributions have left profound traces (see the Baumann, Lundsgaarde and Weinlich contribution in this chapter). The need to increase the ratio of core and pooled funding in the total resource mix is directly addressed in the Funding Compact.

However, to focus only on the duality between core and non-core is unhelpful at a time when governments might find themselves hard-pressed to defend development cooperation; it also obfuscates the potential of non-core funding to encourage transformative change for attaining the Sustainable Development Goals (SDGs). It is time to go beyond the duality. This is not to say that a secure basis of core funding would not be important for all UNDS entities, nor to question the value of core funding or negate the pressing need to increase the number of (voluntary) core contributors for the multilateral system to be sustainable in the long term. At the same time, although the majority of earmarked funding to the UNDS has been contributed in the most restricted form, earmarked funding in principle does not need to be detrimental to UN entities and their capacities

to tackle global problems. If well-managed and aligned with multilateral programmes, earmarked funds can also strengthen multilateralism and the ability of UN entities and the UNDS to help implement the 2030 Agenda. This is particularly the case when looking at the financing of UN system-wide initiatives.

At the system level there is a limited number of core financing mechanisms. Funding for entities with system-level mandate such as the UN Development Coordination Office (UNDCO) and the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) fall into this category. But broadly speaking the concept of core finance is strongly related to entity-level finance. The US\$ 1.1 billion package for pooled funds referred to earlier could be seen as a significant departure from previous practice. For system-wide finance to get roots, it will be necessary to identify approaches that can demonstrate in concrete terms how finance at the system level can provide value and concrete benefits for the entity level.

## 2. Approaches to UN development system-level finance

We have identified a range of approaches to the pursuit of system-level finance. We want to note here that we have focused on system-wide development financing and we have not included an analysis of humanitarian system-wide finance. Nonetheless, it is important to note that system-wide/pooled financing of humanitarian activities grew significantly in 2018 to approximately US\$ 1.4 billion (US\$ 550 million for the Central Emergency Response Fund (CERF) plus US\$ 900 million for the humanitarian Country-based Pooled Funds). Still, this is only about 10% of total UN humanitarian flows.

The most important function of system-wide funding is that it provides incentives and/or facilitates collaboration between UN entities within the system as a whole. It may also attract interest from outside the UN system. This, in itself, is very important in the light of the demands for an integrated approach of the 2030 Agenda and reverse incentives stemming from the current funding patterns. Bringing the UNDS more closely together should not be seen as a key outcome in itself. In the end, the ultimate aim is to make better use of the multilateral assets for states and their citizens and build up the UN's joint ability to respond to global problems.

Before proceeding, it is important to emphasise that the great bulk of finance should and will continue to flow at the entity level. System-wide finance needs to be limited and very strategic in intent. But if the UN is going to be more than the sum of its parts, that ambition must find some form of financial expression. It is critical that opportunities to explore system-wide finance should be

seen as complementary to, and not in competition with, entity-level resource mobilisation efforts.

### *Pooled funding: Major instrument*

Pooled funding is perhaps the major instrument available for system-wide financing (for fuller analysis see the first contribution in Chapter Two of this report). The Iraq Recovery and Reconstruction Fund is an excellent example of a pooled facility which attracted resources that would not have been otherwise available to individual entities. This lay the foundation for the creation and function of the Multi-Partner Trust Fund Office (MPTFO). Meanwhile, the Spain – UNDP Millennium Development Goal (MDG) Achievement Fund was established specifically on the premise that its design would provide incentives for the UN system to work together at the country level. The One UN Fund model, the financial vehicle for the Delivering as One initiative at the country level, also got attention. But rather quickly it proved very difficult to get substantial resources into this vehicle and it became clear that this was not an attractive vehicle from the standpoint of donors.

Pooled funding offers many advantages and this is reflected in the growth of the instrument and the growth in the portfolio of the MPTFO. Selected trust funds such as the Peacebuilding Fund already attract contributions from a diverse group of governments; the Funding Compact's target to increase the number of contributors will help further broaden the funding base. It can be said that pooled funding is to system-level finance what core funding is to entity finance; pooled funding means that resources are not tied to a specific entity and core resources mean that funding is not earmarked to a specific project/purpose.

### *Earmarked contributions for institutional strengthening within the UNDS: Outdated or still relevant?*

Losing some of the benefits that arise from pooling resources, individual contributors can also provide targeted support to strengthen institutions and their capacities for collaboration within the UNDS. When UNDP was still responsible for the Resident Coordinator (RC) system, earmarked contributions for instance supported the selection, training or work of resident coordinators, also in particular country contexts such as conflict-ridden states. Similarly, selected reform strands such as the harmonisation of business practices or the work of expert panels benefitted from earmarked resources.

It has always been a matter of debate whether such activities should depend on resources from individual contributors. Ideally, the recently established Resident Coordinator fund (see the next page) will be in a position to pay for all rising needs around the Resident

Coordinator system. It remains to be seen whether there will be a willingness of contributors to foot the bill for selected processes and support UNDCO with earmarked funding if this is not the case.

### *Funding the new Cooperation Framework:*

#### *System-wide funding for system-wide programming*

The revised UNDAF, now called UN Sustainable Development Cooperation Framework ('Cooperation Framework'), is a core element of the ongoing reforms and will develop into the UN system's collective response in support of a country's priorities and needs in implementing the 2030 Agenda.

If it is to enhance its role in financing the SDGs, the UN system will need to have a sound understanding of the resources available to the country and the resources it can leverage domestically. A clear financing vision and strategy is required, in particular at the country level. The new Cooperation Framework is supposed to provide this strategic direction and the focus needed for joint resource mobilisation at the country level.

The Cooperation Framework if properly designed should become the place where it is possible to interact with and develop resource strategies at the system level as it is represented at the country level. This is why it has been given such a prominent place in the presentation of the SG's proposals on the repositioning of the UNDS. In this context, going back to the definition of core vs non-core, it is highly ironic that it is not possible to make a core contribution to a cooperation framework. Thanks to our definitions, this will always be categorised as non-core despite the fact that there are few contributions that could more rightfully be defined as core than paying to support the system-wide response to the needs of a country.

### *Fees for managing globalisation:*

#### *New source for system-wide funding?*

The World Intellectual Property Organization (WIPO) gets more than 90% of its budget (US\$ 380 million) from fees paid for WIPO's services in granting patents. It should be noted that this income is not earmarked and is relatively predictable due to the low degree of volatility of WIPO's volume of business.

The interesting point here is that WIPO provides an immensely important service to companies in the form of patents which protect their intellectual property. The protection of patents can be seen as a specific function associated with the logic of the globalisation process. It follows that in this marketplace, the services required are paid for by the companies. WIPO's funding base has thereby become much broader and goes beyond sources usually tapped into by international organisations,

eg public money contributed by ministries of foreign affairs and others.

With imagination, it should be possible to explore the range of services provided by the UNDS which could generate appropriate fees. This should not be understood as a process of privatisation. Rather it is a process by which the beneficiaries of a global patent regime pay for the costs of ensuring that this is a well-managed process. Further studies are needed to assess what kind of services come under consideration and to explore processes to collect the fees.

#### *Financing fulcrums and levers:*

##### *How do you finance leveraging?*

The hot function nowadays is leveraging. There has been a truly historic expansion over the last two decades in the volume of resources flowing to developing countries and attention is focused on how to access and influence these massive flows. The multilateral development banks' presentation in 2015 of 'From Billions to Trillions'<sup>1</sup> was an invitation to leverage their assets to go to scale in a radically different way.

When leveraging is applied to the UN development system, there tend to be blank faces in the room. The UNDS does not have the size or type of financial assets that permit them to be taken seriously in the leveraging business. This presents the UNDS with a critical challenge that will determine its positioning in the future. It is true that the UNDS only has very limited and restricted financial assets to leverage. But if the UNDS deploys its core non-financial assets with imagination – that is its key functions in setting norms and standards and contributing to a healthy enabling environment – it could have a far-reaching impact.

The problem and the challenge ahead is that while creating real value, there is no easy way to capture and account for the results. What is the incentive for senior staff to invest time and energy in leveraging an asset that yields a result/impact which is not measured and cannot be appropriated by the investor. The biggest hurdle to effective reform is that the UNDS is governed by a set of disincentives to achieving the results required. The leveraging of non-financial assets, and the capture and measurement of their performance, needs to be at the heart of UNDS repositioning. The system-wide strategic document (SWSD) could be the place to lay this down and make it concrete.

### **3. Dimensions of the Funding Compact**

The Funding Compact envisages system-wide funding amounting to some US\$ 1.1 billion annually. This is broken down as follows:

- US\$ 281 million for the reformed RC system (the SPTF)
- US\$ 500 million for the Peacebuilding Fund
- US\$ 290 million for the Joint Fund for the 2030 Agenda (the Joint SDG Fund)

It should be noted that these proposals are being made simultaneously at the time that the US\$ 2.5 billion regular budget of the UN finds itself with a shortfall of US\$ 500 million (20% of the overall regular budget) as of the end of 2018. In addition, there are other cuts and shortfalls in the peacekeeping and other budgets.

#### *The Special Purpose Trust Fund (SPTF) for the Resident Coordinator system*

The establishment of a new voluntary financed trust fund represents the first port of call for financing the new organisational arrangements that have been put in place to support the reformed Resident Coordinator system. The preference of the Secretariat was to subject the financing of these new organisational arrangements to assessment, but a number of Member States did not support this. Creating a voluntary financed trust fund was the next logical step.

The total income to the SPTF amounts to US\$ 281 million. US\$ 144 million represents direct contributions to the SPTF and US\$ 77 million represents amounts charged to agencies. US\$ 60 million represents income from the new levy charged to earmarked funding.

It remains to be seen how reliable these different channels of funding will prove to be.

#### *Charging Agencies*

As indicated above, US\$ 77 million is to be charged to the agencies according to a fixed formula. This represents a doubling in the existing amounts, all taken from agencies' core contributions. The original thinking behind this was the idea that making a contribution to the costs of running the RC system would help to generate a sense of ownership and responsibility for the management of the RC system.

It remains to be seen what the agencies might expect in return for making these larger contributions. For example, the ILO is expecting in return for increased financial contributions to support the RC function that the principles of tripartism be reflected in the national consultation processes that the RC is involved in.



### *The levy on fragmentation*

Unlike the establishment of a new trust fund or increasing the amount charged to agencies, the adoption of a levy on fragmentation represents an interesting attempt to engineer something new in the financial architecture. Fragmentation in this context means the dispersed quality of project and programme funding that hampers cooperation within the UNDS and can also have a negative impact on the coherent work of individual UN entities. The strategy behind the proposal for a levy to finance the new RC system-wide costs is to turn the UNDS's greatest weakness into a source of financial strength. Fragmentation in a high-volume environment opens up the possibility of generating considerable income without it being onerous on any one party. The proposal is to initiate a fee calculated at 1% of the project budgets of tightly earmarked project funds.

On the one hand this is a fragmentation fee – a fee which helps cover the costs of benefiting from the global infrastructure provided by the UNDS while contributing to fragmentation. On the other hand, this should be an investment fee – a fee which provides for investment in the sustainability of the UNDS infrastructure from which all parties benefit.

This should not be seen as a supplementary amount for administrative overhead. This is a fee which recognises that a firm institutional infrastructure is very much in the interests of all users of the system. Only by sending strong signals backed by hard numbers will it be possible to transform the financing system from being part of the problem to part of the solution.

### *Contribution to the Peacebuilding Fund*

The Funding Compact provides for US\$ 500 million annually to the Peacebuilding Fund (PBF). Perhaps of particular interest is the proposal in the report of the Advisory Commission on Sustaining Peace of charging a 1% levy on all peacekeeping and special political missions to be used to finance peacebuilding operations and the call of the Secretary General for a 'quantum leap' in funding levels to this global system-wide fund. The PBF has invested in significant strengthening of programming rigor, delivery oversight, performance and investment strategy, which is showing signs of return in increasing capitalisation levels.

### *The Joint Fund for the 2030 Agenda*

The Joint Fund for the 2030 Agenda (the Joint SDG Fund) is a vehicle to support governments to advance the SDGs. The particular aim of the Fund is to incentivise integrated and transformational policy shifts. This is explicitly a fund whose purpose is to provide resources that can leverage catalytic investments.

The Fund is designed to be accessible to the UN Country Teams (UNCTs) on a competitive basis.

The Financial Compact indicates an annual capitalisation at US\$ 290 million. The Joint SDG Fund has the potential to be a transformational instrument. It operates at the system level, it provides access to resources on a competitive basis and it is designed to leverage significant impacts.

The Joint SDG Fund is architecturally significant; whether it can sustain a successful resource mobilisation strategy remains to be seen.

## **Conclusion**

There is ample opportunity to identify approaches that provide strategic openings at the system level. For example, pooled funding often provides resources that would not be provided at the entity level. The new Cooperation Framework provides a frame of reference that ensures programmatic coherence and credibility. WIPO charges fees for providing a service function that is associated with the process of globalisation, and the newly established levy that forms part of the Secretary General's Funding Compact transforms the weaknesses of fragmentation at the entity level into a strategic asset at the system level.

It is time for system-level finance to be unleashed: not to compete and undermine entity-level finance but in order to demonstrate that the UNDS is indeed more than the sum of its parts. The unleashing that is required does not refer to the volume of resources but to providing the system-wide incentives that will enable the UNDS to adopt the transformational posture it so badly needs.

## **Footnote**

<sup>1</sup> World Bank Group, 'From billions to trillions: MDB contributions to financing for development (English)', (report, World Bank Group, 2015). <http://documents.worldbank.org/curated/en/602761467999349576/From-billions-to-trillions-MDB-contributions-to-financing-for-development>

## PART TWO

### Chapter Three

# Financing peacebuilding, humanitarian assistance and migration: Time to invest



#### Financing fit for the future: A 10-point Agenda for Financing Peacebuilding

by the Dag Hammarskjöld Foundation



#### The World Bank Group and IDA18: Scaling-up support to address Fragility, Conflict and Violence

by Franck Bousquet



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by Ayham Al Maleh



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by Jonathan Prentice

# Financing fit for the future: A 10-point Agenda for Financing Peacebuilding

By the Dag Hammarskjöld Foundation

The parallel resolutions on Peacebuilding and Sustaining peace, adopted in April 2016 by the UN Security Council (S/RES/2282) and the General Assembly (A/RES/70/262), emphasise ‘the need for predictable and sustained financing to United Nations peacebuilding activities, including through increased contributions, and strengthened partnerships with key stakeholders, while also noting the significance that non-monetary contributions can play in peacebuilding efforts’.<sup>1</sup> The Secretary-General’s 2018 report on implementation of the resolutions pointed to discouraging trends in donor funding that result in insufficient resources dedicated to addressing conflict risks and to supporting countries going through fragile transitions. The report made several recommendations for advancing the application of the Sustaining Peace framework and to address existing gaps, including on financing.

Positive steps have been taken and reforms continue to be rolled out in response to the recommendations, although there has been limited progress in implementation of those related to financing. As part of the 18th replenishment of the International Development Association (IDA18), the World Bank Group doubled its financing from US\$ 7 to 14 billion for low-income countries impacted by fragility, conflict and violence (FCV) and are in the process of developing a strategy for addressing the underlying drivers of FCV through its development efforts.

Beyond the need for additional resources for peacebuilding, a radical rethink is needed on how financing is structured and how to leverage strong partnerships for more effective resourcing. This paper outlines ten points to help frame the issues that require attention and action by the UN and its Member States in order to allow for more efficient use of existing funds and to ensure that sufficient resources are available to fulfil the commitment of sustaining peace over the coming decades.<sup>2</sup>

The Dag Hammarskjöld Foundation is a non-governmental organisation established in memory of the second Secretary-General of the United Nations. The Foundation aims to advance dialogue and policy for sustainable development, multilateralism and peace.

*1. In recognising peacebuilding as an inherently political process (as stated in the resolutions<sup>3</sup>) Member States and the UN must demonstrate a shared commitment to the long-term and comprehensive approach needed for sustaining peace, particularly at the country level.*

- Member States and the UN should recognise peacebuilding as inherently linked and fundamental to achieving the Sustainable Development Goals of the 2030 Agenda.
- Member States should align themselves with and/or provide the UN system with the flexibility needed to respond to shifting needs in efforts to sustain peace with a long-term vision.
- Member States should acknowledge that support to legitimate politics must be prioritised with adequate funding and an enhanced understanding of risks and risk mitigation.

*2. Frameworks between the UN and Member States covering risk management, financial transparency and accountability should be agreed upon and applied.*

- Member States must acknowledge risk as an unavoidable dimension of peacebuilding and apply frameworks for risk management that include contextual risks to domestic actors and not only cover programmatic risks to aid providers and conflict sensitivity.
- Platforms should be identified at regional and country level that allow the UN and other relevant stakeholders to conduct integrated conflict and risk analyses and a systematic monitoring of risks to promote a shared understanding and to inform programming.
- The UN and Member States should support a transparent, realistic and measurable set of national priorities that are identified in dialogue with



national government and other relevant national actors based on the Sustainable Development Goals (and other agreed frameworks, including the new Sustainable Development Cooperation Framework).

- Member States and the UN should institute measures that ensure dual financial transparency and accountability between the international community and host government as well as between governments and their citizens.
- Country level compacts could be used to support defined priorities, aligning to national budgets without having to accept budget support models, as well as to identify mutual accountability frameworks and commit to use of instruments.

### *3. Existing, new and innovative financing should be explored and utilised.*

- With its unique mandate, the UN has a key role to play in mobilising alternative resources for efforts to sustain peace, including from philanthropic institutions and the private sector. The humanitarian and climate sectors are much more advanced in their efforts to leverage new lines of funding; cross-sectoral learning on innovative financing approaches is needed.
- There is a need to invest significant resources in research and development on the applicability of innovative finance tools to fragile contexts. The work of the UN Peacebuilding Support Office (PBSO) in this area should be supported and expanded.
- The value, including return on investment, of leveraging resources for peacebuilding needs to be more prominently recognised, rewarded and promoted, including Official Development Assistance (ODA), and non-ODA sources.

### *4. Prioritise and invest in diverse partnerships building on comparative advantages and recognised roles.*

- Clarify and strengthen the relationships between the UN and International Financial Institutions, including regional development banks and new donors, through enhanced legal arrangements, improved operational coordination and collaboration, and joint results monitoring.
- The UN should continue to strengthen its partnership with the World Bank (WB) at all levels, with UN country teams under the leadership of the Resident Coordinator liaising more closely with WB country directors and jointly making efforts to operationalise the recommendations from the joint UN-WB study *Pathways for Peace*.<sup>4</sup>
- Develop new and expand existing partnerships with regional and sub-regional organisations, ensuring that these are institutionally grounded and demonstrate mutual respect.

- Partnerships with private sector actors can grant access to greater resources, innovation, employment opportunities etc, but should also be pursued with caution, ensuring that appropriate regulatory frameworks are in place and complemented with efforts to strengthen inclusive institutions as well as long-term policies that address economic, social and political aspirations of all segments of society.

### *5. Member States must demonstrate renewed financial commitment to the long-term endeavour of building peace and preventing armed conflict by:*

- ensuring predictability over time of financing for peacebuilding through multi-year commitments and increased use of joint funding instruments;
- allowing assessed contributions for peacekeeping to be used for programmatic peacebuilding activities; and
- prioritising support for core government functions over a sustained period of time, particularly in countries recovering from violent conflict, ensuring that assistance strengthens national capacity, builds country systems and is based on national ownership.

### *6. Financial instruments dedicated for peacebuilding and conflict prevention should be enhanced and used.*

- To retain the ability to respond to shifting needs rapidly and effectively, Member States must ensure that global financing mechanisms, such as the Peacebuilding Fund, are funded at an agreed level based on annual estimations.
- The UN should utilise joint funding mechanisms at country level that ease the burden on local actors and help Member States pool risk and resources.
- Member States and the UN should address duplication and fragmentation by merging existing mechanisms for financing peacebuilding at country level.
- Given the high costs associated with intervention in conflict-affected countries there is a need to optimise the 'preventive impact' of all funding. A better analysis of funding in general and its relationship to conflict prevention, including human rights, could assist in this.

### *7. Financial strategies should include provisions for deepening inclusivity.*

- Member States and the UN must recognise exclusion as a primary driver of conflict and ensure financing strategies support legitimate and inclusive national peacebuilding processes that are true to the principle to 'leave no one behind'.
- Member States and the UN should take stronger measures to implement S/RES/1325<sup>5</sup> and ensure that a minimum of 15% of global financing for peace-building is dedicated to initiatives that address

the particular needs of women in peacebuilding, advance gender equality and empower women.

- Member States and the UN must prioritise creating more opportunities for the full diversity of young people to participate in peacebuilding and sustaining peace including through dedicated and adequate financing. This should be coupled with a genuine commitment to implementing S/RES/2250 and the recommendations outlined in the Progress Study on Youth Peace and Security.<sup>6</sup>

#### *8. Partnerships with civil society should be further strengthened.*

- The role of local actors, including civil society organisations and community-based networks and individuals, in sustaining peace, in strengthening social cohesion and in responding to the needs of the most marginalised groups of society must be fully recognised and supported with adequate funding.
- In light of the worrisome global trend of imposing increasing restrictions and burdens on civil society to limit or suppress their activity, it is critical for the UN to uphold human rights and to take greater measures to protect and defend civic spaces, minimising barriers to participation.

#### *9. Financing strategies by Member States and UN entities should ensure long-term support to strengthening the management of national resources management.*

- Financial and technical support must be provided to ensure an effective and equitable domestic resource mobilisation that reinforces long-term national efforts to sustain peace.
- When natural resources are present, and especially if they comprise a large portion of the country's Gross Domestic Product (GDP), specific efforts must be made to ensure a conflict-sensitive exploitation and reinvestment of revenues with particular focus on addressing root causes of conflict.
- Assist conflict-affected countries in their efforts to address tax evasion by national and multi-national corporations as well as corruption and to ensure equitable contractual arrangements.
- These efforts should add to the understanding of variables that cause conflict, including human rights abuses, issues and grievances in these processes.

#### *10. Establish and utilise systems for monitoring funding to peacebuilding.*

- The UN should enhance its ability to track financing to peacebuilding and its alignment with agreed priorities, building on the work of the PBSO in this regard.
- UN entities and Member States should strengthen the capacity of national actors to lead, manage and monitor efforts to build peace including through reliable and transparent country systems.
- Aggregate and analyse data at the national level to allow for global monitoring of resource flows for peacebuilding and conflict prevention.

### Footnotes

<sup>1</sup> Referred to as the 'Sustaining Peace resolutions': UN General Assembly (UNGA), 'Review of the United Nations peacebuilding architecture', (resolution, A/RES/70/262, UNGA, 12 May 2016).  
<https://undocs.org/A/RES/70/262> and UN Security Council (UNSC), 'Resolution 2282 (2016)', (resolution, S/RES/2282(2016), UNSC, 27 April 2016).  
[https://undocs.org/S/RES/2282\(2016\)](https://undocs.org/S/RES/2282(2016))

<sup>2</sup> The Foundation has over the past five years organised expert meetings, ambassadorial-level discussions, and regional consultations focused on suggestions and strategies for the UN system and Member States to address the need for predictable financing in efforts to sustain peace, grounded in the findings of the 2015 Review of the United Nations Peacebuilding Architecture (PBA) as well as other UN policy processes. The issues raised during these meetings form the basis for this paper, which is a revision and update of an earlier Development Dialogue Paper.  
<https://www.daghammarskjold.se/publication/financing-fit-future/>

<sup>3</sup> UN Security Council Resolution 2282 (2016), see Footnote 1.

<sup>4</sup> UN and World Bank, *Pathways for Peace: Inclusive approaches to preventing violent conflict*, (report, World Bank, 2018).  
<http://hdl.handle.net/10986/28337> and <https://www.pathwaysforpeace.org>

<sup>5</sup> UN Security Council, 'Resolution 1325 (2000)', (resolution, S/RES/1325(2000), UNSC, 31 October 2000).  
[https://undocs.org/S/RES/1325\(2000\)](https://undocs.org/S/RES/1325(2000))

<sup>6</sup> UN Security Council, 'Resolution 2250 (2015)', (resolution, S/RES/2250(2015), UNSC, 9 December 2015).  
[https://undocs.org/S/RES/2250\(2015\)](https://undocs.org/S/RES/2250(2015)) and for the Progress Study on Youth Peace and Security see Graeme Simpson, 'The missing peace: independent progress study on youth and peace and security', (report, UNFPA and PBSO, 2018).  
<https://undocs.org/en/S/2018/86> and <https://www.youth4peace.info/system/files/2018-10/youth-web-english.pdf>

# The World Bank Group and IDA18: Scaling-up support to address Fragility, Conflict and Violence

By Franck Bousquet

The International Development Association (IDA)<sup>1</sup> is the part of the World Bank Group (WBG) that supports the world's poorest countries. Overseen by 173 shareholder nations, IDA aims to reduce poverty by providing loans and grants for programmes that boost economic growth, reduce inequalities and improve people's living conditions. In its 18th replenishment (IDA18), beginning in July 2018, IDA doubled its financing from US\$ 7 billion to US\$ 14 billion for low-income countries impacted by fragility, conflict and violence (FCV).

Why is this important and what have we learnt? We know that by 2030, it is estimated that around half of the global extreme poor will live in fragile and conflict-affected settings. Therefore, our collective action on the FCV agenda is critical to ending extreme poverty and achieving the Sustainable Development Goals (SDGs). To address this challenge, the scale-up in IDA funding proved critical, and has served as a catalyst for the change in how we at the WBG – and in many ways our partners – approach FCV. IDA18 helped to articulate a differentiated approach to ensure that the WBG adapted a more tailored response to diverse situations of fragility.

As part of this scale-up, IDA strengthened its role in preventing the onset, escalation and recurrence of violent conflict. To this end, IDA18 harnessed three tools that have been essential to scaling-up support to the most vulnerable communities. First, it introduced the Risk Mitigation Regime (RMR) to pilot approaches to prevention. Second, the Refugee Sub-Window (RSW) was created to support refugees and their host communities. And third, IDA18 developed the Private Sector Window to mobilise investments in low-income and fragile and conflict-affected situations. Critically, IDA18 also further strengthened the WBG's partnerships with the United Nations and other actors across the humanitarian-development-peace nexus.

Franck Bousquet is the World Bank's Senior Director for Fragility, Conflict and Violence (FCV). He assumed his position on 1 July 2017 and is leading the development of the World Bank Group's Strategy for Fragility, Conflict and Violence. As Senior Director, Franck Bousquet mobilises expertise and supports operational teams across the World Bank to deliver on the ground in close collaboration with humanitarian-development-peace partners.

## Pivoting to prevention

A key insight in IDA18 has been the need to prioritise prevention and scale up support for preventive action in fragile settings to achieve the SDGs and the World Bank's mission to end extreme poverty. The joint UN-World Bank report, *Pathways for Peace*<sup>2</sup>, found that for every US\$ 1 invested in prevention, about US\$ 16 are saved down the road. Furthermore, we know that conflicts drive 80% of all humanitarian needs. In addition to the devastating human toll, the economic and social costs of conflict are staggering: in 2016, for instance, the cost of conflict stood at an astonishing US\$ 14 trillion. Investing in prevention is therefore critical not only to save lives, but to also save resources and allow the international community to direct more resources to sustainable development outcomes rather than continuously respond to emergencies.

*Pathways for Peace* demonstrated that development policies and programmes must be a core part of preventive efforts. We therefore must address grievances related to exclusion—from access to power, natural resources, security and justice, for example—that are at the root of many violent conflicts today. Importantly, preventive action needs to adopt a more people-centred approach. As an example, this entails both addressing challenges such as gender-based violence, but also promoting the longer-term policies needed to address the aspirations of women and youth – this is vital in effectively preventing conflict and sustaining peace.

We are operationalising the recommendations of *Pathways for Peace* in two ways. First, through Risk and Resilience Assessments (RRAs), we identify the drivers of fragility in order to ensure country strategies and programming in fragile settings systematically address the core grievances that fuel fragility, sustain conflict and undermine institutional resilience.

Second, through the IDA18 Risk Mitigation Regime we have invested US\$ 780 million as of July 2019 in additional concessional financing for programmes that specifically address socio-economic exclusion, unmet expectations, and the drivers that risk fueling conflict. This approach is being piloted in Guinea, Nepal, Niger, and Tajikistan. For example, in Niger we are addressing the drivers of fragility by supporting skills development and entrepreneurship for youth, improving access to markets for pastoralists, and providing essential support to refugees and host communities. Through these types of programmes, we are actively helping governments address the grievances that can often lead to the emergence of violent extremism and conflict.

### Support for refugees and host communities

In recent years, we have also sought to do our part to address one of the most urgent challenges of our time. With over 70 million forcibly displaced people around the world – including 25.9 million refugees – the international community faces the most significant forced displacement crisis since World War II. Furthermore, with refugees and internally displaced people (IDPs) displaced for years – sometimes even decades – we know this is both a humanitarian and development challenge. That is why we have taken concrete steps to partner with the United Nations High Commissioner for Refugees (UNHCR) and others to significantly increase our support to refugees and host communities.

IDA18 introduced the Sub-Window for Refugees and Host Communities (RSW)<sup>3</sup> to provide US\$ 2 billion to support host countries as they respond to forced displacement crises. A country is eligible if hosting at least 25,000 refugees (or at least 0.1% of the country's population). In addition, the country would need to adhere to an adequate framework for the protection of refugees and have in place an action plan, strategy or similar document that describes concrete steps, including possible policy reforms. The RSW has made a significant amount of progress in a short time. As of May 2019, 14 countries are eligible for the RSW, cumulatively hosting approximately 6.4 million refugees. By end-May 2019 RSW-financed projects have been approved by the World Bank Board, totalling US\$ 927 million in nine countries.

Some early lessons are emerging about how we approach dialogue and policy under the RSW and there has been some early success. In Ethiopia, for example, an RSW-financed programme supported the Government's efforts to grant more rights to refugees and create 100,000 jobs and economic opportunities that will benefit both refugees and host communities. Critically, this project also provided an entry point that catalysed policy shifts at the highest legislative level and led to the adoption of reforms that shift away from the decade-old encampment model and offer refugees socio-economic rights, including to move freely, work and access social services.

In terms of the broader context, the Global Compact on Refugees, signed by UN member countries in December 2018, is also contributing to shifting the dialogue from a pure humanitarian agenda to one that reflects the need for a coordinated international response across development and humanitarian communities.

### Mobilising private sector support

In addition to our support to governments, we know that the private sector plays a key role in fighting poverty in fragile and conflict-affected situations. In fact, around 90% of jobs in fragile settings are created by the private sector. However, the private sector faces significant barriers in these environments, from weak institutions, to poor infrastructure and lack of access to finance. We therefore must focus our efforts on overcoming these structural barriers, as responsible and sustainable private sector development in fragile states is a critical foundation of peaceful and stable societies.

Under IDA18, the Private Sector Window (PSW) was introduced to create markets and catalyse private investment where fully commercial solutions are not yet possible and where the WBG's other financial instruments are not sufficient. In less than two years of operations, more than US\$ 300 million has been allocated, unlocking over US\$ 800 million in investments from the International Finance Corporation (IFC)<sup>4</sup> and political risk insurance from the Multilateral Investment Guarantee Agency (MIGA)<sup>5</sup> – the World Bank's private sector focused organisations – and further mobilising an estimated US\$ 1.5 billion of additional private financing.

For example, through a US\$ 9 million IFC investment in 12-year local currency bonds, the Togo-based mortgage refinancing company, Caisse Régionale de Refinancement Hypothécaire de l'UEMOA (CRRH-UEMOA), was able to build its housing portfolio, expanding the availability of housing finance for low and middle-income households by US\$ 500 million. In addition, the PSW supported a range of other activities, from investing in Afghanistan's underdeveloped raisin sector, to improv-



ing access to finance for smaller-sized and earlier-stage firms in Myanmar. These types of investments are critical to helping build an economic foundation for some of the most underserved citizens living in fragile settings.

### Strengthening partnerships

Ultimately, the approach we have taken in IDA18 – whether it be about investing in prevention, supporting refugees or host communities, or catalysing private sector investment – is underpinned by the need to break silos and work ever-more closely with partners. To this end, IDA18 supported deepened partnerships between the WBG, the UN, multilateral development banks (MDB), the EU, bilateral partners and others, to ensure a more effective and coordinated collective response in fragile settings. These types of partnerships – based upon our respective comparative advantages – must be the ‘new normal’ moving forward in order to maximise our collective impact in fragile and conflict-affected situations.

Operationally, partnerships have been key to delivering in some of the most challenging contexts. In Yemen, for example, we have leveraged the UN’s on-the-ground presence and implementation capacity to help deliver over US\$ 1.5 billion for World Bank projects that focus on strengthening capacity, building the resilience of local institutions and preserving hard-won development gains.

Furthermore, we have worked with UN peacekeeping missions – for instance in the Central African Republic, Mali or the Democratic Republic of the Congo – in order to provide rapid support immediately once insecure areas are stabilised. This is crucial to supporting and strengthening the presence of the state, and ultimately its legitimacy in the eyes of its citizens by rebuilding critical infrastructure and providing access to essential services.

On analytics, we have partnered with the UN and the EU on Recovery and Peacebuilding Assessments (RPBA), which provide a platform for collaboration around joint analysis and needs assessment and help governments and national stakeholders prioritise activities aimed at addressing FCV challenges. For example, as part of an RPBA in Cameroon, a joint government-partners steering committee and secretariat have been set up to monitor and coordinate recovery and peacebuilding activities. In Zimbabwe, the first phase of an RPBA being conducted with the UN and the African Development Bank (AfDB) features an analysis of challenges and needs across 25 sectors. This analysis has since been adopted by the government as part of its post-election Transition Stabilization Program.

In addition, under IDA18, a significant number of RRAs have been undertaken with partners including the UN, the EU, AfDB, Agence Française de Développement (AFD), and the German Federal Foreign Office.

The collaboration has provided a platform for greater shared understanding of FCV dynamics, country programmes more focused on drivers of fragility and more coordinated programming with bilateral partners and MDBs.

### Conclusion

As we consider the impact of IDA18 and look ahead to IDA19, we hope to build on IDA18’s successes and lessons learned. In addition, IDA19 will aim to address emerging issues – such as regional fragility, human capital deficits, or gender challenges – that require greater focus and investment.

Importantly, the WBG is now also developing its first Strategy for Fragility, Conflict and Violence<sup>6</sup>, to be completed by the end of 2019. The Strategy will draw on the lessons learned from IDA18 to ensure the WBG can more systematically address the key drivers of FCV in affected countries and their impact on vulnerable populations, with the end goal of contributing to broader international efforts promoting peace and prosperity.

Ultimately, through the approach we have taken in IDA18 in close collaboration with our partners, we have made necessary investments in pursuit of the SDGs and our mission to end extreme poverty. We must now build on the progress made and continue our collective efforts to build futures of hope, opportunity and prosperity for the millions living in the most challenging situations.

### Footnotes

<sup>1</sup> <http://ida.worldbank.org/>

<sup>2</sup> World Bank Group and UN, *Pathways for Peace: Inclusive approaches to preventing violent conflict*, (report, World Bank, 2018). <https://www.pathwaysforpeace.org>

<sup>3</sup> International Finance Cooperation World Bank Group, ‘IDA18 Regional Sub-Window for Refugees and Host Communities’, (funding announcement, World Bank, 2017).

<sup>4</sup> <https://www.ifc.org/>

<sup>5</sup> <https://www.miga.org/>

<sup>6</sup> World Bank Group, ‘World Bank Group Launches Worldwide Consultations on Future Strategy for Fragility, Conflict and Violence’, (press release, World Bank, 16 April 2019).

# Innovative finance for peacebuilding: It is time to invest

By Catherine Howell and Henk-Jan Brinkman

The Secretary-General's report on Peacebuilding and Sustaining Peace from January 2018 makes several recommendations on financing of United Nations peacebuilding activities.<sup>1</sup> Among them is a call to explore innovative finance options. With slow progress in areas of voluntary and assessed contributions, the lens is often turned towards innovative finance to bring solutions. This presents a window of opportunity for the peacebuilding community to build on the motivation of actors willing to bring investment and resources. However, we need to act with caution. Innovative finance is unlikely to be a panacea that brings the 'quantum leap' for the Peacebuilding Fund that the Secretary-General called for in his report or to raise the needed resources for financing peacebuilding more broadly; donor contributions will remain at the heart of financing, certainly in the near term.

## **Innovative finance options span broad and diverse disciplines**

The generally accepted definition of innovative finance is any instrument beyond traditional grants that mobilises new capital or improves the efficiency or effectiveness of existing capital.

Broadly, these options could be categorised as

- 1) traditional fundraising which is more akin to grant making from new sources and
- 2) financing which would require some level of financial engineering and an economic return.

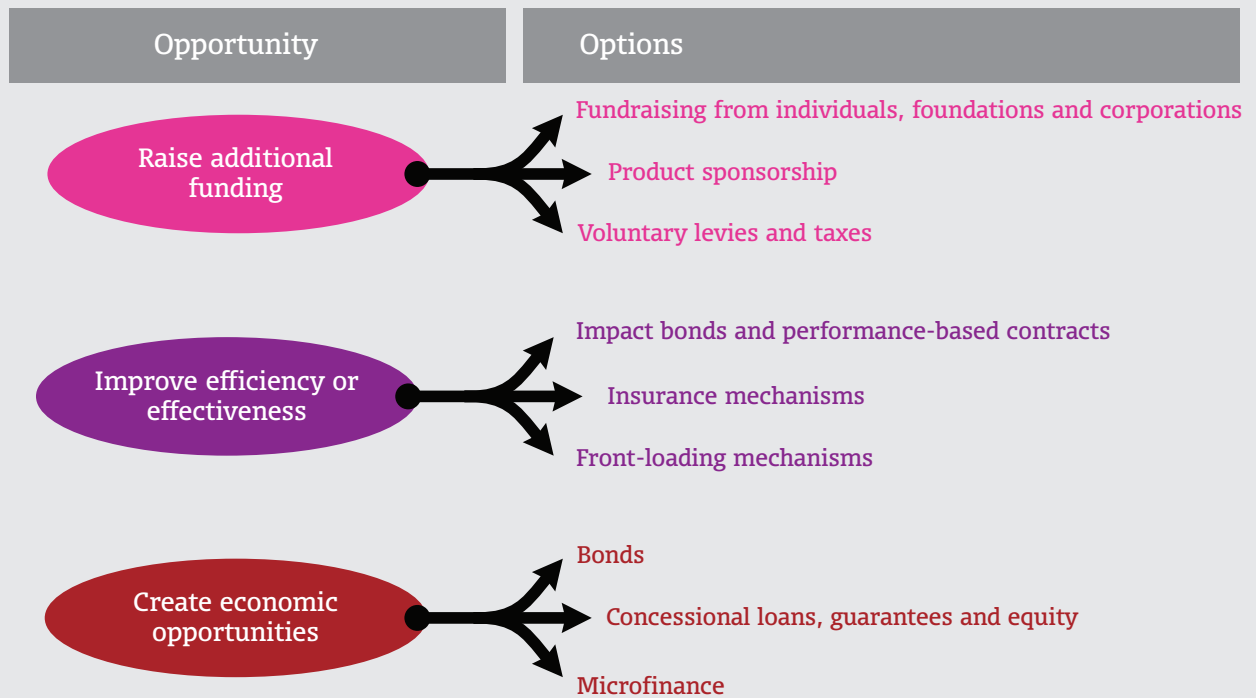
## **Options address different challenges**

Options should be considered against the challenges they address and be applied with a conflict-sensitive approach (see Figure 1 on the next page).

Catherine Howell is the former Innovative Finance Advisor for the Peacebuilding Support Office in the United Nations Department of Political and Peacebuilding Affairs. Previously, she worked for over ten years in the investment banking sector across finance, risk and strategy. She also worked in private sector development in the health and agricultural sectors based in Zambia and Kenya, with her former role as the Director of Head of Enterprise and Supply Chain, supporting SME development and access to finance across Barclays African markets. She holds a Bachelor's in Banking Finance and Management, is a qualified management accountant and a part Master's in Microfinance and Financial Inclusion.

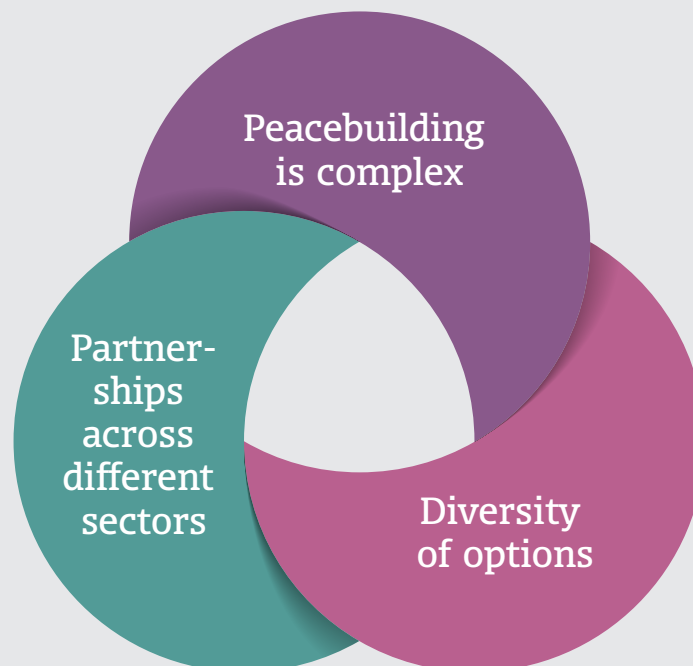
Henk-Jan Brinkman is Chief of the Peacebuilding Strategy and Partnerships Branch of the Peacebuilding Support Office in the UN Department of Political and Peacebuilding Affairs. Previously, he worked in the World Food Programme, the office of the UN Secretary-General and the UN Department of Economic and Social Affairs. He has published on such topics as peace and justice in the post-2015 development agenda, socio-economic factors behind violent conflicts, the impact of high food prices, structural adjustment in Africa and human stature. He holds a Master's in economics from the University of Groningen in the Netherlands and a PhD in economics from the New School for Social Research in New York City.

Figure 1: Options address different challenges



Source: Peacebuilding Support Office (PBSO)

Figure 2: Progress is hindered by some common challenges



Source: Peacebuilding Support Office (PBSO)



## Progress is hindered by some common challenges

(See Figure 2 on previous page.)

### *Peacebuilding is complex*

The knowledge of what works is much weaker in peacebuilding than, for example, in the area of health, where innovative finance has progressed dramatically since the early 2000s. Peacebuilding and prevention outcomes are also more elusive and can take a long time to materialise – or, in case of prevention, is a non-event. The pressure – common in the public and private sector – to produce tangible results, often in a short period of time, makes innovative financing of peacebuilding more difficult.

### *Partnerships across different sectors*

New partnerships are required among different actors that are not typically connected by the nature of their work. These stakeholders have different motivations, organisational structures, cultural and language barriers, regulations and operating histories.

### *Diversity of options*

The range of options and ways to implement them are vast and will require significant research, development and set-up costs. As above the range of options span a diverse range of disciplines and within each there could be many ways of achieving outcomes. For example, there are many industries for which a micro levy could be attached, and many ways of structuring the levy itself.

## What will it take to move forward?

### *1) Increase investment into research and development*

Experimentation will be needed to build a pipeline of new models that are both locally led and designed at regional or global scale. Patience is essential in this process as are realistic expectations of costs and timelines. To support this early phase of design and innovation philanthropic capital will be critical; bringing funding to feasibility studies and developing a path forward informed by peacebuilding financing needs. The Peacebuilding Support Office (PBSO) is mapping financing resources that are focused on peacebuilding in conflict-affected countries as elaborated in the piece by Ayham Al Maleh on page 136. Identifying peacebuilding priorities, based on joint multi-dimensional risk analysis, is important to determine joint financing needs and gaps, which will help forge a successful path forward.

### *2) Build the business case to mobilise funds for peacebuilding by raising its profile*

Fundraising requires investment into outreach, campaign building, feasibility research and relationship building. A joint UN–World Bank (WB) study<sup>2</sup> showed that for

every US\$ 1 invested in prevention, US\$ 16 is saved down the line because of the devastating impacts of violent conflicts. As the study notes, ‘the best way to prevent societies from descending into crisis, including but not limited to conflict, is to ensure that they are resilient through investment in inclusive and sustainable development’.<sup>3</sup> Peacebuilding and prevention, however, is not a well-recognised concept among the public. What can the peacebuilding sector learn from how the health and climate finance market has evolved? How can lessons be applied to motivate new funders to see peacebuilding as bringing economic and social benefit to them, which in turn motivates investment?

Also, how can peacebuilding leverage the work of other actors? For example, the UN Food and Agricultural Organization (FAO) reports that more than 113 million people experienced ‘acute hunger’ across 53 countries in 2018, and conflict, climate disasters, and economic shocks are the main factors.<sup>4</sup> Agencies working on food security, could raise the profile of peacebuilding by integrating it into their food security programming.

Efforts are being made to join arms. For example, the Alliance for Peacebuilding, has launched the +Peace coalition of leading peacebuilding NGOs.<sup>5</sup> Their aim is to establish peacebuilding in social campaigns, raise visibility and entry points for individuals, foundations and companies to invest and support peacebuilding. Its first port of call? Getting the word peacebuilding into dictionaries.

### *3) Build capacity for locally led financing options*

Different opportunities and challenges exist for private capital depending on where a country is in its conflict cycle. For example, during violent conflict and in the early phases of recovery, rule of law and contract enforcement are often weak and, as a result, there is little or no enabling environment for local business lending and investment. Initiating dialogue with the private sector can enable a pathway towards a supportive enabling environment. Risk mitigation, for example, through political guarantees, could help but this requires dialogue with private investors at both a local and global level.

Peacebuilding actors are uniquely positioned to facilitate the development of novel solutions. They are used to risk taking and to working in fluid environments. Empowering local actors with financing for technical know-how and connecting them to local and international partners can create opportunities for investment. The Peacebuilding Fund (PBF) has called for increased innovation through the Gender and Youth Promotion Initiative (GYPI) in 2019 and has published guidance to capacitate government and civil society actors exploring opportunities. Catalytic tools such as the PBF have an important

## Blended-finance solution in Colombia

The Peacebuilding Fund (PBF), in 2018, funded the development of a blended-finance solution in Colombia.

The project catalyses private sector investments into conflict-affected areas and to businesses where risk would be too high for private capital alone. The project also supports an innovative Monitoring and Evaluation (M&E) framework, adapting the Social Progress Index<sup>6</sup> to Colombia, which in turn could see investments mapped to the Sustainable Development Goals (SDGs). While creating space for design and research, the project creates the pathway for scale.

role to play in providing the preparatory and risk capital needed to build a pipeline of financing options.

Furthermore, the United Nations Development Programme has seen success through its Alternative Finance Lab in supporting impact bonds, crowd sourcing platforms and blockchain solutions. Although not directly in the field of peacebuilding, this ability to experiment and build capacity at the national level is a promising approach for developing solutions in the peacebuilding field. While there is pressure to show performance and results, these areas of learning are essential building blocks in developing a framework by which innovative solutions can be deployed at increasing scale.

### 4) Build coalitions and define comparative advantages

At the global level, actors can build networks and invest resources into designing larger financing mechanisms. For example, the design of blue bonds to crowd in US\$ 1.6 billion of capital for ocean conservation requires a collaboration between a range of stakeholders.<sup>7</sup> There are cost efficiencies to be gained in addressing challenges more systematically with actors sharing learnings and challenges that others around the table can solve. Insurance mechanisms such as the African Risk Capacity has estimated that for every US\$ 1 insurance paid out, US\$ 4.40 of international aid is saved because of cost efficiency.<sup>8</sup>

The peacebuilding field can explore whether it makes sense to join other coalitions, eg Humanitarian Investing Network, or create its own coalition that seeks to address the unique nature of peacebuilding funding. Actors need to play to their strengths and comparative advantages and work together to create joint initiatives.

The United Nations can build on its partnerships with regional and global development finance institutions, which have the financial and regulatory power to bring market-based solutions to implementation. With an increase in resources at the World Bank devoted to issues of fragility, conflict and violence and a new strategy for that area of work under development, it is important that actors also leverage the comparative advantages of other actors in the space of innovative finance, eg in issuing bonds and structuring larger funds.

### 5) Setting standards and norms

Private investments in conflict-affected countries are largely concentrated in the extractive industry. In this sector in particular – but relevant for all sectors – investments can have a notable impact on conflict dynamics in a country. This impact can be positive or negative, and can relate to land use, environmental practice and effects and distribution of economic benefits. It is therefore important that investments are conflict sensitive, minimise potential harm and empower local actors with the aim of creating shared and inclusive growth. Moreover, they could have positive impacts, for example, by bringing different groups of people together on the work floor or by generating revenues for the government, which can be used to provide equitable social services. Norms and standards regarding innovative finance tools are largely non-existent and should be developed.

## Finally, what will enable system change?

*It is time to move beyond debating the challenges, it is time to invest!*

There is a lot of interest in the field of innovative finance for peacebuilding as well as for humanitarian and development action. Key actors need to build coalitions, work together, invest in Research and Development (R&D), experiment and recognise their respective strengths and roles. In some instances, the United Nations may play only a facilitating, not a leading role in the design and implementation of more complex, but potentially game-changing innovations. The area of uncharted territory is vast and many actors can have a role, including civil society, governments, the private sector, NGOs and UN entities. The unique position of the UN as an advocate and convener should be leveraged to catalyse system change. It is time to invest in the resources to lead this change.

## Footnotes

<sup>1</sup> United Nations Secretary-General, 'Peacebuilding and sustaining peace', (Report of the Secretary-General, A/72/707-S/2018/43, United Nations General Assembly Security Council, 18 January 2018).  
[https://www.un.org/peacebuilding/sites/www.un.org.peacebuilding/files/documents/sg\\_report\\_on\\_peacebuilding\\_and\\_sustaining\\_peace.as\\_issued.a-72-707-s-2018-43.e\\_1.pdf](https://www.un.org/peacebuilding/sites/www.un.org.peacebuilding/files/documents/sg_report_on_peacebuilding_and_sustaining_peace.as_issued.a-72-707-s-2018-43.e_1.pdf)

<sup>2</sup> 'Pathways for Peace: Inclusive approaches to preventing violent conflict', (report, United Nations and World Bank, 2018).

<sup>3</sup> United Nations and World Bank, 'Pathways for Peace: Inclusive approaches to preventing violent conflict', see footnote 2.

<sup>4</sup> Erica Sanchez and Leah Rodriguez, '113 Million People Lack Food Due to Climate Change and Conflict: UN', Global Citizen, 2 April 2019.  
[https://www.globalcitizen.org/en/content/global-food-crises-report-2019-fao-un/?utm\\_source=twitter&utm\\_medium=social&utm\\_content=global&utm\\_campaign=general-content&linkId=65650547](https://www.globalcitizen.org/en/content/global-food-crises-report-2019-fao-un/?utm_source=twitter&utm_medium=social&utm_content=global&utm_campaign=general-content&linkId=65650547)

<sup>5</sup> <https://www.peacebuilding.live/>

<sup>6</sup> <https://www.socialprogress.org/>

<sup>7</sup> <https://www.nature.org/en-us/what-we-do/our-insights/perspectives/an-audacious-plan-to-save-the-worlds-oceans/>

<sup>8</sup> 'Innovative Finance for Development: A Guide for International NGOs', (guide, InterAction, 2018).

# Official Development Assistance and peacebuilding: 10-year trends

By Ayham Al Maleh

The Secretary-General's report on Peacebuilding and Sustaining Peace<sup>1</sup> highlights that nearly half of all people living in extreme poverty reside in fragile and conflict-affected states. Unless concerted action is taken by 2030, that figure is expected to rise to 80% by 2035.<sup>2</sup> At the same time, peacebuilding and conflict prevention remains a cost-effective way to safeguard development gains – with US\$ 1 invested in prevention, resulting in US\$ 16 saved by one estimate.<sup>3</sup> By another estimate – the United Nations–World Bank study on *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict* – costs of conflict far outweigh the costs of prevention by anywhere between US\$ 5–70 billion. Increasing donor spending on peacebuilding in conflict-affected countries remains an important lever by which the international community can focus on prevention and contain rising human and economic costs of violent conflicts. The present section lays out the current trends in Official Development Assistance (ODA) to conflict-affected countries as well as to peacebuilding ODA in conflict-affected countries<sup>4</sup> updating the findings of a 2017 report on 'Stocktaking of Peacebuilding Expenditures: 2002–2013' by the Institute of Economics and Peace and the UN's Peacebuilding Support Office (PBSO).<sup>5</sup>

Using the Organisation for Economic Co-operation and Development (OECD) Creditor Reporting System, PBSO has identified the ODA flows that are related to peacebuilding based on the recurring peacebuilding priorities outlined in the 2009 Secretary-General's report<sup>6</sup>: political processes; safety and security; rule of law and human rights; and core government functions. There are other areas that could contribute to peacebuilding outcomes, such as health, education and infrastructure, depending on the design of the programmes, which generally do not focus on peacebuilding outcomes. This exercise can help paint a more data-driven picture of the state of bilateral and multilateral financing for peacebuilding.

Ayham Al Maleh is an Associate Policy Officer with the Peacebuilding Support Office, working on Pathways for Peace and the UN-World Bank Partnership on Crisis Affected situations. He has followed the *Pathways for Peace* study in various capacities since its inception in 2016 and support the UN-World Bank Steering Committee for Crisis-Affected Situations. Prior to joining the UN Ayham worked at the Copenhagen Centre for Resolutions of International Conflict, as well as the NGO Teach First Denmark. Ayham Al Maleh holds a Master's in International Political Economy from the University of Warwick, UK and a Bachelor's in Political Science from the University of Aarhus, Denmark.

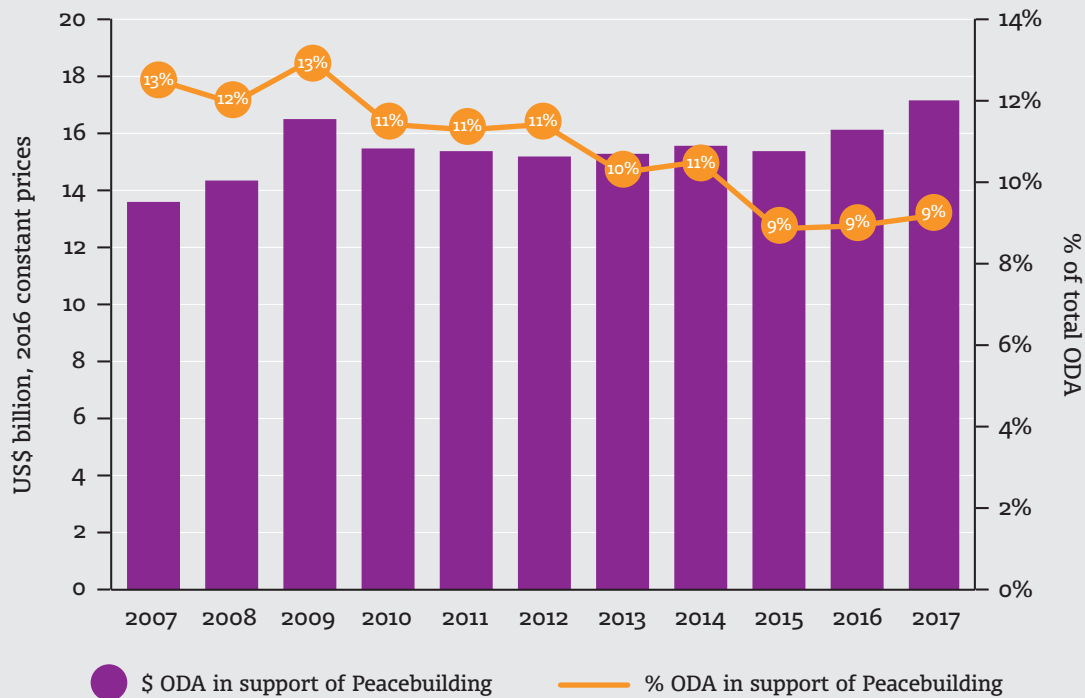
*The views and interpretations in this section do not necessarily represent the views of the United Nations.*

Total ODA gross disbursements in 2017 constituted a total of US\$ 186 billion with humanitarian emergency response and in-donor refugee costs taking up 21%. Other major areas of investment in 2017 include; transportation and infrastructure; basic health (6%); government and civil society (7%) and population policies/programmes (6%).

Peacebuilding expenditures remain a small and declining proportion of total aid disbursement to all developing countries, although this trend seems to be halting in the most recent years, when disbursements to peacebuilding stagnated at around 9% of total ODA (see Figure 1 on next page). From 2016 to 2017, however, there is an increase in ODA to peacebuilding of US\$ 1.8 billion.

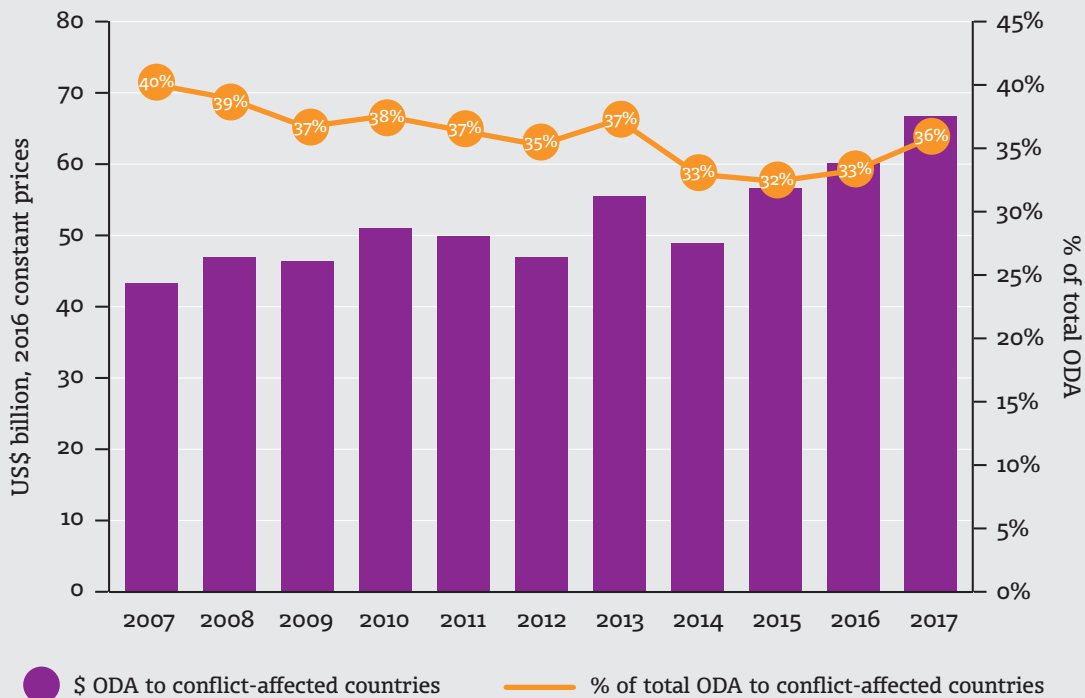
Among the developing countries<sup>7</sup>, there are 51 countries that are affected by conflict.<sup>8</sup> After a decade-long decline, the share of total ODA that is allocated to conflict-affected countries has been reversed since 2016, with 36% of ODA disbursed to conflict-affected countries in 2017, up from 32% in 2015 (see Figure 2 on next page). In absolute terms, ODA to conflict-affected countries

Figure 1: Declining and stagnant disbursement on peacebuilding as share of total ODA



Source: Organisation for Economic Co-operation and Development (OECD)

Figure 2: Increasing ODA to conflict-affected countries



Source: Organisation for Economic Co-operation and Development (OECD)

increased from US\$ 48.7 billion in 2014 to US\$ 66.9 billion in 2017. A significant part of that increase, however, is attributable to only a few countries. In 2017, a third of ODA to conflict-affected countries was disbursed to only four country contexts (Afghanistan, Kenya, Nigeria and Syrian Arab Republic), with Syria accounting for the largest share of 17%. At the same time, increased ODA to conflict-affected countries is driven by increased spending on humanitarian responses, rather than increased development or peacebuilding spending. In 2017 alone US\$ 19.2 billion was disbursed in emergency response compared to US\$ 8.0 billion in 2014, amounting to a 140% increase in just 4 years.

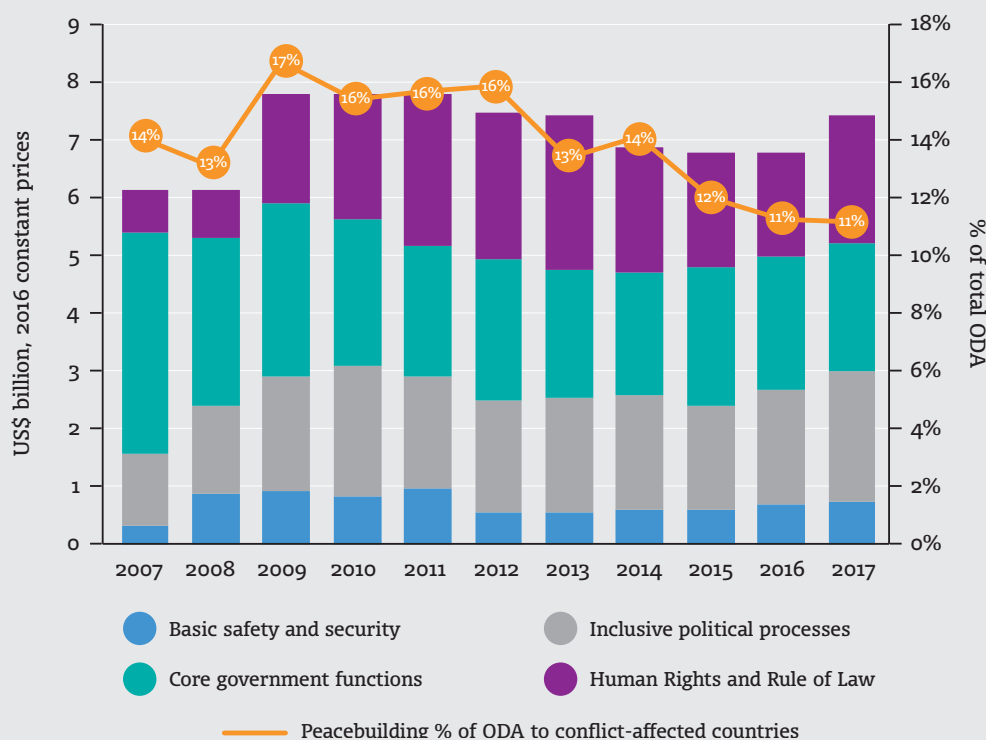
The absolute increase in peacebuilding from 2016 to 2017 is attributable to increased spending on human rights and rule of law (increased by US\$ 453 million) and inclusive political processes (increased by US\$ 256 million) and offset by a decline in expenditures related to core government functions (declined by US\$ 114 million) – reflecting shifting priorities related to peacebuilding. Although one year of absolute increase in peacebuilding spending is too early to mark a trend, the increase could be indicative of the rising importance of ‘inclusion’ – defined as emphasis on human rights and inclusive political processes – as a means to deliver donor priorities related to prevention.

An increase in ODA to conflict-affected countries in recent years is, however, not matched by a growing focus on peacebuilding in these countries. The share of ODA focusing on peacebuilding in conflict-affected countries declined from 16.8% in 2009 to 11.2% in 2017 – and in absolute terms from US\$ 7.8 billion in 2009–2011 to US\$ 6.8 billion in 2015 and 2016 – increasing to US\$ 7.5 billion in 2017 (see Figure 3 below). Largely this decline as share of total ODA could reflect the declining emphasis on large-scale state and peacebuilding processes related to the wars in Afghanistan and Iraq.

Overall in the period 2015–2017, peacebuilding-related disbursements accounted for 11.5% of total ODA to conflict-affected countries. Notably, funding for human rights, public financial management and legislatures and political parties constitute the largest proportions of peacebuilding, accounting for a total of 57% of peacebuilding-related disbursements combined (see Figure 4 on next page).

The overall trends in peacebuilding-related ODA reveal a mismatch between donor rhetoric regarding prevention and donor expenditures focused on crisis-response. These trends also reflect, however, missed opportunities related to increasing spending on prevention and peacebuilding – and thereby cutting crisis-response costs in

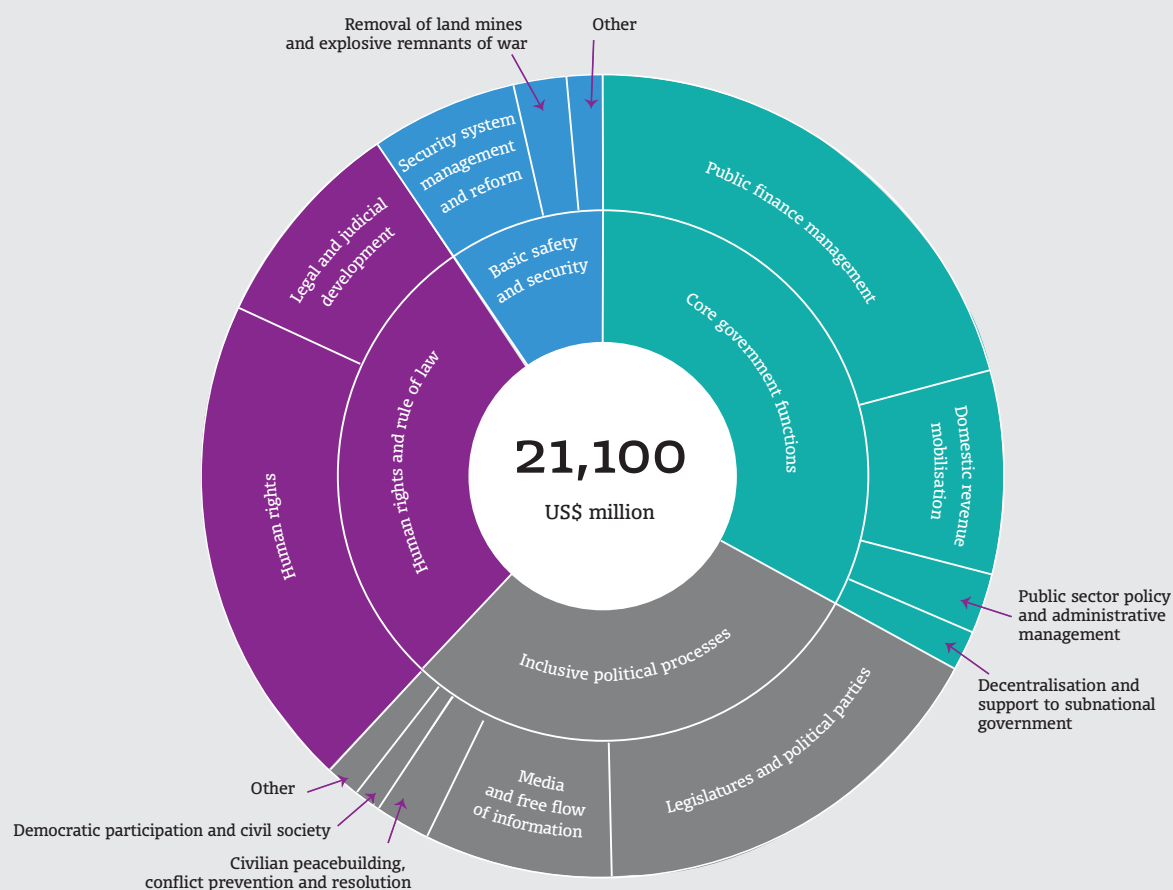
**Figure 3: In conflict-affected countries, peacebuilding declines as a share of total ODA**



Source: Organisation for Economic Co-operation and Development (OECD)



Figure 4: Peacebuilding ODA in conflict-affected countries focused mostly on public financial management, human rights and legislature and political parties in 2015-2017 (in US\$ million, 2016 constant prices)



Source: Organisation for Economic Co-operation and Development (OECD)

Note: Sectors under US\$ 200 million have been grouped together.

Other in green space represents a total of US\$ 350 million:

Child soldiers (prevention and demobilisation) (US\$ 29 million), Ending violence against women and girls (US\$ 125 million), Participation in international peacekeeping operations (US\$ 23 million), Reintegration and SALW control (US\$ 127 million)

Other in grey space represents a total of US\$ 293 million:

Anti-corruption organisations and institutions (US\$ 124 million), Women's equality organisations and institutions (US\$ 169 million)

the long run. Although the declining emphasis on peacebuilding-related ODA disbursement may begin to see a reversal, we are yet to see a clear trend in this regard.

### Methodological notes

The data on ODA is publicly available information, collected on an annual basis by the Organisation for Economic Co-operation and Development (OECD) as reported through their Creditor Reporting System. The information represents gross disbursements of ODA – and reflects actual spending rather than commitments and excludes debt repayments. Although the information may not capture all development flows – the OECD database represent the best information available on aggregate Official Development Assistance. The OECD data also captures ODA from countries that are not

members of the OECD Development Assistance Committee (OECD-DAC), such as Russia, Turkey and United Arab Emirates. China, however, does not report to the OECD. The data does not display other important forms of development assistance, including in-kind support or cooperation, which also have a valuable role to play in peacebuilding, as noted in the 2018 Report of the Secretary-General on Peacebuilding and Sustaining Peace.<sup>9</sup>

### Peacebuilding-related categories

The peacebuilding-related categories of ODA flows are based on the 2009 Secretary-General's report<sup>10</sup>, which highlighted several recurring peacebuilding needs. They are listed below and constitute the basis for the report of the Institute for Economics and Peace.<sup>11</sup>



Peacebuilding Categories	Purpose code	CRS Purpose #
<b>Basic safety and security</b>	Security system management and reform	15210
	Reintegration and Small Arms and Light Weapons (SALW) control	15240
	Removal of land mines and explosive remnants of war	15250
	Child soldiers (prevention and demobilisation)	15261
	Ending violence against women and girls	15180
	Facilitation of orderly, safe, regular and responsible migration and mobility	15190
	Participation in international peacekeeping operations	15230
<b>Inclusive political processes</b>	Civilian peacebuilding, conflict prevention and resolution	15220
	Legislatures and political parties	15152
	Anti-corruption organisations and institutions	15113
	Democratic participation and civil society	15150
	Media and free flow of information	15153
	Women's equality organisations and institutions	15170
<b>Core government functions</b>	Public sector policy and administrative management	15110
	Public finance management	15111
	Domestic revenue mobilisation	15114
	Decentralisation and support to subnational government	15112
<b>Human rights and rule of law</b>	Legal and judicial development	15130
	Human rights	15160

## Footnotes

<sup>1</sup> United Nations Secretary-General, 'Peacebuilding and sustaining peace', (Report of the Secretary-General, A/72/707-S/2018/43, United Nations General Assembly Security Council, 18 January 2018).

<sup>2</sup> OECD, 'Creditor Reporting System (CRS)', (database, OECD, 2019). Retrieved from: <https://stats.oecd.org/>

<sup>3</sup> Institute of Economics and Peace, 'Stocktaking of Peacebuilding Expenditures: 2002-2013', (report, Institute of Economics and Peace, 2017); 'Measuring Peacebuilding Cost-Effectiveness', (report, Institute of Economics and Peace, 2016).

<sup>4</sup> Countries with financial activity within the Secretary-General's Peacebuilding Fund or with a single-country special political mission or peacekeeping operation in 2018 (54 countries in total).

<sup>5</sup> Institute of Economics and Peace, 'Measuring Peacebuilding Cost-Effectiveness', see footnote 3.

<sup>6</sup> United Nations Secretary-General, 'Report of the Peacebuilding Commission, Report of the Secretary-General on the Peacebuilding Fund, Follow-up to the outcome of the Millennium Summit, Strengthening of the United Nations system', (Report of the Secretary-General, A/63/881-S/2009/304, United Nations General Assembly Security Council, 11 June 2009).

<sup>7</sup> 'DAC List of ODA Recipients: Effective for reporting on 2014, 2015, 2016 and 2017 flows', (statistics, OECD-DAC, 2018).

<sup>8</sup> Countries with financial activity within the Secretary-General's Peacebuilding Fund or with a single-country special political mission or peacekeeping operation in 2018 (54 countries and territories).

<sup>9</sup> Report of the Secretary-General, A/72/707-S/2018/43, UNGA SC, 18 January 2018.

<sup>10</sup> Report of the Secretary-General, A/63/881-S/2009/304, UNGA SC, 11 June 2009.

<sup>11</sup> More detailed information regarding the content of each purpose code as well as other codes can be found here: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/dacandcrscodelists.htm>

# How the Peacebuilding Fund is investing in the Sustainable Development Goals

By Laura Buzzoni and Henk-Jan Brinkman

Violence and conflict are the most important obstacles to sustainable development. Nearly half of all people living in extreme poverty reside in countries affected by conflict. Fifty percent of the lowest ranking countries in the 2018 Human Development Index Report are affected by violent conflict.<sup>1</sup> Peace and development mutually reinforce each other; violence and conflict can reverse development gains, by causing death, disease, deprivation, displacement, destruction, damage as well as leading to a decline in public services and limited access to resources, which in turn can provoke grievances resulting in mistrust and conflict. On the other hand, peace can sustain development gains. Because of this interdependence, the UN system is working closely together to ensure progress on the 2030 Agenda for Sustainable Development.

## The 2016 twin resolutions on Sustaining Peace and the 2030 Agenda for Sustainable Development

On 27 April 2016, the General Assembly and the Security Council adopted substantively identical resolutions on peacebuilding<sup>2</sup>, concluding the 2015 review of the UN Peacebuilding Architecture. Member States demonstrated their commitment to strengthening the United Nations' ability to prevent the 'outbreak, escalation, continuation and recurrence of [violent] conflict'<sup>3</sup>, address root causes and assist parties to conflict to end hostilities in order to 'save succeeding generations from the scourge of war' as stated in the opening sentence of the UN Charter.

The resolutions introduced the term 'sustaining peace', which rather than redefining peacebuilding, provides for an expanded scope. The resolutions recognise that development, peace and security, and human rights are interlinked and mutually reinforcing. Sustaining peace is broadly understood as a goal and a process to build a common vision of a society where the needs of all segments of the population are taken into account. It encompasses activities aimed at preventing the outbreak, escalation, continuation and recurrence of conflict,

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Henk-Jan Brinkman is Chief of the Peacebuilding Strategy and Partnerships Branch of the Peacebuilding Support Office in the UN Department of Political and Peacebuilding Affairs. Previously, he worked in the World Food Programme, the office of the UN Secretary-General and the UN Department of Economic and Social Affairs. He has published on such topics as peace and justice in the post-2015 development agenda, socio-economic factors behind violent conflicts, the impact of high food prices, structural adjustment in Africa and human stature. Henk-Jan Brinkman holds a Master's in economics from the University of Groningen in the Netherlands and a PhD in economics from the New School for Social Research in New York City.

addressing root causes, assisting parties to conflict to end hostilities, as well as ensuring national reconciliation and moving towards recovery, reconstruction and development. It also emphasises that sustaining peace is a shared task and responsibility that needs to be fulfilled by the government and all other national stakeholders, and should flow through all three pillars of the United Nations engagement at all stages of conflict, and in all its

dimensions, and needs sustained international attention and assistance.

The 2030 Agenda pledges to ‘leave no one behind’ and ‘endeavour to reach the furthest behind first’<sup>4</sup>, recognising that failing to do so drives inequalities and undermines human rights, social cohesion, peace and sustainable development. Member States also stressed that peace cannot be sustained without sustainable development, and peace and security is crucial in making progress on sustainable development. A comprehensive whole-of-system response, including greater cooperation and complementarity among development, human rights, peace and security and humanitarian action, is fundamental to efficiently and effectively attaining the Sustainable Development Goals (SDGs) – as well as sustaining peace. The SDGs are universal, interlinked and integrated. As many as 36 targets across the 2030 Agenda are directly related to violence, justice or inclusivity, for example:

- SDG 4 on education includes references to discrimination in education, education on human rights and gender equality, ‘promotion of a culture of peace and nonviolence’ and ‘safe and non-violent learning environments for all’;
- SDG 5 on gender equality aims to eliminate all forms of violence against women and girls, and ensure their full and effective participation;
- SDG 8 on decent work and economic growth aims to eradicate forced labour, modern slavery and human trafficking, secure the prohibition and elimination of the worst forms of child labour, protect labour rights and achieve equal pay for work of equal value; and
- SDG 10 on inequalities aims to promote social, economic and political inclusion and safe migration.

Moreover, there are several SDGs that are critically important in our efforts to address the drivers and root causes of conflict, including SDG 11 on safe, resilient and sustainable cities and public spaces, SDG 6 on equitable access and management of water resources, SDGs 13, 14, and 15 on management of natural resources and SDG 17, which aims to build stronger multi-stakeholder partnerships for the goals.

### **The Peacebuilding Fund’s investment in the Sustainable Development Goals**

Building on the conviction that sustaining peace and sustainable development are complementary and mutually reinforcing, the Peacebuilding Support Office embarked on a portfolio review of projects funded by

## **The Peacebuilding Fund**

**The Secretary-General’s Peacebuilding Fund (PBF) is the organisation’s financial instrument of first resort to sustain peace in countries or situations at risk or affected by violent conflict.**

**The PBF may invest with UN entities, governments, regional organisations, multilateral banks, national multi-donor trust funds or civil society organisations. From 2015 to 2018, the PBF has allocated over US\$ 368 million to 47 recipient countries. Since inception, 58 Member States contributed to the Fund, 33 in the present 2017-2019 Business Plan.**

**The PBF works across pillars and supports integrated UN responses to fill critical gaps, acts quickly and with flexibility to political opportunities and catalyse processes and resources in a risk-tolerant fashion. The PBF also enhances coherence among various actors and is able to invest in areas where others are hesitant to venture, which is critical in conflict-affected settings.**

the Peacebuilding Fund (PBF) from 2015 to 2018 to assess their contribution to the Sustainable Development Goals.

During the period 2015–2018, the PBF has contributed 83% of its total allocation to the SDGs. The US\$ 368 million investment of PBF funding towards the SDGs goes beyond SDG 16 and covers different aspects of peaceful, just and inclusive societies that are included across several SDGs. The interlinkages and integrated nature of the SDGs are of crucial importance to ensuring that the purpose and vision of the 2030 Agenda are realised. Therefore, efforts to achieve one goal can be instrumental to the achievement of other goals. For example, actions to address eradicating poverty (SDG 1), reducing inequalities (SDG 10), promoting quality education (SDG 4), achieving gender equality (SDG 5), addressing climate change (SDG 13), supporting peace and strengthening institutions (SDG 16) and promoting partnerships (SDG 17) can have mutually reinforcing effects.

Contrary to the assumption that investment in peacebuilding may divert funds from more traditional forms of development assistance, the review also highlighted how PBF’s contribution to the SDGs is complementary and additional to other development efforts. This is partly the case because contributions to the PBF are coming from a number of donors from different budget lines. Furthermore, through its catalytic role, PBF interventions usually encourage further funding in development

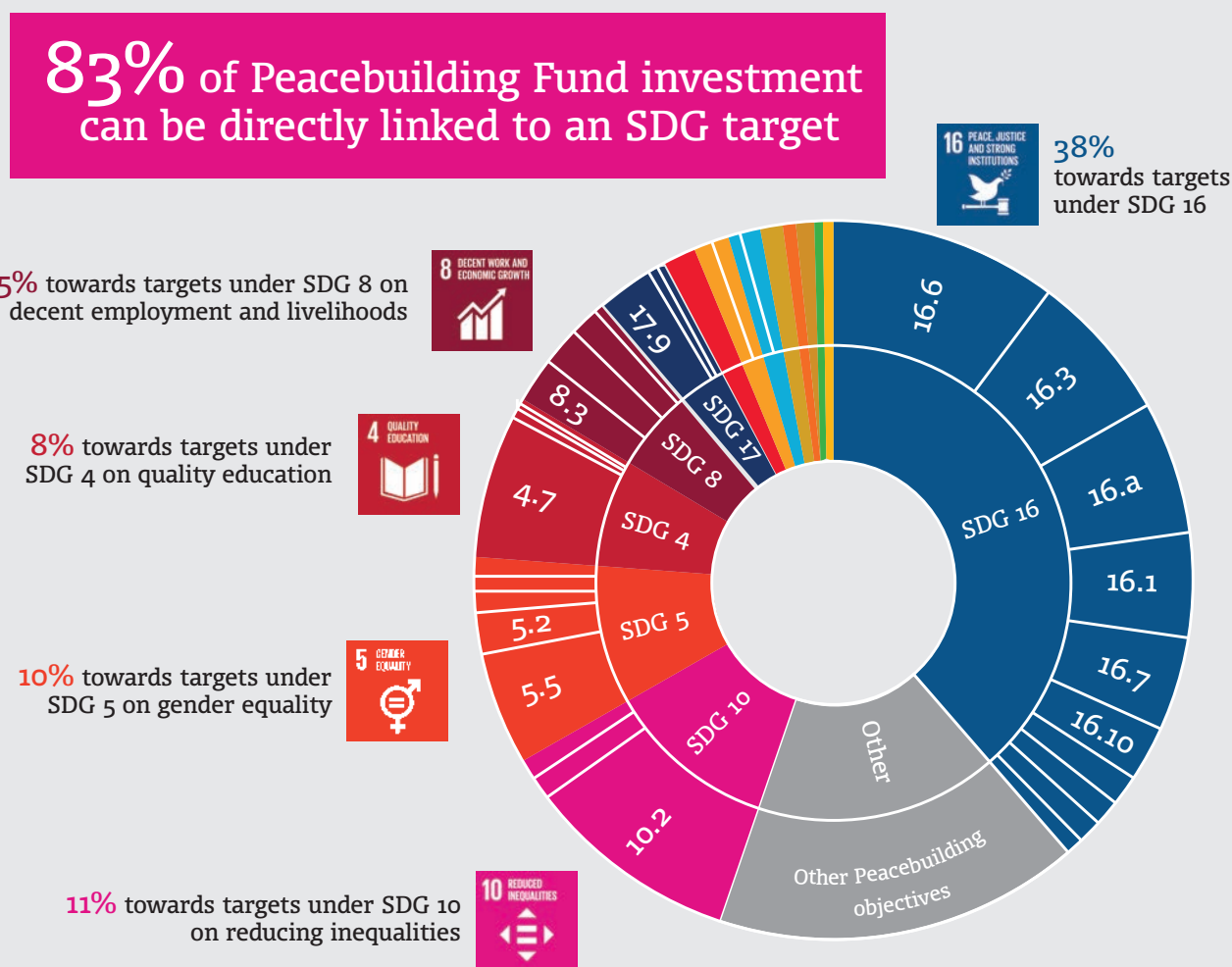
initiatives. The 2018 Report of the Secretary-General on peacebuilding and sustaining peace<sup>5</sup> highlights the role of the PBF as a critical vehicle as the UN steps up its efforts to build resilience and drive integrated UN action for prevention. The Report stresses the Fund's role in supporting national partners and United Nations country teams in responding strategically to peacebuilding needs, aiding transitions from mission to non-mission settings and facilitating alignment with international financial institutions and other partners.

A 2017 evaluation conducted for the PBF project portfolio in Guinea, for example, highlighted that PBF projects created entry points for risk taking and innovative interventions. This offered the basis for subsequent longer-term

and larger-scale initiatives in the three priority areas (Security Sector Reform, National Reconciliation, Youth and Women's Employment). This confirms the PBF's catalytic value and its role of mobilising new partners.<sup>6</sup>

Looking at Figure 1 below, the inner circle of the pie-chart shows the percentage of PBF spending towards the SDGs for the period 2015–2018. The outer circle shows the share of funds allocated to specific targets under each SDG. The 'Other' category represents other peacebuilding functions that are not directly related to a specific SDG target. This includes some enabling functions, which are sometimes funded by PBF projects, such as programme coordination and secretariat.

Figure 1: Percentage spending per SDG target 2015-2018



Source: Peacebuilding Support Office, 'Peacebuilding Fund Investment in the Sustainable Development Goals', (report, United Nations, May 2019), p4.

## Examples of PBF funded activities contributing to the SDGs

### SDG 16



- Support to national dialogue and reconciliation processes (16.3; 16.7)
- Transitional justice (16.3; 16.a)
- Capacity building for institutions at all levels to increase transparency and accountability (16.6; 16.7; 16.a)
- Community-based conflict prevention measures, including early warning mechanisms (16.1; 16.7)
- Support formal or informal justice systems for peaceful resolution of conflict (16.1; 16.3)

#### *Niger: Establishing early warning mechanisms for conflict prevention at the local level (2016)*

In 2016, the PBF funded a project in eight rural communities, in the regions of Tillabery, Agadez and Tahoua in Niger, to foster social cohesion and peaceful coexistence among men, women, boys and girls, including opinion leaders, Malian refugees living in the communities, and security and defence forces. The project helped to strengthen collaboration among the population, particularly women and youth, security and defence institutions and local authorities. The project used different capacity-building activities, community-based initiatives and awareness-raising campaigns to improve the knowledge and skills of security personnel and the communities. Those activities resulted in the establishment of local peace and security committees for early warning and conflict prevention. The committees are composed of different members of the community. They seek to identify risks of social fractures and to address potential conflict triggers through mediation and other peaceful resolutions. The project also facilitated the launch of a pilot initiative for the creation of local police forces in eight target communities. In addition, the project involved members of the communities in various joint activities around, for example, water and sanitation, land rehabilitation, planting trees, sports, joint training and awareness campaigns with the aim of improving technical skills for basic services and strengthening mutual understanding and trust within the communities.

### SDG 10



- Support access to social services for all (10.2)
- Support inclusive decision-making processes at national and local level (10.2; 16.7)
- Establish participatory processes to develop policies that are responsive to the needs of different sectors of the society (10.2; 16.7)
- Foster the inclusion of women and youth in all aspects of peace and security and in socio-economic arenas (10.2)

#### *Sri Lanka: Youth participation in the peacebuilding process (2017)*

This project worked with women leaders and political parties to increase female political representation through a system of quotas in local government elections. In addition, the project created platforms for women and youth voices to be heard through capacity building and advocacy campaigns addressing cultural stereotypes and civic engagement. Catalysing women and youth participation in local governance and decision-making contributed to creating a sense of ownership and inclusiveness in the peacebuilding process.



## SDG 5



- Combat gender-based violence (GBV) (5.2)
- Provide services to GBV survivors and assist them in their reintegration (5.2)
- Support women's participation in political and socio-economic decision-making processes (5.5)

*Central African Republic: Promotion of women's political participation and female leadership in the peacebuilding process (2018)*

In 2018, the Peacebuilding Fund support led to the revision of the Central African Republic Electoral Code in anticipation of the 2020–2021 elections, making it possible to lay the foundation for better involvement of women and girls in decision-making processes. The project enhances women's and girls' leadership and engagement in the national dialogue and public life in Central African Republic. The project recognises the critical contribution that women make in national planning in Central African Republic, including the implementation of reconciliation and recovery activities.

## SDG 4



- Facilitate education opportunities that promote the values of tolerance, respect, empathy and mutual understanding (4.7)
- Help communities develop knowledge about common history, past experiences and roots of existing conflicts to alleviate inter and intra-communal grievances, increase a sense of belonging and strengthen national identity (4.7)
- Educate about human rights rule of law and peaceful means to settle conflicts (4.7)

*Kyrgyzstan: Increase community resilience to violent ideologies (2017)*

In 2017, the Peacebuilding Fund funded a project in Kyrgyzstan focusing on women and men, boys and girls in target communities, taking a more critical stance on ideologies that instigate violence. Through the project, schools, civil society and religious leaders received capacity-building and became partners to provide alternative, positive messages and build meaningful dialogue, encouraging people to gain a better sense of belonging to their community and to participate in local development.

## SDG 8



- Provide reintegration and livelihood opportunities to ex-combatants (8.6)
- Support to economic and labour market policies should focus on improving labour market conditions, with particular attention to reducing inequalities for women and youth, and marginalised groups (8.3; 8.5)

*Colombia: Demining and reintegration of former combatants for local peacebuilding (2018)*

This project established Humanicemos DH, a civil society organisation composed of former Revolutionary Armed Forces of Colombia–People's Army (FARC-EP) combatants working on humanitarian mine action. Through the organisation, 146 former combatants (women and men) are being reintegrated into their communities and will contribute to their socioeconomic development. Humanicemos DH will be supported with technical and operational capacity through partnerships with mine-action organisations with regional and international experience. Thus far, several former combatants have received training in areas such as mine-awareness education, recognition of explosive devices, information management and mapping. They have also learnt about the use and maintenance of mine detectors. This project will contribute to peacebuilding at the local level, not only by giving former combatants an alternative source of income, but through its mine action focus, it will contribute to clearing parts of land, therefore increasing the security of communities and opening new opportunities for livelihood-generating activities.

## Footnotes

<sup>1</sup> UN Development Programme, 'Human Development Indices and Indicators', (statistics, UNDP, 2018). Available at [http://hdr.undp.org/sites/default/files/2018\\_human\\_development\\_statistical\\_update.pdf](http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf)

<sup>2</sup> Referred to as the 'Sustaining Peace resolutions': UN General Assembly, 'Review of the United Nations peacebuilding architecture', (resolution, A/70/262, UNGA, 12 May 2016). <https://undocs.org/A/RES/70/262> and UN Security Council, 'Resolution 2282 (2016)', (resolution, S/2282, UNSC, 27 April 2016) [https://undocs.org/S/RES/2282\(2016\)](https://undocs.org/S/RES/2282(2016))

<sup>3</sup> UN Security Council, (resolution, S/RES/2282, UNSC, 2016), page 2, see Footnote 2.

<sup>4</sup> UN General Assembly, 'Transforming our world: the 2030 Agenda for Sustainable Development', (resolution, A/RES/70/1, UNGA, 21 October 2015), page 3, point 4. <https://undocs.org/A/RES/70/1>

<sup>5</sup> UN Secretary-General, '2018 Report of the Secretary-General on Peacebuilding and Sustaining Peace', (Report of the Secretary-General, A/72/707-S/2018/43, UN General Assembly and Security Council, 18 January 2018). <https://undocs.org/s/2018/43> and <https://undocs.org/a/72/707>

<sup>6</sup> Transtec, 'Evaluation du Portefeuille de projets du Fonds de Consolidation de la Paix en Guinée : Contrat No. PD/C0182/16', (report, Transtec, 2017). [http://www.social-terrain.com/static/media/170717\\_Rapport\\_Guinee\\_version\\_finale.pdf](http://www.social-terrain.com/static/media/170717_Rapport_Guinee_version_finale.pdf)



# OECD's Total Official Support for Sustainable Development pilot study on peace and security

*'A key objective of TOSSD [Total Official Support for Sustainable Development] as a new international statistical standard is to help developing countries better map actual and potential sources of finance for their development. Their support and engagement is thus essential. In order to gather their perspectives and feed them into the development of the TOSSD framework, six pilot studies are being carried out in 2018–2019.'*<sup>1</sup>

## Pilot study on Peace and Security

The 2030 Agenda affirms that 'there can be no sustainable development without peace and no peace without sustainable development'. Through Goal 16, which commits countries 'to promote peaceful, inclusive societies for sustainable development, to provide access to justice for all and to build effective, accountable and inclusive institutions at all levels', there is an acknowledgement that political goals—including in relation to good governance and ending violent conflict—should find a place alongside social, economic and environmental ones. Sustainable development in the TOSSD context is inherently linked to the Sustainable Development Goals (SDGs). As agreed in the 2030 Agenda, peace and security activities in pursuit of SDG 16 or other goals could be considered for inclusion in TOSSD. A pilot study has been launched to explore the relevance of doing so and to make recommendations in this regard to the TOSSD Task Force.

The pilot is based on a consultation with a wide range of experts (international organisations, provider and partner countries, civil society and academics) and a deep dive into one specific provider country's support to the security sector (France). While the pilot will only be finalised mid-June, preliminary findings highlight that:

- Many stakeholders see an opportunity for TOSSD to fill the existing gap in data on security expenditures and better reflect the humanitarian-development-peace nexus.
- Activities in support of international peace and security deserve some recognition in the TOSSD framework, in particular under Pillar II on development enablers and global challenges. Peace and security that could be counted in TOSSD include the United Nations Office of Counter-Terrorism's (UNOCT) work on counter-terrorism, the United Nations Office on Drugs and Crime's (UNODC) activities, the United Nations Office for Disarmament Affairs' (UNODA) actions on disarmament, peacekeeping operations with a mandate to protect civilians. Some areas clearly fall outside TOSSD (military and other kinetic interventions by bilateral providers).
- Safeguards need to be put in place to protect the integrity of the TOSSD measure. In particular, civil society organisations warn of risks of misuse of funds in the field of peace and security. Safeguards could take the form of specific exclusions (lethal arms); separate identification, within TOSSD, of expenditures for peace and security; requirement that activities have clear development outcomes and no adverse impact on any of the SDG targets.

## Footnote

<sup>1</sup> <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/tossd-country-pilot-studies.htm>

# Financing the humanitarian-development-peace nexus

By the UN Multi-Partner Trust Fund Office (MPTFO)

A new generation of pooled funds is helping to bridge the humanitarian-development financing divide. These flexible instruments are demonstrating that well-designed pooled funds can quickly pivot when faced with rapidly changing conditions on the ground. They combine, blend and sequence development, peace and humanitarian funding streams in crisis-affected countries. They improve cost-efficiency, transparency and collective outcomes not only by pooling resources and delivery systems, but also by sharing, and thereby reducing, the risks that often arise in highly volatile and unpredictable settings.

## Context and challenge

Over the last few years, the volume, cost and length of humanitarian assistance has increased dramatically. The UN has estimated that US\$ 21.9 billion will be needed in humanitarian assistance in 2019<sup>1</sup> – a sharp increase from US\$ 12.8 billion just five years ago. This increase is due mostly to protracted crises, with 86% of humanitarian financing going to medium- or long-term crises. Conflict has become a very significant driver of humanitarian needs, as well as a significant constraint on achieving the Sustainable Development Goals (SDGs) in fragile situations.

In 2016, participants of the World Humanitarian Summit stressed the urgency of overcoming long-standing attitudinal, institutional and financial obstacles to strengthening the collaboration between humanitarian and development partners. Humanitarian and development actors share the vision that investing in prevention, mitigation and preparedness for early action, as well as scaling-up of social protection programmes in order to build resilience and reducing vulnerability and risks is the best way to decrease humanitarian needs and ensure that the goal of ‘no one left behind’ is met.

Subsequently in 2017, a United Nations Joint Steering Committee to advance Humanitarian and Development Collaboration chaired by the Deputy Secretary-General was established. The Joint Steering Committee focuses on three areas, of which one looks at achieving coherent

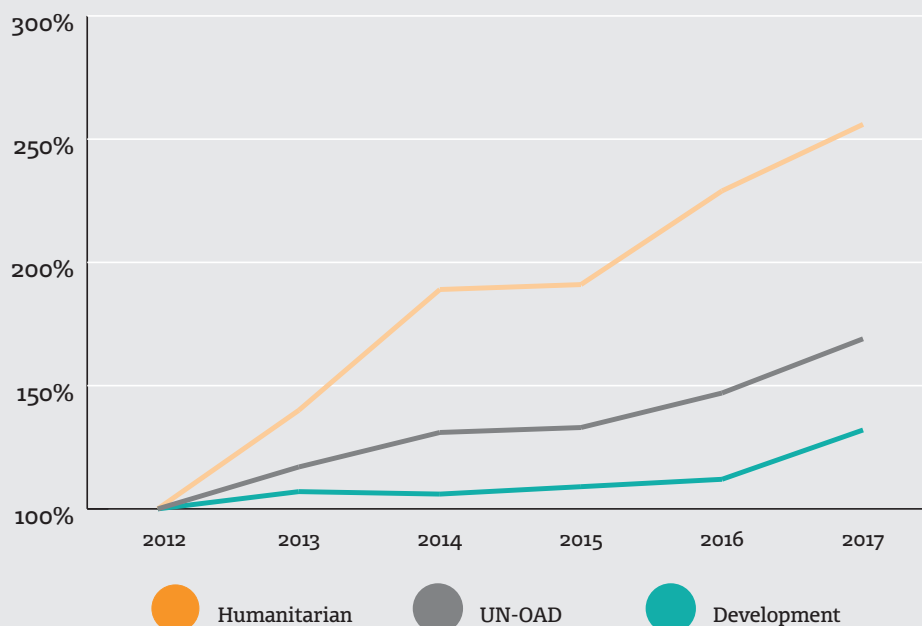
The Multi-Partner Trust Fund Office is the UN centre of expertise on pooled financing mechanisms. Hosted by UNDP, it provides fund design and fund administration services to the UN system, national governments and non-governmental partners. The MPTF Office operates in over 110 countries and manages a total portfolio of US\$ 12 billion in pooled funds, involving more than 150 contributors and over 85 participating organisations.

and appropriate financing from all sources for collective outcomes. Through workshops in Dakar, Copenhagen, Istanbul, Entebbe and New York, key barriers and enablers for effective humanitarian-development collaboration were identified. Among those highlighted were the challenges that humanitarian and development partners request funding separately and also that donors provide funding in a fragmented manner in protracted crisis.

The United Nations Department of Economic and Social Affairs (UNDESA) data depicted in Figure 1 on the next page show that between 2012 and 2017 the development component of the UN Official Development Assistance (ODA) had an accumulated growth of 32%, while humanitarian ODA increased by 156%.<sup>2</sup>

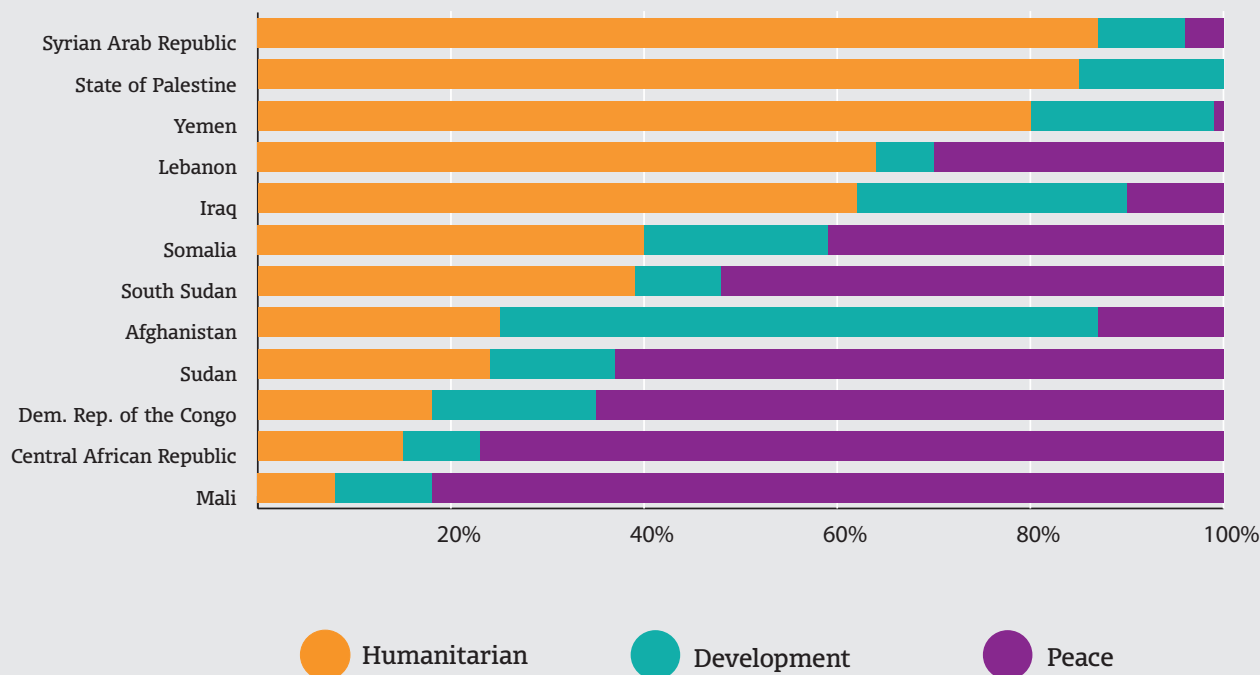
An analysis of expenditures by the UN in the 12 crisis-affected countries with the highest UN expenditure shows that across all countries – with the exception of Afghanistan – development oriented funding represents a very limited portion of the overall UN funding envelope. Figure 2 on the next page shows 2017 UN expenditures and reveals that building resilience and supporting recovery are not the primary focus of UN interventions in these countries.<sup>3</sup> Achieving the longer-term goal to ‘leave no one behind’ requires transcending the humanitarian-development divide. This means identifying collective outcomes over which humanitarian and development actors can join forces to achieve over multiple years. Stakeholders will also have to boost development action in fragile and conflict-affected states.

Figure 1: Real growth of ODA and of funding for UN operational activities for development, 2012-2017



Source: Report of the Secretary-General (A/74/73-E/2019/4)

Figure 2: UN humanitarian, development and peace expenditures as proportion of total, 2017



Source: Report of the Secretary-General (A/74/73-E/2019/4)

## Funding can be turned from a divider into an enabler

Financing modalities that support collective outcomes can incentivise collaboration. Together with partners, the Multi-Partner Trust Fund Office (MPTFO) has been working on a new generation of pooled funds that facilitate the blending, sequencing and cross-referring of development and humanitarian funding. With some of these funds recently established, the MPTF Office will continue innovating to better address challenges and capitalise on opportunities. Some promising examples are showcased in the pages that follow.

Rather than bridging these silos, financing sources and instruments frequently contribute to further dividing the streams of external assistance. The strict separation between humanitarian, development and peace funding by donors, and the high level of earmarking towards specific projects deter collaboration between sectors and actors. In addition, pure development instruments remain ill-equipped to deal with unpredictability and are often not responsive enough to changing circumstances on the ground.

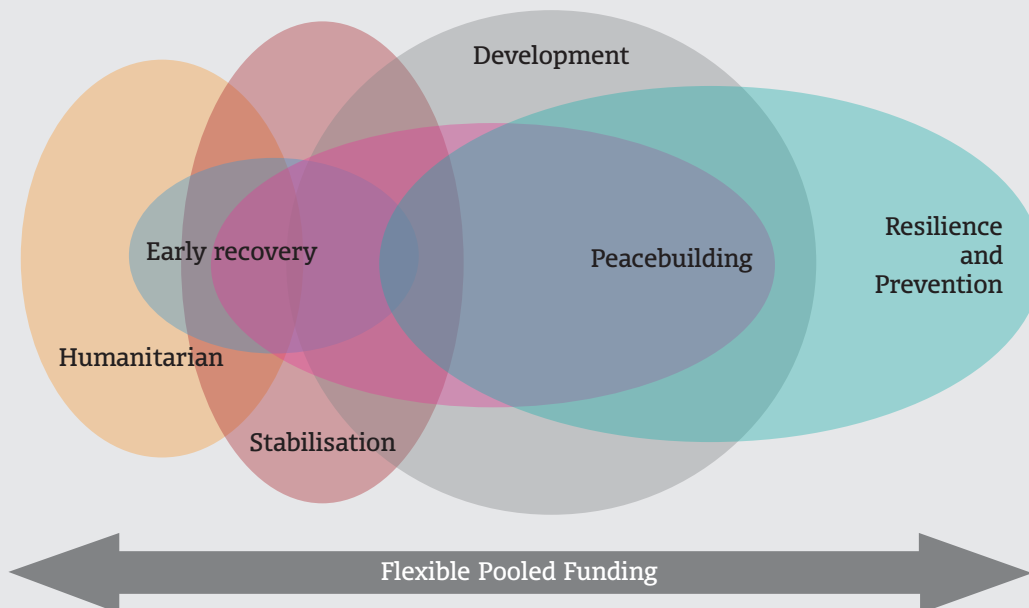
The UN Secretary-General has asked fund contributors to increase the portion of humanitarian appeal funding to the UN Country-Based Pooled Funds to 15%, and Member States have agreed to double the levels of resources channelled through development related inter-agency pooled funds by 2023, as part of the Development Funding Compact. This makes the design of pooled funding instruments which strengthen linkages between humanitarian, development and peace programmes now of utmost importance.

## The advantages of pooled funds for financing the humanitarian-development-peace nexus

### Flexibility

Pooled funding mechanisms are flexible tools that can easily be remodelled to address specific challenges and enable new ways of working. Solutions to overcome the humanitarian-development-peace (HDP) nexus challenges have already been successfully piloted through pooled funds at both global and country levels. Innovation can happen at the design phase of the fund, as illustrated by the Ebola Response MPTF, or it can be integrated during the course of implementation, as in the case of the Humanitarian Window of the Malawi One Fund. Pooled Funds are versatile and offer the ability to adapt to quickly changing situations.

Figure 3: Combining and sequencing funding mechanisms



Source: Organisation for Economic Co-operation and Development (OECD)

### *Coherence*

Well capitalised pooled funds act as centres of gravity to improve effectiveness, reduce duplication and promote alignment among UN agencies and beyond. Their governance mechanisms allow a wide range of partners (notably UN, development partners, national government and civil society) to collectively agree on priorities and strategies. As a result, they create synergies and complementarities with programmes funded from other sources and implemented by other partners.

### *Collective outcomes*

Pooled funds are investment vehicles designed to promote integrated, cross-cutting initiatives over a long period of time. Compared to individual projects from a variety of implementing entities, well designed pooled funds can support comprehensive theories of change. These can articulate the causal linkages and actions required by all humanitarian-development and peace partners to achieve collective outcomes.

### *Managing risks*

Pooled funds offer a number of options to better manage risk for individual development partners, particularly in fragile and conflict-affected contexts. The governance arrangement of a pooled fund, which brings the government, UN and development partners regularly together in a steering committee setting, provides a unique platform for developing a shared understanding and coordinated management of risks. This allows for a better balance between contextual risk, programmatic and institutional risks. Shared decision making and oversight in pooled funds spread individual donor exposure to political and reputation risk.

## **Experience and examples**

The examples below demonstrate that there are a range of approaches for designing fund instruments to advance humanitarian, development and peace collaboration. These approaches can be applied to existing funds or implemented through the design of new mechanisms.

### *Reconciliation, stabilisation and resilience in South Sudan*

The South Sudan Multi-Partner Trust Fund for Reconciliation, Stabilization, Resilience (RSRTF), established in 2018, is closely aligned with the New Way of Working, supporting the realisation of collective outcomes that reduce risk, vulnerability and overall levels of humanitarian needs over time. The Fund has adopted an area-based programming approach, targeting distinct geographic locations where opportunities exist to deliver transformational change and move beyond cycles of conflict and violence. In each area, in close consultation with the local authorities and the local community, development, humanitarian and peace actors – the United Nations Mission in South Sudan (UNMISS),

UN agencies, non-governmental organisations (NGOs) – adopt a joint strategy. In support of the locally adopted area-specific strategy, the South Sudan RSRTF breaks the humanitarian, peace and development silos by funding programmes that, implemented together, create synergies and offer a holistic response to complex challenges. The governance structure of the Fund reflects this approach at both local and national level by ensuring the participation of all stakeholders, including representatives of entities focusing primarily on peace or humanitarian aspects.

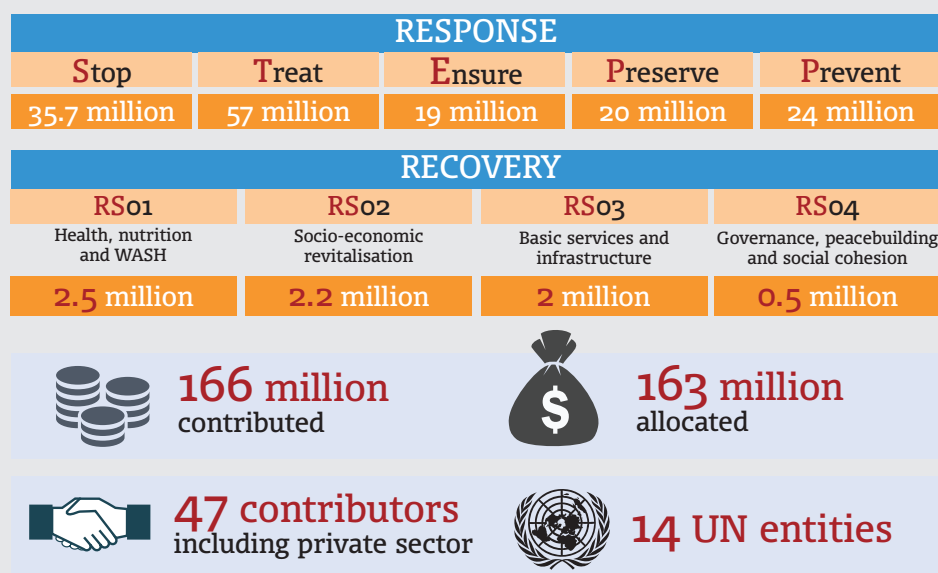
### *The Ebola response MPTF*

The UN Secretary-General's Ebola Response MPTF, was funded by a blend of humanitarian and development financing, and provides another good example of a pivot funding instrument. It was capable of addressing both immediate humanitarian and peacebuilding needs, as well as longer-term development priorities. From the onset, operation of the Fund was informed by the STEPP approach (1. Stop the outbreak; 2. Treat the infected; 3. Ensure essential services; 4. Preserve stability; and 5. Prevent outbreaks in countries currently unaffected). It encompassed emergency response, prevention and recovery. The addition of a Recovery Window in 2015 with four strategic objectives (1. Health, Nutrition, and Water, Sanitation and Hygiene (WASH); 2. Socio-Economic Revitalisation; 3. Basic Services and Infrastructure; and 4. Governance, Peacebuilding and Social Cohesion) also bridged the humanitarian-development divide, further operationalising the nexus approach to finance (see Figure 4 on the next page).

### *The Malawi One Fund*

In 2012, the Steering Committee of the Malawi One Fund decided to open a Humanitarian Window to convert this pure development instrument into a pivot fund. The aim was to address both humanitarian and development needs under strong national leadership and ownership. The ancillary benefits have been considerable, with the Window increasing transparency, strengthening co-ordination and hastening disaster response. The Humanitarian Window supports the government-led emergency response plan and is co-chaired by government. It has its own Terms of Reference and governance body responsible for programming and operational oversight. With proposals developed in consultation with humanitarian cluster members, it has increased coordination among UN agencies, as well as implementing organisations. The Humanitarian Country Team provides a platform where priority setting and implementation is discussed, further increasing transparency among humanitarian actors. Before the establishment of the Humanitarian Window, resource mobilisation invariably commenced after a disaster occurred, delaying the response to affected communities. The existence of the Humanitarian Window

Figure 4: The Ebola response MPTF



Source: UN Multi-Partner Trust Fund Office (MPTFO)

during the 2015 floods, for instance, enabled a quick activation of relief efforts, averting further human misery.

#### *The UN Post-Conflict MPTF for Colombia*

The UN Post-Conflict MPTF for Colombia represents an important strategic alliance between the Government of Colombia, the UN and the international community, which is working together to advance the post-conflict peace and stabilisation agenda in Colombia. A second phase of the Fund has been approved since December 2018, including four strategic action lines: i. Stabilisation; ii. Reincorporation; iii. Victims and Transitional Justice; and iv. Communications. When the MPTF was established in February 2016, the Office for the Coordination of Humanitarian Affairs (OCHA) Colombia Humanitarian Fund, which was initiated in 2009, was phased out. OCHA joined the Post-Conflict MPTF, and the two entities have worked closely to develop pilot initiatives that meet humanitarian, transition and development needs. The interventions focused on improving co-ordination mechanisms and information management systems. Further, successful projects were scaled-up leveraging existing networks and partnerships.

#### **Way forward**

Building on the expertise and knowledge on pooled funds, the UN Multi-Partner Trust Fund Office is leading a new workstream with the United Nations Development Programme (UNDP), OCHA and other UN partners on the best design for future country-level

flexible funding architecture and instruments that more effectively and efficiently support the HDP nexus. The overall purpose is to capitalise on the existing comparative advantages of pooled instruments and translate the overall global discourse on the HDP nexus and the New Way of Working approach to concrete outcomes. With new design parameters for nexus-oriented country level pooled funding mechanisms, there will be better alignment of financing instruments across the nexus, stronger leveraging of synergies and more impactful and efficiently achieved results for all.

#### **Footnotes**

<sup>1</sup> United Nations Office for the Coordination of Humanitarian Affairs (OCHA), 'Global Humanitarian Overview', (report, UNOCHA, 2019). <https://www.unocha.org/global-humanitarian-overview-2019>

<sup>2</sup> United Nations Secretary-General, 'Implementation of General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, 2019', (Report of the Secretary-General, A/74/73-E/2019/4, United Nations General Assembly Economic and Social Council, 18 April 2019). <https://undocs.org/A/74/73>

<sup>3</sup> Report of the Secretary-General, A/74/73-E/2019/4, UNGA ECOSOC, 18 April 2019. See Footnote 2.



# Forecast-based financing: A breakthrough at last for humanitarian financing?

By Lana Zaki Nusseibeh

Humanitarian financing is rarely an uplifting field. Its defining feature is an ever-widening gap between resources and needs, with most global appeals achieving just 50 to 60% of their financing goals. At the same time, evidence mounts that if we could ‘just’ ramp up spending on prevention, we might be able to make a dent in that gap. The ‘US\$ 1 spent on prevention saves US\$ X in humanitarian response’ adages become more compelling every year. The situation is further complicated by a wide range of barriers to change – public finance shortages, donor regulations that tightly define what is a humanitarian activity and what is a development activity, and, notably, the difficulty in justifying prevention in a world where emergency relief needs already outstrip supply.

This context is why forecast-based financing is so important – potentially game-changing. Using credible scientific forecasts of predictable weather events (like droughts, storms, floods and heatwaves), the approach releases aid in advance of an expected disaster, based on a pre-agreed protocol. The results from forecast-based financing’s implementation over the last several years, primarily by the International Federation of Red Cross and Red Crescent Societies (IFRC), are what humanitarian financiers dream of: more lives have been saved, at a sharply reduced cost. It is also a tool for the times. In the age of climate change, more and more disasters and stresses will be climate-induced, and they will accordingly be predictable.

The advent of forecast-based financing is not a silver bullet – that is clear. It is not going to eliminate what is often a US\$ 10+ billion annual gap in humanitarian financing. But it provides, for the first time, a very concrete and politically feasible way to do what the UN and international humanitarian system struggle to grapple with: prevent rather than react. For this reason, a growing chorus of countries and agencies, including the United Arab Emirates (UAE), are calling for a step-

Ambassador Lana Zaki Nusseibeh is the Permanent Representative of the United Arab Emirates to the United Nations in New York. Ambassador Nusseibeh currently serves as co-chair of the Intergovernmental Negotiations on Security Council Reform, and has also previously served as Vice-President of the General Assembly for the 72nd session. She has also served as President of the UN Women Executive Board in 2017, as co-facilitator of the Ad Hoc Working Group on the Revitalization of the UN General Assembly for the 71st session of the General Assembly, and as co-facilitator for the overall review of the implementation of the outcomes of the World Summit on the Information Society (WSIS) in 2015. Prior to her appointment as Permanent Representative to the UN, Ambassador Nusseibeh served in several capacities within the UAE Ministry of Foreign Affairs.

change at the UN. Forecast-based financing is ready to go mainstream in the humanitarian system.

## Financing context

The annual contributions for humanitarian action have skyrocketed by 1,200% since the early 2000s, but recent years have still seen gaps of up to US\$ 15 billion between needed and available resources. In 2018, the UN called for US\$ 22.5 billion and received around US\$ 14 billion. For 2019, the UN estimates that 131.7 million people are in need of humanitarian assistance, and US\$ 21.9 billion is required to help 93.6 million of them in the worst circumstances. Most of these numbers are attributed to conflict, and climate change is rapidly adding to them.

We spend a lot of time in the UAE thinking about possible ways to address this situation. The UAE is one of the largest humanitarian donors in the world on an absolute level, and the largest donor across all fields in



terms of aid as a percentage of gross national income (GNI). Many of the worst humanitarian crises are in countries in our region. So it is a constant concern that the humanitarian financing gap remains so persistent. There are a number of very good solutions that have gained intellectual traction – for instance, in early 2016, our prime minister, His Highness Sheikh Mohammed bin Rashid Al Maktoum, hosted the launch of the UN High-Level Panel on Humanitarian Financing Report, which lists many innovative ideas to close the funding gap. But there are an equal or greater number of reasons for the inability to make real implementation progress – from those I mentioned above, to the failure of peace negotiations, to the political gauntlet of trying to pass a tax on certain transactions to fund humanitarian relief. That is perhaps why so much recent focus has been on cutting overhead costs of humanitarian agencies. Prevention has perhaps been the hardest financing nut to crack. The logic of prevention is nothing new, and few people would argue against it, not least in the humanitarian field.

The UN has always faced this type of challenge on an unbelievably vast scale – how to invest to stop the next war? The next Ebola outbreak? The likelihood of childhood stunting? As a system, we are more often than not reactive, despite knowing better. Peacekeeping is funded dramatically more than peacebuilding. Disaster clean-up receives many more magnitudes of money than disaster risk reduction.

In the humanitarian space, there is a further dimension hobbling prevention: many donors and agencies cannot politically afford to be ‘wrong’ about a crisis. They, and their constituents, typically must see evidence of need (a devastating media report, a social media storm) to justify action. Spending money to mitigate crises that ‘might’ happen feels like a tremendous gamble, with the lives of people caught in existing crises hanging in the balance.

### Forecast-based financing to the rescue

The UAE’s own interest in forecast-based financing stems from a joint identification by our climate and international cooperation ministers that many recent climate-induced disasters were in fact accurately and scientifically predictable. In response, they were both looking for more immediate solutions than to simply ‘stop emitting greenhouse gas emissions’.

Forecast-based financing marries these two portfolios: climate science and humanitarian response. In its basic form, it is an agreement among a group of stakeholders to follow a specific humanitarian protocol when a forecast passes a pre-agreed threshold – a trigger. For instance, a government and its Red Crescent society

could agree that if a certain meteorological entity forecasts that a storm is likely to hit at a certain level of intensity, they will immediately proceed to implement a list of activities, such as pre-positioning of supplies, reinforcement of hospitals and release of cash-based assistance to families, so they do not have to sell their possessions to buy food.

This approach at once addresses several major barriers to the shift into prevention. Perhaps most importantly, it does not blur the lines between development and humanitarian financing. Disaster risk reduction is often too much of a grey zone for the UN, donors, and governments. It focuses on addressing long-term, systemic risks – such as not building in flood zones, or restoring mangroves, or training local first-responders over many years. It has clear humanitarian benefits, but it is too far removed from immediate need for many relief governance systems. Forecast-based financing, by contrast, is about responding to near-term, specific risks – typically in the range of hours to a few months. It does not take money away from humanitarian victims and give it to development actors; instead, it advances money to people who are imminently going to be in a humanitarian situation and whom relief actors are already mandated to help. If disaster risk reduction is akin to eating well and exercising, forecast-based financing is akin to having an EpiPen on hand because a swarm of bees is trying to get into your house and you are allergic. It is a much tighter definition of prevention, and one that humanitarian actors can easily accommodate.

Furthermore, forecast-based financing reduces the responsibility of being ‘wrong’ about a crisis, because scientific data is being used – which is already quite accurate and getting even more precise as climate science advances. Donors and governments are also not making a personal call on whether to release funds, but following a pre-agreed protocol. Of course, we know that forecasts will sometimes still be wrong; a hurricane can change course at the last minute. However, for those entities with greater risk sensitivity, forecast-based financing can also have a ‘pause’ phase before a protocol is followed, in which the science can be reviewed and weighed in the bigger humanitarian context.

Not least, there are the benefits. Forecast-based financing has been operating successfully in a number of countries, including Bangladesh, Peru, and Mozambique, through IFRC, with support from Germany. Illustratively in Bangladesh, the national Red Crescent society dispersed US\$ 60 (one month’s average salary) to around 1,000 households in an area that was credibly predicted to flood. The flood sadly did occur, but the fall-out was reduced. IFRC found that the households used the

money to buy food for animals – their most precious asset – or evacuate them, resulting in 40% less loss or forced sale of livestock compared to households that did not receive payments. Additionally, 50% fewer households took out high-interest loans in the aftermath.

And to return to the adage about US\$ 1 spent on prevention, a number of studies, from the World Food Programme (WFP), the United Nations Children's Fund (UNICEF), IFRC and the World Bank, among others, indicates that savings can range from US\$ 2 to US\$ 12 in avoided humanitarian response.

On this basis, agencies like WFP (with its FoodSecure programme) and the Food and Agriculture Organization of the United Nations (FAO), as well as the Central Emergency Response Fund, under the UN Office for the Coordination of Humanitarian Affairs (OCHA), have joined IFRC in setting up forecast-based financing vehicles or incorporating elements of the approach into their work. Notably, the World Bank and its partners, including the UN, are now also looking to apply the concept in the global response to famine. The Famine Action Mechanism represents potentially the biggest global effort yet to marshal data and set triggers to drive prevention, based on a set of technically sound indicators that allow judgement of when early intervention should occur in a situation likely to worsen to famine.

## Where from here?

There is a strong tendency to create a new fund or specialty window for breakthrough solutions, but we, in the UAE, would like to avoid that splintering.

Rather, what we are calling for is a system-wide embrace of forecast-based financing. We would like for the majority of UN humanitarian funds – especially pooled funds – to sign up to the protocols that govern preventative response, and we would like fund managers to have the authority, in consultation with their stakeholders, to determine whether response is automatic or preceded by a 'pause/review' phase. For instance, we would consider the Famine Action Mechanism as a perfect opportunity for multiple existing funds to agree to respond to its triggers jointly, rather than create a new fund. We would also like development and humanitarian actors to cooperate in designing and financing the protocols.

None of this is a small request. It requires not only significant on-the-ground legwork to establish data sources and protocols, but also a willingness of UN agencies and donors to accept pre-disaster as closer to post-disaster in the hierarchy of humanitarian priorities than ever before. What is different with forecast-based financing, and what gives me hope, is that its inherent humanitarian nature and its scientific strength make it

a much easier innovation to champion, a 'safe' way to move past the barriers and allow humanitarian prevention to become as much practice as norm.

# World Bank catastrophe bonds as an innovative development financing tool

By Michael Bennett and Rebeca Godoy

## The devastating cost of natural disasters in the developing world

Many countries around the world are extremely vulnerable to natural disasters, such as earthquakes, hurricanes, volcanic eruptions, tsunamis, severe droughts or epidemic outbreaks. While such natural disasters do not discriminate between developed and developing countries, the long-term economic impact on a developing country of such a disaster can be many times more severe than if a similar event occurred in a developed country.

For a developing country, the costs of responding to the disaster can draw money away from funding other development priorities, such as education, health and transportation. As a result, the impact of the disaster can inflict damage not just on the people and infrastructure directly affected by the event itself, but more broadly on all sectors of the economy. In addition, developing countries generally have low levels of private insurance penetration, leaving the government as the de-facto insurer of last resort for the entire country. For example, during the period from 1980 to 2004, only about 1% of natural disaster related losses in developing countries were insured, compared to approximately 30% in developed countries.

## The World Bank's disaster risk management work

The World Bank has two goals that guide its work – ending extreme poverty and boosting shared prosperity globally. Since natural disasters hurt the poor and vulnerable most and can set back the development of a country by years, addressing natural disaster risk is a critical part of the World Bank's work. In the area of disaster risk management, the World Bank takes a multi-layered approach, encompassing technical advisory work, lending and risk transfer.

### *Technical advisory*

The World Bank advises countries and subnational entities in assessing their exposures to natural disaster hazards. The goal is to strengthen the capacity of govern-

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Rebeca Godoy joined the Capital Markets group of the World Bank Treasury in December 2012 as a Senior Financial Officer. Her current responsibilities involve working with World Bank's clients in advising and executing different types of financial and non-financial coverage products in the international markets: from market risk coverage to commodities, catastrophes and weather hedges.

ments to take informed decisions based on robust analytical analysis. Incorporating science and new technologies supports the understanding of these countries' exposures to different disasters, including the potential impact of climate change. Promoting resilient infrastructure is critical as well to ensure that key services like transport, healthcare, drinking water, sanitation and electricity are designed to withstand, to the greatest extent possible, predictable natural shocks.

### *Lending*

The World Bank provides loans to its member countries for programmes and projects related to disaster risk management, such as the development of resilient infrastructure and the creation of early warning systems. In addition, the World Bank offers a type of loan to its member countries that is designed to provide immediate liquidity to countries following a natural disaster. This loan, known as a development policy loan with a catastrophe deferred drawdown option (Cat DDO), serves as early financing while funds from other sources, such as bilateral aid or reconstruction loans, are being mobilised. To date, approximately US\$ 3 billion of these Cat DDOs have been signed with 13 countries.

### Catastrophe bonds

In addition to borrowing in response to a natural disaster, countries may wish to transfer a portion of their natural disaster risk to the markets. The most common form of risk transfer is conventional insurance. However, increasingly, catastrophe bonds are emerging as an equally important risk transfer tool.

Catastrophe bonds (or Cat bonds) allow entities that are exposed to natural disaster risk (including governments) to transfer a portion of that risk to the capital markets. The entity purchasing the protection (the sponsor of the bond) pays an insurance premium that is embedded in the coupon paid to the bond investors. If a specified event occurs during the term of the bond, the investors lose some, or all, of their principal and those funds are paid to the sponsor as its insurance payout. On the other hand, if no event occurs, the investors receive 100% of their investment back on maturity. In other words, with a Cat bond, investors risk losing their principal if a specified natural disaster occurs but in exchange receive a coupon that reflects the insurance premium for such risk.

Since 2014, the World Bank has been issuing Cat bonds on behalf of its member countries and other international organisations. By issuing the bonds, the World Bank significantly simplifies the access of its member countries to the risk bearing capacity of the capital markets. The programme leverages the World Bank's standing in capital markets and its existing borrowings infrastructure for the benefit of members. In addition to their role in transferring risk to markets, World Bank Cat bonds (like all World Bank bonds) raise funds for the World Bank's general development lending.

### World Bank catastrophe bonds – at the intersection of insurance and capital markets

When the World Bank issues a Cat bond on behalf of a member country, it stands between the country and the markets. The World Bank enters into an insurance agreement with the member country in which the World Bank agrees to provide a payout to the country upon the occurrence of a specified natural disaster. In exchange, the country agrees to make periodic insurance premium payments to the World Bank.

Simultaneously with the execution of that insurance agreement, the World Bank issues a Cat bond to investors with terms that mirror those of the insurance agreement. The Cat bond provides a hedge to the World Bank for its obligations under the insurance agreement. If the World Bank is required to make a payout to the country under the insurance agreement, it will be entitled to deduct the same amount from the principal amount of the bond. The World Bank uses the insurance premium it receives from the country to pay a portion of the bond coupon.

Most of the investors for World Bank Cat bonds (and for Cat bonds generally) are specialised catastrophe risk funds. These funds, which are primarily domiciled in the United States, Bermuda, the United Kingdom or Switzerland, invest entirely (or almost entirely) in insurance-linked products such as Cat bonds. General asset managers, reinsurance and insurance companies and some public and private pension funds also invest directly in this market. Since 2007, over US\$ 4 billion of natural disaster risk has been transferred by the World Bank for its member countries, in the form of both Cat bonds and conventional insurance. These transactions have been for countries, large and small, throughout the globe. Of the total amount, roughly 65% has been executed in the Cat bond format.

Figure 1: Structure of a cat bond issued by the World Bank



Source: World Bank

Table 1: Type of disasters and locations of World Bank Cat transactions

Countries	Type of disaster	Hedge amount in US\$ million
Mexico	Earthquake & hurricane	1,225
Philippines	Earthquake & hurricane	595
Chile	Earthquake	500
Uruguay	Weather & commodity hybrid – drought	450
International Development Association (IDA) Countries (75 poorest countries)	Pandemic	425
Colombia	Earthquake	400
Pacific Catastrophe Risk Assessment and Financing Initiative (PCRFI) (Small Pacific Islands)	Earthquake, hurricane & tsunami	232.5
Caribbean Catastrophe Risk Insurance Facility (CCRIF) (Caribbean Islands)	Earthquake & hurricane	203.5
Peru	Earthquake	200
Malawi	Weather – drought	19
<b>Total</b>		<b>4,250</b>

Source: World Bank

### What's next

The World Bank will continue to work with its member countries to facilitate their understanding of the financial implications of natural disasters and climate change and to help them to design appropriate risk transfer strategies. The World Bank Cat bond product will continue to play an important part in that work as a risk transfer tool.

The World Bank is also focused on expanding the list of perils that it can help its member countries hedge. In addition to the types of natural disasters that have already been covered by Cat bond transactions, the World Bank is investigating what other types of risks faced by its member countries could similarly be insurable. Among these new risks are famine, cyber and mass migration.

## The Pacific Alliance Cat bond

The Pacific Alliance is a regional initiative that promotes the economic integration of Chile, Colombia, Mexico and Peru to achieve mutual growth and development. The countries are all situated along the western part of the seismically active Pacific Rim and are exposed to a common natural disaster: earthquakes.

In 2016, the Pacific Alliance countries decided to explore the use of catastrophe bonds to gain access to quick liquidity to deal, in part, with the financial losses linked to earthquakes. The decision to work with the World Bank on the transaction allowed them to meet major financial objectives such as expanding financing options without increasing public debt. The execution of a market-based transaction was developed in tandem with technical assistance,

from the legal aspects linked to this modality of capital market transactions to the analysis of the individual risk profiles for each country.

The project resulted in the first World Bank Cat bond sponsored by different countries, the largest earthquake bond ever issued and, for the first time, Cat bond investors buying natural disaster risk in Colombia, Chile and Peru. More than 45 investors around the world participated in this milestone transaction. A record amount of almost US\$ 2.5 billion were put in orders that gave the World Bank the opportunity to increase the size of the coverage and reduce the cost of it for the Pacific Alliance, resulting in a win-win situation for the countries and the market.

Transaction summary	
Notional amount	US\$ 1.36 billion
Classes	<i>Chile:</i> US\$ 500 million <i>Colombia:</i> US\$ 400 million <i>Mexico Class A:</i> US\$ 160 million <i>Mexico Class B:</i> US\$ 100 million <i>Peru:</i> US\$ 200 million
Tenor	3 years for Chile, Colombia, and Peru 2 years for Mexico
Insurance premium	<i>Chile:</i> 2.50% <i>Colombia:</i> 3.00% <i>Mexico Class A:</i> 2.50% <i>Mexico Class B:</i> 8.25% <i>Peru:</i> 6.00%



# The Migration Fund: Building on the Global Compact for Safe, Orderly and Regular Migration

By Jonathan Prentice

Migration in 2019 is at once polarising and unifying. There was thus something a little paradoxical about the Global Compact for Safe, Orderly and Regular Migration (GCM), adopted last December in Marrakech and subsequently endorsed, in New York, by the General Assembly. The creation of the Compact revealed at one and the same time both the intensely politicised nature of the discourse on migration yet also the clear recognition of the need to come together if its advantages are to be maximised and downsides minimised.

The Compact itself is in some ways unremarkable. In essence, it combines what is in effect a collection of pre-existing practices in managing all dimensions of the migratory arc into a non-binding framework, one which places a premium on both national sovereignty, upholding of human rights, and the recognition that each state's migration experience and needs are unique.

As important as the content is, it is in its framework that the true significance of the Compact can be seen: a collective recognition that migration impacts us all, that it has many dimensions, causes, consequences and implications, and that we have the capacity, if we come together, to maximise migration's many positives while pushing back against the downsides – and human tragedy – that unregulated movement can generate. The Compact essentially says that we can do better: by governments of origin, transit and destination, their communities, and by migrants.

## Joined-up response to migration

Rooted in international law, committed to the pursuit of policies based on a solid evidence base, and grounded in the 2030 Agenda for Sustainable Development, the Compact is a framework recognising that the better management of any one state's migration policy is best done through cooperation. Indeed, the emphasis on cooperation – or partnerships – suffuses the Compact, both as a stand-alone objective (Objective 23) and as core to its guiding principles. It represents a large tent,

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providing room for engagement by the broadest range of actors – governmental and non; state-level and sub-national; public entities alongside social and private; and never forgetting migrants themselves – in pursuit of shared goals, underpinned by shared principles.

While voluntary and non-binding, the text is clearly intended to have a tangible impact in addressing migration for the benefit of all concerned. Those who have adopted it call for the Compact's 'effective implementation', based on 'concerted efforts at global, regional, national and local levels, including a coherent United Nations system'. A system of 'follow-up and review' is laid out, state-led and involving all stakeholders, to review implementation of the Compact.

The reference to a 'coherent United Nations system' is significant. In parallel to the negotiations which led to the Compact, the Secretary-General established the United Nations Network on Migration, bringing together all parts of the UN to provide structured support to Member States in their implementation of the objectives they decided upon in Marrakech. This network recognises the global significance of migration and that it has, finally, come fully onto the United Nations agenda. The Network is, in short, the system's complementary commitment to the Member States, as laid out in the Compact: that the better governance of migration demands a response that is joined-up, effective, transparent and sustained.



## The Migration Multi-Partner Trust Fund

To further help ensure that the Compact does not gather dust, and to foster the cooperation that is so core to this joint project, the text calls for the establishment of a capacity building mechanism (CBM). This is where the Migration Multi-Partner Trust Fund (the Fund) comes in.

The Fund is one leg of the CBM tripod, alongside a ‘global knowledge platform’ and a ‘connection hub’. The overall purpose of the CBM is to support state efforts to implement the Compact, drawing on the efforts of states themselves and allowing for contributions from the United Nations system, and other stakeholders, whether technical, financial or human. All three elements of the CBM are conceived of as a mutually supporting whole. Take one away and an imbalance is inevitable.

Drawing on best practice in the running of UN-pooled funding, the Fund’s architecture is aimed at reinforcing national ownership in the development and management of effective migration policies. It strives to ensure UN system coherence, inclusiveness in both design, implementation and oversight, and cost-efficiency. Although contributions to the Fund will ideally not be earmarked, the creation of five thematic areas under which the GCM’s 23 objectives are clustered allow for a level of targeted financing, while ensuring that the Fund retains a degree of agility and that all objectives of the Compact can be covered without distortion.

The Fund will not – and does not seek to – subsume existing initiatives, bilateral and multilateral funding instruments. Rather, in conception and as part of an integrated CBM, its aim is to encourage and support the design of projects which can either be scaled up and/or replicated as bodies of best practice and the partners best placed to provide support are both drawn from and, in turn, enhanced through the projects the Fund finances.

## Generating innovation

Fostering synergies and bringing coherence to the financing architecture around migration is a difficult task. ‘Migration’ is often not readily put into a discrete category as a stand-alone subject. It is both a cause and a consequence of a huge range of factors – developmental, social, economic, political and so on – that cannot always be easily disaggregated. Funding for migration-related purposes display the same characteristics and, in many ways, and rightly so. Reducing all issues to a narrow optic – whether migration or otherwise – is unlikely to always lead to sound policy choices.

However, extreme fragmentation of financing flows when it comes to migration, and the strong earmarking of donor resources towards their own national priorities, can inevitably lead to an imbalance in the distribution of resources whether along geographic or thematic lines. As noted by Sarah Rosengaertner in her article published in the 2017 report of *Financing the UN Development System*, the existing financing landscape provides few examples of governments pooling funds for migration purposes. By requesting the creation of a fund within the CBM of the Global Compact, Members States appear to be cognisant of the need for better balance.

Established by the UN Network on Migration on 8 May, the Fund’s initial target is US\$ 25 million for the first year of operations. This will allow for the development of at least one meaningful project under each of the five thematic areas outlined in the terms of reference. This is a modest sum, given the momentousness of the Compact and the significance of the issues it addresses. As such, it is important that the target is met – both as a clear signal of intent, and as a platform on which to build as experience in, and confidence with, implementing the Compact matures.

The Fund will be far from the only vehicle through which the Compact’s implementation is supported. But, if it works, it will be in the vanguard of generating the most innovative of initiatives and approaches – at local, national, regional and global levels – towards bringing the Compact to life. And if it succeeds in that, it will play a central role in realising the Compact’s promise to impact for the better the lives of those affected by migration.

# Multilateralism on trial?



A resolute resolution for multilateralism  
– a perspective from International Geneva

by Michael Møller



A brief reflection on multilateralism, the UN and financing

by Ulrika Modéer



Multilateralism: An instrument of choice

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The crisis of multilateralism, viewed from the Global South

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Attracting the millennial investor to multilateralism  
and investing in the Sustainable Development Goals

by Kanni Wignaraja

# A resolute resolution for multilateralism – a perspective from International Geneva

By Michael Møller

Earlier this year the global community marked the first International Day of Multilateralism and Diplomacy for Peace, celebrated on 24 April. Some may question the need for another International Day of this kind, especially considering we already observe the International Day of Peace (21 September) and United Nations Day (24 October); two moments to reinforce the ideals and principles of the organisation. For those who ponder the relevance of a day devoted to multilateralism and diplomacy, I would invite them to take just a minute to flip or thumb through their favourite newspaper or social media newsfeed.

Without doubt they would be exposed to a plethora of global problems: armed conflicts that threaten millions of people, forced displacement at record levels, rampant inequality both between and within countries, economic protectionism, sky high debt, terrorism, and threats to the rule of law, just to name a few. And this short list (if you are a pessimist) excludes any mention of existential challenges like climate change, mass extinction of species and environmental degradation.

The next logical thought to surface should be the realisation that the only sure way to tackle today's and tomorrow's challenges is through joint action and a reinvigorated approach to multilateralism and diplomacy.

However, as of late, it seems that many people in the world of 2019 do not share this line of reasoning. Consequently, an International Day focused squarely on reaffirming the role and spirit of multilateralism could not come at a more fitting moment. A time when the rules-based system that has guided the international sphere for nearly three-quarters of a century is being questioned in many corners of the globe.

As stated in the 2018 General Assembly Resolution proclaiming 24 April the International Day of Multilateralism and Diplomacy for Peace, the Day 'constitutes a means to promote the values of the [UN] and... to

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advance the common goal of lasting and sustained peace through diplomacy'.<sup>1</sup>

The Resolution also notes that 'the approach of multilateralism... could reinforce the advancement of the three pillars of the [UN], namely, sustainable development, peace and security and human rights.

While I fully endorse the above statement, there is one aspect that I must challenge—the use of could. There is no question that the multilateral system has and must continue to advance humankind.

## Multilateralism: Crisis or transition?

Having served in the UN for four decades, including nearly six years at the helm of UN Geneva, or the United Nations Office at Geneva, I have borne witness to the positive and indivisible role of multilateralism and diplomacy. The impacts of which have resulted in tangible benefits.

By virtually every measure of well-being, human life is better today than at any other time in history. Living standards, life expectancy, literacy rates and education levels have never been higher across the world. Child mortality, the risk of dying from disease or illness, from war or famine, has never been lower. These advancements and more happened over the course of just a few decades. The unprecedented scale of human progress has been broad, and it happened in what – viewed against the timeline of human history – was nothing more than the blink of an eye.

Yet, against this backdrop, we do find ourselves in a period of social upheaval. A time in which a pointed dissatisfaction over multilateralism is permeating the foundations of global governance. Citizens are feeling troubled, insecure and wary of the multilateral institutions that have been put in place over the past decades. I see this instability and period of discontent as an opportunity to revive multilateralism by injecting it with new levels of agility, inclusiveness and partnership.

### Making the case for the Geneva model

Infusing these features into international multilateralism and diplomacy is not an abstraction or mission impossible. It is happening now, as you read these lines, in Geneva, which this year is celebrating 100 years of multilateralism.

During my time as Director-General of UN Geneva, I concentrated on making the Palais des Nations an example of multilateralism in action, both in terms of operational excellence and long-term vision. Achieving this was no easy task – and it remains a work in progress. It entailed breaking down internal and external silos, forging new and unconventional partnerships, increasing public outreach and promoting openness.

The adoption of the 2030 Agenda for Sustainable Development in 2015 provided the impetus to boost the way ‘International Geneva’, an inimitable ecosystem of actors, worked together. Although the shores of Lake Geneva have long been the venue of choice for international diplomacy and mediation, the integrated and universal nature of the 2030 Agenda and its 17 related Sustainable Development Goals (SDGs) called for new forms of collaboration and collective action.

To that end, I created two initiatives within my office that have grown to exemplify how International Geneva lives and breathes a new form of multilateralism that the city embodies: the Perception Change Project and the SDG Lab. The former focuses on capturing and communicating the impact of International Geneva, with the latter serving as a catalyst to facilitate dialogue and partnership for SDG implementation. Together, these initiatives highlight the value of providing a neutral space – with a light UN touch – where states and non-state actors can concentrate more on co-creating solutions and less on divisive politics.

The impact of this approach has already produced results that bode well for replicating the International Geneva model, or elements of it, to other similar hubs and even local communities all over the world.

One tangible example of the new brand of multilateralism we are building here in Geneva is the creation of a

collaboration focused on sustainable finance that leverages the city’s expertise in financial services and development. The premise is simple: by bringing two diverse communities together and creating the conditions for them to collaborate and innovate, we believe we will increase the chances of developing and deploying new tools and platforms that drive more private finance to the SDGs.

Despite being in a nascent stage, the collaboration has already generated several initial financing concepts. The difficulty in translating two communities’ languages, drivers and incentives cannot be understated but there is already a common understanding developing. In addition, this coming together of two very different worlds to work together represents a mind-set shift that values risk-taking and abandoning the status quo. I believe these are the foundations needed for renewed multilateralism, now more than ever before.

### Multilateralism rebooted

Viewed from the Geneva perspective, there is strong demand for a more dynamic and inclusive model of multilateralism, one where diverse stakeholders can come together to negotiate and dialogue, not impose or threaten. The International Geneva approach to multilateralism also affirms the importance of experimentation and creativity. While ‘thinking outside of the box’ may be an overused adage, it remains a valid notion to bring forward reforms and include a much wider spectrum of society in agenda-setting and decision-making.

Next year’s seventy-fifth anniversary of the UN provides another opportune moment for Member States to restate their commitment to the organisation and to multilateral cooperation, all the while encouraging new models of inclusive multilateralism and diplomacy. As exemplified through our efforts in Geneva, actions such as pursuing unconventional partnerships and brokering untested collaborations can accelerate the discovery of novel solutions and means of implementation. It also demonstrates that multilateralism can be done differently to respond to the complex challenges that no single country is able to tackle on its own.

### Footnote

<sup>1</sup> United Nations General Assembly, ‘Resolution adopted by the General Assembly on 12 December 2018, International Day of Multilateralism and Diplomacy for Peace, A/RES/73/127, 19 December 2018. <https://undocs.org/A/RES/73/127>

# A brief reflection on multilateralism, the UN and financing

By Ulrika Modéer

The Sustainable Development Goals (SDGs) have always been an ambitious set of targets for the world to achieve. But, have no doubt, those goals can be achieved by 2030 as long as we all put our shoulders to the wheel.

Today's global challenges – climate change, entrenched poverty and inequality, and migration to name but a few – are growing in both scale and complexity. The SDGs address these challenges, but they can only be met and overcome when all of us decide to act.

That is where multilateral institutions come into play. By bringing the world together, organisations like the United Nations offer our best chance to respond to challenges and crises.

Unfortunately, the seven-decade old multilateral system faces its own crisis: a waning of support as strong men re-emerge in power across the world. The re-emergence of nationalism and protectionism are challenging the work of the UN. Consequently, the idea that Official Development Assistance (ODA), which is meant to promote the economic development and welfare of developing countries as its main objective, should primarily serve the national interest is gaining currency in some countries.<sup>1</sup>

In the words of Secretary-General António Guterres: "Trust is at a breaking point. Trust in national institutions. Trust among states. Trust in the rules-based global order. Within countries, people are losing faith in political establishments, polarization is on the rise and populism is on the march."<sup>2</sup>

ODA funding to multilateral development organisations reached an all-time high of US\$ 63 billion in 2016. But rising mistrust in multilateralism could lead to a downturn in the near future.<sup>3</sup>

So is all lost? Are we witnessing the decline and death of multilateralism? Fortunately, there is hope, but those

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of us who believe so strongly in multilateralism at the heart of the solutions to the world's challenges have work to do.

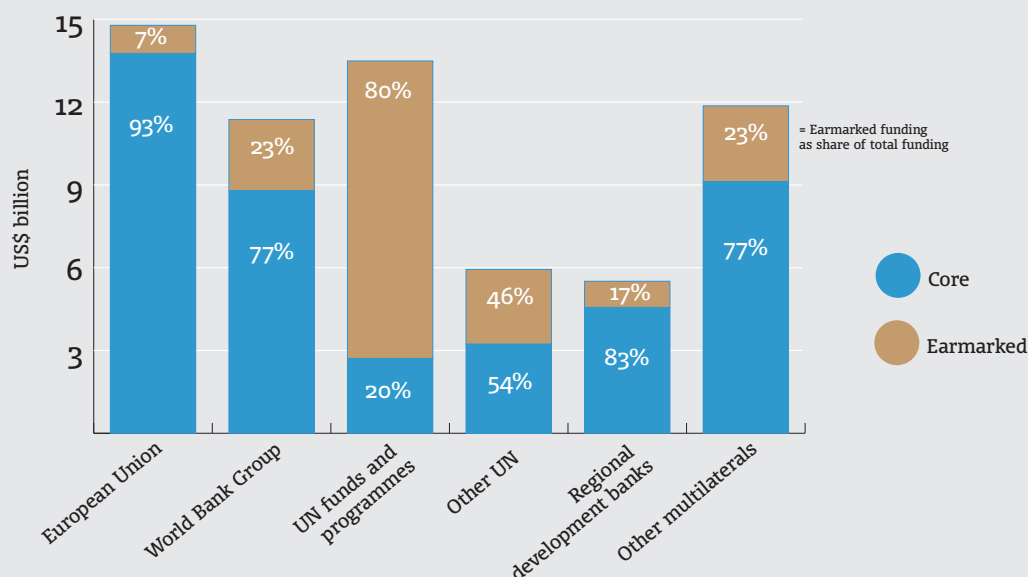
## The value of adequate and quality funding

For the multilateral system to regain trust and bolster the rule-based and value-driven system, it needs to address its discontents and evolve to be fit for purpose. The world expects a multilateral system that is effective, accountable and impactful in supporting countries to deliver on the universal 2030 Agenda. In order to play this role, the system needs adequate and quality – flexible and predictable – funding.

Empirical evidence shows that ODA channelled through the multilateral system is found to be less politicised, more demand-driven, more selective in terms of poverty criteria and a better conduit for global public goods than bilateral aid.<sup>4</sup> Multilateral channels also allow for pooling more resources and advancing a common global cause, as seen in the growing prominence of global vertical funds such as the Global Environment Facility (GEF), the Global Alliance for Vaccines and Immunization (Gavi), the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), etc.

In 2017, funding for UN operational activities for development reached US\$ 33.6 billion, 12.6% higher

Figure 1: Funding to multilateral organisations



Source: Organisation for Economic Co-operation and Development (OECD), 2018  
 Note: The figure represents 2016 constant prices

than 2016. This growth was primarily due to an increase in non-core funding resulting in a continuation of a trend that has prevailed for over two decades. Only about one-fifth of funding in 2017 was in the form of core resources, the lowest core-share ever.<sup>5</sup> Compared to other multilateral institutions, the UN system by far receives the majority of its funding tied to particular projects (see Figure 1 above).<sup>6</sup>

This has put undue pressure on the UN system's ability to operate effectively, as fragmented and unpredictable funding practice spurs unhealthy competition and mandate drift. Because a few donors decide which projects get funded where, the UN entities are becoming less independent and strategic in their work, but follow the money. If this trend continues unabated, it will reduce the UN system to an outlet for implementing bilateral aid programmes instead of being a truly multilateral system, owned and trusted by the entire membership of the UN.

### Building trust and demonstrating value and impact

One of the most important steps falls to the Member States who make up the UN. These nations need to show their support for and trust in the ability of the

UN development system to meet both the promises and the responsibilities of achieving the SDGs.

Contributing to core funding, which is the funding that is untied to any particular project or programme, represents the highest level of trust in the development system of the UN. Given the notable dependence on top donors (50% of all voluntary core funding from governments to the UN development system in 2017 came from the top five contributors)<sup>7</sup>, broadening the funding base and accessing additional sources of financing remains a priority for most institutions.

On their part, the multilateral organisations – individually and collectively – have a part to play in ensuring that donors continue to put their trust in us. We must always demonstrate that we are an effective, reliable and efficient partner on the road to 2030.

Multilateral organisations are critical sources of funding for developing countries, but they will need to support partner countries' access to an array of financing sources – public and private, domestic and international – and channel these investments better, to deliver sustainable social, economic and environmental impact.<sup>8</sup>



Accordingly, the discussion has moved from funding to financing; in other words, how to increase capacities of countries to access, utilise and align available resources to the SDGs, including commercial and concessional finance. And we must become even better at demonstrating the value and impact of their important investments made through the multilateral system.

But to do that, we need the adequate, quality funding that enables the UN development system to deliver the results the world demands, and to deliver them on a large

scale. Earmarked funding will always be critical – but so, too, is the core funding that lies at the heart of the UN development system.

The recently completed Funding Compact<sup>9</sup> between Member States and the UN development system offers yet another chance for a fundamental shift in the way the system is funded.<sup>10</sup> It allows us to realign skewed incentives, to realise the full potential of the organisation and re-enter an era of renewed trust, and to be able to lead the way to a peaceful, prosperous, and sustainable future.

## Footnotes

<sup>1</sup> Nilima Gulrajani and Rachael Calleja, 'The Principled Aid Index', (policy briefing, ODI, 2019).

<sup>2</sup> UN Secretary-General, 'Address to the General Assembly', (speech, United Nations, 25 September 2018). <https://www.un.org/sg/en/content/sg/speeches/2018-09-25/address-73rd-general-assembly>

<sup>3</sup> OECD, 'Multilateral Development Finance: Towards a New Pact on Multilateralism to Achieve the 2030 Agenda Together', (report, OECD Publishing, 2018). <https://doi.org/10.1787/9789264308831-en>

<sup>4</sup> Nilima Gulrajani, 'Bilateral versus multilateral aid channels: Strategic choices for donors', (report, ODI, 2016). <https://www.odi.org/sites/odi.org.uk/files/resource-documents/10393.pdf>

<sup>5</sup> United Nations General Assembly, 'Funding analysis of Operational Activities for Development – Addendum 2', (United Nations General Assembly Economic and Social Council, A/74/73-E/2019/4 Add. 2, 18 April 2019). <https://undocs.org/A/74/73/Add.2>

<sup>6</sup> OECD, 'Multilateral Development Finance: Towards a New Pact on Multilateralism to Achieve the 2030 Agenda Together', see Footnote 3.

<sup>7</sup> United Nations General Assembly, 'Funding analysis of Operational Activities for Development – Addendum 2', see Footnote 5.

<sup>8</sup> OECD, 'Multilateral Development Finance: Towards a New Pact on Multilateralism to Achieve the 2030 Agenda Together', see Footnote 3.

<sup>9</sup> United Nations Secretary-General, 'Funding Compact: Addendum', (Report of the Secretary-General, A/74/73/Add. 1-E/2019/4/Add. 1, United Nations General Assembly Economic and Social Council, 2019). <https://undocs.org/A/74/73/Add.1>



# Multilateralism: An instrument of choice

By Bruce Jenks

Bilateralism vs Multilateralism: these are usually thought of as opposites. You are for one or the other. There is an undertone that if it is serious you do it bilaterally. This is fundamentally mistaken. Multilateralism is a hard option. To be effective, multilateralism must be a choice that is made because it is the most effective or efficient instrument available to a government. Countries should work multilaterally when it is the most effective way to meet a challenge.

Multilateralism should not become a way of abdicating leadership. It must be a way of exercising it. To be effective, multilateralism must be led. Multilateralism is not a substitute for leadership. At the end of the Second World War, the United States made a choice: it would serve US interests better to use multilateral channels to influence outcomes than to act autonomously. Not always, but often. When General Mattis resigned as United States Secretary of Defense in 2018, he singled out partnerships and alliances as critical characteristics of the post-war multilateral order.

There are many issues worldwide where a country might have a national interest but it is counter-productive to intervene unilaterally or to put bodies on the ground. Multilateralism gives you another instrument, another option, through which to exercise influence. Typically, multilateralism offers a way of pooling resources to achieve critical mass, of outsourcing work where nobody wants to do it but someone must and legitimacy where it is in short supply.

## Post-war foundations

The post-Second World War foundations of multilateralism form a tripod. Firstly, the foundations were constructed on shared values, norms and rules. These shared values were deeply influenced by the experience of the inter-war period leading into the Second World War. Secondly, a wide array of organisations with different institutional forms was created, with a view precisely to avoid the vacuum that followed the First World War.

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Thirdly, these organisations, for the most part, were staffed by newly empowered international civil servants. The provisions relating to the international civil service in the Charter (especially articles 100–101) created considerably more space for initiative than had been the case in the League of Nations.

## A new world order and a reconfiguration of state power?

Some 75 years later, the world has undergone transformational changes which impact deeply on the challenges facing multilateralism. There has been a major reconfiguration of power among states, and there are three principle scenarios for how the UN might adjust to the changing realities.

The first would be a gradual process of accommodation to some of the demands of emerging powers. This could lead to reforms, for example, in the membership

profile of countries in the UN Security Council and the International Monetary Fund (IMF). There is not much evidence of a large appetite to take this path.

A second scenario is that countries become dissatisfied with the pace of change and begin a process of establishing alternative instruments. There is evidence of this with the creation of the G20 on the one hand and the establishment of new international development and infrastructure banks on the other.

A third scenario would be that significant segments of the populations of status quo powers feel they have been left behind and increasingly see the benefits of globalisation accruing to an ever-smaller minority. In this scenario, there is a populist rejection of the elitism of international institutions and there is a retreat into different forms of nationalism. This backlash against global elites is clearly evident today, but it is very much contested whether this is a temporary phenomenon or a fundamental change which will have a long-lasting impact.

To different degrees, these scenarios were played out in the United Nations General Assembly (UNGA) debate in 2018.

France strongly reaffirmed its belief in universal values and the compatibility of these values with the exercise of sovereignty. China emphasised that it was committed to upholding the international order and affirmed that this required a strong UN and upholding the Charter. The United States for its part rejected globalism and advocated patriotism which it saw as contrary to globalism. The US in practical terms was defining the exercise of sovereignty as the practice of acting autonomously. The Secretary-General observed the irony of a multilateralism under attack when it had never been more in demand. Perhaps most telling of all was that countries such as China, India, Russia and Germany were not represented at the level of head of government at all.

Multilateralism may or may not be in crisis, but it is certainly in flux.

### **A new relationship between public and private?**

Another major transformation that has taken place lies in the relationship between states and markets, fuelled in large part by the extraordinary growth in the global economy, which has altered the balance between public and private, as well as between international and domestic.

First the reality of the power of markets requires rules to be adjusted and revised. There are areas that require careful attention. For example, Gillian Tett in a recent article questions whether we need an IMF to regulate

the internet.<sup>1</sup> The Economist argues the international bodies responsible for shipping, aviation and postal services are in thrall to producer interests.<sup>2</sup>

A second area which lies at the heart of the evolving relationship between public and private is the increasing role of the public sector to find ways of leveraging the immense resources only available in the private sphere.

Thirdly, the influence of markets has been paralleled by the emergence of multiple stakeholders (multilateral, bilateral, non-state, civil society etc) in different issue areas. This calls for a much more inclusive approach, not least in many of the governance structures that exist in the inter-governmental sphere.

### **Global public goods and the logic of collective response**

The last decade has seen the emergence of a class of development challenges that require a collective response if there is to be any chance of a successful resolution. Generating a collective response requires reaching agreement on the allocation of responsibility for the solution. This may not require an underlying agreement on norms and values but it does require a practical consensus on the allocation of responsibility. Over time the sustainability of commitments undertaken will be much more robust if they are grounded on accepted norms and shared values. The option of a great power absorbing the costs of providing for a global public good seems to be receding into the past.

Agreements have two routes to implementation. One is to take the form of a legally binding agreement and the other is to institute a system of monitoring and verification that makes it possible to hold free riders to account.

It appears that the option of monitoring and verification is becoming the preferred option for holding parties accountable for the allocation of responsibility that has been agreed upon. This is the path that has been chosen, in particular, in climate negotiations and reflected in the Paris Statement. If this path is maintained as the preferred option then monitoring and verification will become the twin pillars on which normative frameworks will be constructed over the near term. Data will become a central player. According to Hariri, the ownership of data will give rise to the most important political questions of our era.<sup>3</sup> The function of monitoring and verification will become core characteristics of a multi-lateral architecture.

### **Science and technology: the game changers?**

The rapid pace of technological innovation has brought to the fore many issues relating fundamentally to norms as well as to the application of standards. There is a broad

range of issues that have emerged over the last decade which calls into question the need for new regulatory frameworks. In their recent books, both Rees<sup>4</sup> and Hariri<sup>5</sup> point to the extraordinary potential of the combination of developments in biotechnology, information technology and artificial intelligence.

Multilateral arrangements are often associated with the financial arrangements that characterise them. Multilateralism has historically been understood as providing an instrument to allocate financial resources in an objective manner. In the future, it may well be that the architecture surrounding scientific exploration and progress will take on a much higher profile.<sup>6</sup> Scientific endeavour after all most likely adopted many of the characteristics of a multilateral approach before multilateralism made it into the Oxford Dictionary.

### Anticipating the future

It is often argued that only a major cataclysm can generate the appetite for constructing a new world order. This is normally associated with the ending of great wars. The causes of war are analysed, lessons are drawn and a new architecture is laid out. Hence the League of Nations followed the First World War and the United Nations, the Second World War. The lessons learned from these two cataclysms were very different and these differences were fully reflected in the new structures put in place.

What are we to make then of the situation we face today... an extensive policy/academic debate which questions whether today's global architecture is fit for purpose set against a background of relative calm? There is a real sense that the current architecture is out of date and losing its relevance. But where will the necessary sense of urgency come from? Without urgency, multilateralism appears vulnerable. It is by anticipating the future that the case for multilateralism can strongly be reaffirmed.

Can it be that, today, living in the era of Anthropocene Man, characterised by the fact that humans will directly impact their fate, multilateralism and the commitment to find collective responses go out of fashion?

It has been observed that never has the gap been so big between the resources we have at our disposal, what we can do with them, and what we are actually doing. We live in a world, after all, in which 2,000 billionaires are valued at US\$ 9 trillion. Another way of putting it is that today 1% of the world's population owns half of the world's wealth.<sup>7</sup> The abundance of resources owes much to the impact of globalisation, but the mounting inequity and the sense of too many left behind speaks to the need for a much better managed globalisation process. Multilateralism has much to contribute to this dilemma.

One of the very special characteristics of the challenges we face over the coming decades is that the science and the evidence point to the very limited time that is available to us before the challenges become insurmountable. The point is reinforced by the speed at which technological innovation is moving. The fact that the time available to take action is so constrained points again to the need for multilateral action.

In short, it is not the case that multilateralism is in crisis. Today's challenges call for collective responses and highlight the case for precautionary action. Giving priority to a hypothetical, however likely to happen, invariably meets strong political resistance. This is precisely the kind of challenge that is much more likely to be pursued successfully within a multilateral framework where the political risks can be distributed. In this respect, multilateralism has never been so clearly an instrument of choice.

Beyond this, what multilateralism is suffering from is an abundance of expectation in a world which requires even more norms to be pursued but is constrained by an increasing diversity of values. In 2013, the Oxford Martin Commission for Future Generations urged renewed dialogue on an updated set of shared global values around which a unified and enduring pathway for society could be built. At his press conference, the chairman of the Commission, Pascal Lamy, went out of his way to stress that the recommendation of the Commission to establish a common platform of understanding and to have a set of shared global values was the most important contribution the Commission could make.

In this connection the adoption of Agenda 2030 and the recognition that it makes a major contribution to articulating a universal set of goals and values should provide some optimism for the future.

## Footnotes

<sup>1</sup> Gillian Tett, 'Do we need an IMF to regulate the internet?', (opinion article, Financial Times, 17 April 2019).  
<https://www.ft.com/content/4526982e-60a0-11e9-b285-3acd5d43599e>

<sup>2</sup> The Economist, 'Some international regulators have been captured by producer interests', (news article, The Economist, 24 November 2018).  
<https://www.economist.com/leaders/2018/11/24/some-international-regulators-have-been-captured-by-producer-interests>

<sup>3</sup> Yuval Noah Harari, *21 Lessons for the 21st century* (London: Jonathan Cape, 2018), p80.

<sup>4</sup> Martin Rees, *On the Future: Prospects for Humanity* (Princeton: Princeton University Press, 2018).

<sup>5</sup> Yuval Noah Harari, *21 Lessons for the 21st century*, see Footnote 3.

<sup>6</sup> Pedro Conceição, 'Creating money out of thin air? The role of science, technology and innovation in making the SDGs affordable', *Opening Doors: Financing the UN Development System*, (report, UN MPTFO/Dag Hammarskjöld Foundation, 2018), p93-98.

<sup>7</sup> Yuval Noah Harari, *21 Lessons for the 21st century*, p75, see Footnote 3.

# The crisis of multilateralism, viewed from the Global South

By Adriana Erthal Abdenur

Multilateralism is under attack. A number of prominent leaders from a wide variety of countries, from global powers (the United States) to emerging powers (Brazil and India), criticise major multilateral institutions such as the United Nations and the Bretton Woods institutions. Nationalist movements around the globe fuel mistrust in international cooperation via inter-state platforms. Their leaders argue that, not only is national sovereignty incompatible with multilateralism, it is in fact directly threatened by the latter. They seize upon areas of relative or perceived inefficacy to make umbrella statements questioning the practices, motivations and principles underpinning major multilateral organisations.

These contestations are juxtaposed onto, and end up reinforcing, longstanding frustrations among Global South actors vis-à-vis the established multilateral institutions. These frustrations include the perception that global norms are, too often, set by global powers, and that—recent restructuring efforts notwithstanding—deeper reform of the system is hampered by geopolitics. As a result, outdated and unjust power structures that date back to the post-World War II period persist at the heart of the global governance system.

The crisis of multilateralism already has concrete repercussions, especially for the wide variety of states referred to collectively as the Global South. Major agreement regimes, including the Paris Agreement, have undergone political reversals during implementation, while others, such as the Global Compact for Migration, have suffered state withdrawals while still under negotiation. As global and regional norms are disavowed, social protection systems are weakened, with harsh consequences for the poorest and most vulnerable, including children, migrants, and indigenous populations. Global trade negotiations have stalled, and a worldwide ‘noodle bowl’ of bilateral trade agreements is emerging that often favours the rich.

Meanwhile, Northern assistance to the Least Developed Countries is stagnant even as development, security and climate crises persist. Failure to meet the goals of Agenda

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2030 and to reach the targets of the Paris Agreement hits some of the most vulnerable countries the hardest. The attacks on human rights frameworks and institutions imperil the wellbeing and often the lives of activists, journalists, researchers, LGBTI groups and, indeed, the general population.

## New uncertainties around regional and global governance

The attacks on international cooperation also affect the Global South in multiple and complex ways through the new uncertainties they create around regional and global governance. Anti-multilateralism discourses erode the legitimacy of the United Nations and create new pressures for budgetary cuts within a context in which demands—especially those related to conflict prevention, extreme poverty, inequality, sustainable development and climate change—continue to grow. While the idea that the United Nations must do ‘more with less’ predates this period, arguments for efficiency have become, more than ever, based less on evidence than on ideology and self-interest. In addition, withdrawal of support for established multilateral institutions has contributed toward a lack of leadership that remains unresolved. This trend is evident not only at the United Nations but also in some regions, notably Latin America and the Caribbean, whose vast cemetery of regional institutions has recently expanded with the dismantling of the Union of South American States (UNASUR– Unión de Naciones Suramericanas). Elsewhere, links between regional organisations, such as the African Union and the United Nations—channels seen as vital to a coherent and effective partnership—face major coordination issues.



## Who sets the rules?

Finally, the (re)emerging discourses of national sovereignty facilitate the proliferation of new platforms that, in the long term, may undermine the centrality of the United Nations to normative debates. The United Nations has long competed with other institutions set up by the global North, as in the cases of the Organisation for Economic Co-operation and Development (OECD) and the North Atlantic Treaty Organization (NATO). In many instances, rich countries have opted to carry out normative and operational initiatives in areas such as development and security through these platforms rather than via the United Nations. In the present era, alternative institutions are being established by Global South states.

At first glance, the growing fragmentation of global governance seems to widen the range of options available to states in the Global South. For an increasing number of developing countries, the appearance of new platforms, including multilateral development banks such as the Asian Infrastructure Investment Bank (AIIB) and Brazil, Russia, India, China and South Africa's (BRICS) New Development Bank (NDB), offers attractive alternatives to traditional support, as in the case of South-South cooperation versus aid from the global north. This supposed 'age of choice', moreover, is not about resources alone: it is also about normative alternatives, as well as who gets to set the rules.

The plethora of alternatives available is not always positive. There are frequent accounts of predatory practices and political interference by 'new' actors. Some question to what extent the new platforms are in fact different from the established ones. In addition, from a systemic perspective, the normative 'shopping around' that increasingly takes place can weaken the centrality of what remains the most democratic and institutionalised channel for regime negotiations, and the one most directly drawing on the idea of universal human rights: the United Nations. In addition, by contributing towards a fragmented system, the mushrooming of new institutions may also have nefarious effects on democracy and human rights, since some of the emerging platforms are (far more than their established counterparts) heavily premised on narrow economic and cooperation interests rather than on a foundation of inclusiveness.

However, all is not lost. Multilateralism remains a foreign policy cornerstone of most developing country foreign policies, since it allows them to pool resources and influence. The vast majority of countries continue to actively engage in negotiations and reform efforts at the United Nations, which remains a powerful space for collective action towards the world's complex, transnational problems. For highly vulnerable and Least Developed Countries, tackling longstanding problems of poverty is simply not feasible without engagement with the system. With

new disruptive forces on the horizon, from artificial intelligence to climate-related security risks, the need for coherent multilateralism becomes even more urgent.

## Vital role for the UN in the Global South

Even in Global South countries where the leadership openly question or even disdain multilateralism, civil society groups often continue to look to the United Nations for exchanges and guidance, as in the case of the SDGs, and to assure their own survival as political actors. This is partly because of the inclusive and universal character of such frameworks, but also due to their location within the UN system, with its near 75 years of existence. Alternative platforms may be enticing and may help to fill gaps in development financing, but their governance systems are incipient and often still largely illegible even for those directly involved. Such is the case of the Belt and Road Initiative, which may prove to be less a multilateral effort than a China-centred, hub-and-spokes system.

At an operational level, too, much of the Global South still relies on UN support and guidance. In some conflict-affected contexts, the deployment of peace operations and special political missions has helped to prevent recurrence of major conflict and possibly of genocide, as in South Sudan. Even in developing countries that are not affected by war, the presence of the UN development system has been vital in building up capacity, offering alternative policy routes and promoting exchanges and coordination with other actors. In much of Latin America, for instance, key stakeholders view the UN as a high-level policy dialogue partner. More broadly, there is strong appetite across the Global South for a greater role to be played by UN peacebuilding, especially in contexts in which the UN Security Council is viewed as ineffective due to geopolitical disputes, the breadth of its agenda, or the changing nature of conflict.

To boost the engagement of the Global South in the defence of multilateralism, three steps are needed. First, established institutions such as the United Nations need not only to become more effective, but to better communicate this effectiveness, using evidence and story-telling to reach people, to make goals less abstract, and to counter narratives that distort the dynamics and impact of the organisation. Second, these institutions must double-down on their defence of human rights rather than shy away from it, showing more clearly the broad range of human, economic and social benefits of promoting a rights-based approach to the development and security challenges. And finally, the United Nations and its partner organisations need to engage more actively with emerging platforms of the Global South. These new fora are unlikely to go away but could, with some effort, be better welcomed into global efforts to address global problems.

# Attracting the millennial investor to multilateralism and investing in the Sustainable Development Goals

By Kanni Wignaraja

Who is the millennial investor, and why focus on this cohort to drive Sustainable Development Goal (SDG) financing? Born in the late 1980s through mid-1990s, this age cohort constitutes a large proportion of the economically active population in many countries, including in emerging economies. To cite a few examples, in Nigeria and Ethiopia the median age is 18, Egypt 24, South Africa and Saudi Arabia 27, India 28, Indonesia and Colombia 30, Bahrain 32, Armenia 35, China 37, USA and Australia 38, UK 40, France and Sweden 41.<sup>1</sup>

This group of influencers will have an impact on the economies, societies and environments they live in. In turn, how can the UN with the SDG agenda in-hand, influence their choices as job seekers, consumers, producers and investors?

There is more to the engagement of the millennial generation than what they care to invest in, but this article focuses on this aspect of their influence and potential impact. Much of the survey data available on the investment interests of this cohort comes from North America and Europe, so while one would not wish to extrapolate across geography, it is useful to draw out a few points from this data to make three broad generalisations:

- A high priority for this young group is paying off debts (if accumulated by self or by family), retirement savings are often not affordable or not on their radar yet, and they expect to live longer as life expectancy in most countries continues to rise;
- The trailing cohort of the millennials, ie those still in their 20s, are generally seeing stagnant wages, shorter-term jobs, volatility of financial markets and the onset of the impacts of long drawn out conflicts and climate change, which has direct or indirect spill-over effects into their own lives, no matter where they live and work;
- It is not a stretch to say that for the millennial who can afford to invest, socially responsible investment matters more than it did to the generations before.

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## Impactful investments

Maybe the millennials are more socially conscious, more curious and want to effect change. Or maybe they have better access to data and information on what's going on both at home and overseas, in terms of good and bad practices on corporate governance, human rights, climate change, advent of new technology and so on. Maybe it is both.

Morgan Stanley conducted a survey among millennial investors in the US in 2018 that showed that 86% of them are very or somewhat interested in sustainable investing. It also revealed that they are twice as likely than the broader investor group to invest in companies targeting social and environmental goals, and 90% want this to be in their 401(k) plans<sup>2</sup>, putting large private banks and companies on notice.

Across parts of the North America, Japan and Europe, we are also seeing pressure groups calling on pension funds, sovereign wealth funds and asset managers to shift investment portfolios to avoid investing in what they consider 'bad' social choices. These include alcohol, tobacco, firearms, fossil fuels and in companies that violate human



rights and labour standards.<sup>3</sup> The Government Pension Fund of Norway was an early responder, which is significant considering it is the world's largest sovereign wealth fund<sup>4</sup> (it constitutes over US\$ 1 trillion in assets, including 1.3% of global stocks and shares).<sup>5</sup>

While the environmental, social and corporate governance (ESG) marker may still be seen as a boutique measure and is still to make significant inroads into the larger world of public and private sector investment, from 2012 to 2018 there has been a fourfold increase in mutual funds incorporating and reporting on ESG standards. These positive trends will continue according to the Global Impact Investing Rating System (GIIRS), which tracks companies' social and environmental performance. They expect the field of impact investing, where there is greater intentionality of value-driven purpose (which is a sub set of socially responsible investments), to grow at least tenfold by 2020, drawing more than US\$ 400 billion in investments to five sectors alone (housing, water, health, education and financial services). J.P. Morgan estimates a potential for at least US\$ 183 billion in profits. This is all good, but not enough. The SDGs require trillions of dollars in investments<sup>6</sup> to put many of the goals within reach by 2030.

### The role of UNDP

For the UN, for United Nations Development Programme (UNDP) and for the 2030 Agenda with its measurable Sustainable Development Goals, these trends provide new impetus to bring the field of socially responsible investing, with its off-shoot of impact investing, to a whole new level of influence to transform how and where public and private financing flows.

B-Labs, Rockefeller Foundation, Deloitte, IFC, Morningstar<sup>7</sup> and many others are cracking the measurement vault, so 'investing in good' can be measured as soundly as financial profit and loss. UNDP is working with these partners to develop an SDG Impact Seal to move this effort beyond ESG and from advocacy to action on the SDGs, aligning private value with public interest and to actioning SDG-aligned investing.

What does all this mean for the UN development system and for UNDP? What does it mean for our work across the SDGs that focuses on those horizontal issues that accelerate progress across multiple goals – addressing social justice; mitigating climate impact; zeroing-in on inequalities of income, wealth and opportunity; tackling joblessness and hopelessness among young people; introducing new clean technologies and other transformational innovations? Meeting the challenge of attracting financing to these issues and measuring the value they bring in terms of change and positive impact will be key.

On the issue of attracting new financing, millennials are a core part of this effort, both in convincing their government leaders and corporate managers to make the pivots into different production pathways, as well as changing consumer behaviour and encouraging new SDG investments. They are voices and influencers of change based on where they put their money as well as where they see value-based returns, investing in technology is highest on the list of priorities, followed by health and energy.

UNDP's quest is to broaden these interests and to help millennials act on their curiosity. Using available data and perception surveys, we do so by further educating the young on what those development investments are that progress from single financial bottom-line returns, embedding 'do no harm' principles, and moving further along to proactively impact positive change without compromising economic performance. New ideas, a resurgence of values-driven civic consciousness, new tech and innovations and greater access to learning and knowledge is making 'green, clean and profitable' possible. It is interesting to note that the website offerings of the major corporate players now include a value-driven set of investments and services, acknowledging a potentially fast-growing, powerful young stakeholder in the game.

In terms of financial instruments, the mix of old and new, works well. Market indexed mutual funds and large sovereign wealth funds are calling for new SDG-aligned measures to relay impact; emerging innovative finance products are working together with development grant assistance to provide 'first loss' guarantees and helping to manage and mitigate risks – these efforts show the way and must be done at scale.

For the UN and UNDP, it requires the greater use of pooled funds in this domain to jointly carry the initial contribution to open new spaces and new ways of doing business. Support to the changes in analytics, policy and institutional reforms is needed, investing in education and new capabilities, designing programmes that cut through gender differentials to bring more access, equity and skills to those left behind, and screening for good corporate governance in terms of transparency, accountability and reporting standards to this investment space – UNDP with the UN development system, is able to bring all this to bear through its policy and programme portfolios.

### Moving the needle on SDG investments

The dramatic consequences of conflict, inequality and climate change are already obvious to this generation of young people. And for the majority, the fall-out directly impacts their immediate futures. Whether driven by

shared values, excitement over ‘moon shots’ or by shared anxieties at what the future holds – they care. The overall inter-generational transfer of wealth to the millennials will be of a magnitude never seen before<sup>8</sup> and upon receipt, they will guide these future investment decisions. This millennial generation – as leaders, consumers, self-starters and investors – can dramatically move the

needle on influencing SDG investments, locally and globally. The UN and UNDP must use its knowledge, innovation spaces, global capabilities and resources to fully engage them in transitioning from considering financing of the SDGs as fringe philanthropy to being mainstream better-business for all.

## Footnotes

<sup>1</sup> UN Department of Economic and Social Affairs, Population Division, ‘World Population Prospects’, (webpage, United Nations, 2019).  
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[https://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_median\\_age](https://en.wikipedia.org/wiki/List_of_countries_by_median_age)

<sup>2</sup> The 401(k) plan refers to a tax-deferred, defined contribution retirement savings account provided (and sometimes proportionately matched) by an employer in the US.

<sup>3</sup> Benjamin J. Richardson, *Socially Responsible Investment Law: Regulating the Unseen Polluters* (Oxford: Oxford University Press, 2008).

<sup>4</sup> The Economist, ‘Norway’s sovereign-wealth fund passes the \$1trn mark’, (article, The Economist, 21 September 2017).  
<https://www.economist.com/finance-and-economics/2017/09/23/norways-sovereign-wealth-fund-passes-the-1trn-mark>

<sup>5</sup> Ministry of Finance, ‘Ethical Guidelines for the Government Pension Fund — Global’, (guidelines, Government of Norway, 2007).

<sup>6</sup> UNCTAD, ‘World Investment Report 2014, Investing in the SDGs: An Action Plan’, (report, UNCTAD, 2014).  
[https://unctad.org/en/PublicationsLibrary/wir2014\\_en.pdf](https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf)

<sup>7</sup> The Morningstar Sustainability Rating was introduced in 2016, and currently appraises approximately 20,000 mutual funds and exchange traded funds on how they do on ESG criteria, reflecting the growing interest and importance attached to sustainable investing.

<sup>8</sup> ‘While the ‘Great Transfer’ from the Greatest Generation to the Baby Boomers is still taking place, a second and even larger wealth transfer from the Boomers to their heirs is starting now and will continue over the next 30 to 40 years.’ ‘The “Greater” Wealth Transfer, Capitalizing on the Intergenerational Shift in Wealth’, (report, Accenture, 2015), p2.  
[https://www.accenture.com/t20160505t020205z\\_\\_w\\_\\_/us-en/\\_acnmedia/pdf-16/accenture-cm-awams-wealth-transfer-final-june2012-web-version.pdf](https://www.accenture.com/t20160505t020205z__w__/us-en/_acnmedia/pdf-16/accenture-cm-awams-wealth-transfer-final-june2012-web-version.pdf)

# Conclusion

Time is short. Not only is 2030 approaching, but there is little time to take the necessary actions to prevent irreversible setback and development losses. Climate action, armed conflict, disease prevention, migration, inequality – all need urgent action and multilateral approaches to be at the centre of global action. To make the case for a multilateral approach, countries, leaders, investors and citizens will need evidence of where and in which areas this approach is the most effective option to achieve the goals we aspire to globally, nationally and locally. This is the first hard choice, out of which the financing choices flow.

This report has attempted to provide the necessary evidence, showcasing the funding of the UN development system and its role within the financing dynamics of the 2030 Agenda. A number of headline messages and questions have emerged from this work.

What kind of multilateralism supports financing and funding of sustainable development and is there a sufficient sense of urgency and evidence for meaningful investment? How do global norms get funded and support these larger investment and financing choices? Does the big picture of financial flows to development countries – apparently increasing – point to any net impact?

How can some of the most impactful drivers of change – technology, science and innovation – help to reduce inequality, ‘leave no one behind’ and leapfrog transformation? And what are the financing approaches most likely to accelerate these drivers? How can impact be credibly measured to underpin hard investment choices and track outcomes and return for future investment? What are today’s (and tomorrow’s) models of ‘good multilateral donorship’? And where are the pathways to ensure the model becomes a firm structure?

In order to support countries in their achievement of the SDGs, the required repositioning of the UNDS was advanced by recent milestones. These include the Secretary-General’s 2018 reform agenda adopted by Member States, the major global financing events for sustainable development held in 2018 and 2019, and the Funding Compact with Member States. These steps, if well reinforced can serve as financing cornerstones for the UN’s contribution to a stronger multilateral order. The hard choices ahead rest on further strengthening this multilateral foundation, where strength is needed especially in times of uncertainty.

# Acronyms & Abbreviations

AAAA	Addis Ababa Action Agenda
AFD	Agence Française de Développement
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AU	African Union
BRICS	Brazil, Russia, India, China and South Africa
B2T	'Billions to Trillions'
CBM	Capacity-building mechanism
CEB	Chief Executives Board for Coordination
CEO	Chief Executive Officer
CERF	Central Emergency Response Fund
CTBTO	Comprehensive Nuclear-Test-Ban Treaty Organization
DAC	Development Assistance Committee
DCO	Development Coordination Office
DPA	Department for Political Affairs
DPKO	Department for Peacekeeping Operations
ECOSOC	Economic and Social Council
ERP	Enterprise Resource Planning
ESG	Environmental, social and governance
FAO	Food and Agriculture Organization of the United Nations
FCV	Fragility, conflict and violence
FDI	Foreign direct investment
FfD	Financing for Development
FMOG	Fiduciary Management Oversight Group
FSDO	Financing for Sustainable Development Office
FSDR	Financing for Sustainable Development Report
Gavi	Global Alliance for Vaccines and Immunization
GCM	Global Compact for Safe, Orderly and Regular Migration
GDP	Gross Domestic Product
GEF	Global Environment Facility
GISD	Global Investors for Sustainable Development
GNI	Gross National Income
GPG	Global public good
GPW	General Programme of Work
GYPI	Gender and Youth Promotion Initiative
IAEA	International Atomic Energy Agency
IATF	Inter-Agency Task Force
IATI	International Aid Transparency Initiative
ICAO	International Civil Aviation Organization
ICC	International Criminal Court
IDA	International Development Association of the World Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institutions
IFRC	International Federation of Red Cross and Red Crescent Societies
ILO	International Labor Organization
IMF	International Monetary Fund
IMO	International Maritime Organization
INFF	Integrated National Financing Frameworks
INGO	International non-governmental organisation
IOM	International Organization for Migration
ITC	International Trade Center
ITU	International Telecommunication Union

LDC	Least Developed Countries
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro-, small- and medium-enterprise
NDB	New Development Bank
NGO	Non-Governmental Organisation
OAD	Operational activities for development
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECD-DAC	Organisation for Economic Co-operation and Development's Development Assistance Committee
OHCHR	Office of the United Nations High Commissioner for Human Rights
PAHO	Pan American Health Organization
PBF	Peacebuilding Fund
PBSO	Peacebuilding Support Office
PEPFAR	President's Emergency Plan for AIDS Relief
PF	Pooled Funds
PSW	Private Sector Window
QCP	Quadrennial Comprehensive Policy Review
RC	Resident Coordinator
RSW	Sub-Window for Refugees and Host Communities
R&D	Research and Development
SDG	Sustainable Development Goal
SDSN	Sustainable Development Solutions Network
SIDS	Small Island Developing States
SPTF	Special Purpose Trust Fund
TOSSD	Total Official Support for Sustainable Development
TRP	Technical Review Panel
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNASUR	Union of South American States
UNCDF	United Nations Capital Development Fund
UNCT	United Nations Country Teams
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDESA	United Nations Department of Economic and Social Affairs
UNDCO	UN Development Coordination Office (UNDCO)
UN DOCO	United Nations Development Operations Coordination Office
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNDS	United Nations development system
UNEP	United Nations Environmental Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UNGA	United Nations General Assembly
UN-HABITAT	United Nations Human Settlements Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	<b>UNIDO</b> United Nations Industrial Development Organization
UNITAR	United Nations Institute for Training and Research
UN-OAD	United Nations' Operational Activities for Development
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNODC	United Nations Office for Drugs and Crime
UNOPS	United Nations Office for Project Services
UNRISD	United Nations Research Institute for Social Development
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSDG	United Nations Sustainable Development Group
UNSSC	United Nations System Staff College
UNU	United Nations University
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
UNWTO	United Nations World Tourism Organization
UPU	Universal Postal Union of the United Nations
WB	World Bank
WBG	World Bank Group
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Trade Organization

# Endnotes for Part One

<sup>1</sup> United Nations Secretary-General, 'Repositioning the United Nations development system to deliver on the 2030 Agenda: ensuring a Better Future for All', (Report of the Secretary-General, A/72/124-E/2018/3, United Nations General Assembly Economic and Social Council, 11 July 2017).

<https://undocs.org/A/72/124>  
and

United Nations General Assembly, 'Resolution adopted by the General Assembly on 31 May 2018, Repositioning of the United Nations development system in the context of the quadrennial comprehensive policy review of operational activities for development of the United Nations system', (resolution, A/RES/72/279, UNGA, 1 June 2018). <https://undocs.org/A/RES/72/279>

<sup>2</sup> This figure was created based on CEB data for total UN revenue and the United Nations Department of Economic and Social Affairs (UNDESA) data for revenue for UN-OAD. Though combining these two data sets has limitations, they both are consistent in the way they define the UN financing instruments. The term UN-OAD refers to those UN activities that are classified as development and humanitarian and funded by contributions that are ODA-like, that are carried out by UN entities classified by UNDESA as being part of the UN development system. The overall UN revenue data is as given by the CEB and similar data for UN operational activities for development come from UNDESA. This enables a combined analysis to understand how the UN-OAD and the UN non-OAD segments of the UN revenue are evolving, and within them the levels of core and earmarked funding.

<sup>3</sup> 'Multilateral Development Finance: Towards a New Pact on Multilateralism to Achieve the 2030 Agenda Together', (report, OECD, 2018).

<sup>4</sup> United Nations Children's Fund (UNICEF), 'UNICEF National Committees', (website, UNICEF) [www.unicef.org/unicef-national-committees](http://www.unicef.org/unicef-national-committees)

<sup>5</sup> General Assembly Resolution, A/RES/72/279, UNGA, 1 June 2018. See Endnote 1.

<sup>6</sup> 'Operational Guidance for Implementing the Coordination Levy', (guidelines, attachment to letter of the Deputy Secretary General to Member States dated 14 March 2019).

Contribution agreements that meet the above conditions will be subject to the levy unless one of the following conditions is true.

- The contribution is from a global vertical fund.
- The contribution is from a United Nations entity.
- The contribution is for an entire entity country programme,

without earmarking within the country programme.

- The contribution is to a trust fund (ie in the case of project/ programme funded by multiple donors where funds are co-mingled and no separate donor-by-donor report is provided).
- The contribution is to United Nations inter-agency pooled funds, including joint programmes, or to agency specific thematic funds.
- The contribution is 'In-kind'.
- The contribution is from a programme country, whether to their own programme or the programme of another country (ie south-south cooperation related contributions).
- The overall contribution agreement is for less than US\$ 100,000.
- The purpose of the contribution is to fund activities that the United Nations entity has classified as Humanitarian Assistance (mapped to DAC code 720, 730, 740 and 930); Peace Operations (mapped to DAC Code 15230); to counter illicit narcotics and crime; or Global Agenda and Specialized Assistance.

<sup>7</sup> UN Economic and Social Council, 'Progress in the implementation of General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system', (resolution, E/RES/2019/15, ECOSOC, 12 July 2019). <https://undocs.org/E/RES/2019/15>

<sup>8</sup> World Bank grouping.

<sup>9</sup> In this we are inspired by the late Hans Rosling's concept of 'factfulness' defined as 'the stress-reducing habit of only carrying opinions for which you have strong supporting facts'. Hans Rosling, Anna Rosling and Ola Rosling, *Factfulness*, (New York: Flatiron Books, 2018).

<sup>10</sup> The CEB data is reported to the General Assembly and available on the CEB website. The 2017 data were included in United Nations Secretary-General, 'Budgetary and financial situation of the organizations of the United Nations system', (Note by the Secretary-General, A/73/460, United Nations General Assembly, 29 October 2018). [https://www.unsceb.org/CEBPublicFiles/A\\_73\\_460%20Budgetary%20and%20financial%20situ%20of%20orgs%20of%20UN%20system.pdf](https://www.unsceb.org/CEBPublicFiles/A_73_460%20Budgetary%20and%20financial%20situ%20of%20orgs%20of%20UN%20system.pdf)



<sup>11</sup> The UNDESA data is reported to the Operational Activities Segment of ECOSOC and available on the ECOSOC website. The 2017 data is contained in the 'statistical annex with 2017 funding data' that accompanies United Nations Secretary-General, 'Implementation of General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, 2019', (Report of the Secretary-General, A/74/73-E/2019/4, United Nations General Assembly Economic and Social Council, 18 April 2019).

<sup>12</sup> The six are: the Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), the International Criminal Court (ICC), the United Nations Capital Development Fund (UNCDF), the United Nations Framework Convention on Climate Change (UNFCCC), the United Nations Research Institute For Social Development (UNRISD) and the United Nations System Staff College (UNSSC). The total sum of the revenue for these six entities in 2017 was US\$ 457 million; of these ICC and CTBTO were the largest in funding terms (US\$ 170 and 128 million, respectively).

<sup>13</sup> The funding analysis conducted by United Nations Department of Economic and Social Affairs (UNDESA) is part of their reporting on the Quadrennial Comprehensive Policy Review (QCPR). The scope of the QCPR is the UNDS, or entities that carry-out operational activities. As such, not all UN entities are included in UNDESA's dataset on funding.

<sup>14</sup> United Nations General Assembly, 'Resolution adopted by the General Assembly Resolution on 21 December 2016, Quadrennial comprehensive policy review of operational activities for development of the United Nations system, A/RES/71/243, 21 December 2016.  
<https://undocs.org/A/RES/71/243>

<sup>15</sup> For more information, please visit the dedicated website at <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/tossd-task-force.htm>

# Notes to figures and tables in Part One

## General Notes

**i)** In Figures 1, 2, 3, 29–32, 34, 35 and in Tables 2, 3, 4, 6, the term ‘Chief Executives Board for Coordination (CEB)’ indicates data from the CEB Financial Statistics Database, <https://www.unsceb.org/content/un-system-financial-statistics>. Data was downloaded in February 2019.

**ii)** In Figures 3–7, 11, 25–26, 28a and 28b, and 36–38, ‘Report of the Secretary-General (A/74/73 – E/2019/4)’ is used as a shorter reference to the United Nations Secretary-General Report ‘Implementation of General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, 2019’, statistical annex on 2017 funding data (A/74/73 – E/2019/4, United Nations General Assembly Economic and Social Council, 15 April 2019, available online from <https://www.un.org/ecosoc/en/node/17356550>). Data was downloaded in April 2019.

**iii)** In Figures 9, 10, 18–24 and in Table 5, the term ‘Organisation for Economic Co-operation and Development (OECD)’ is used as a shorter reference for OECD statistics database, <https://stats.oecd.org>. ‘Theme: Development: Flows based on individual projects: Creditor Reporting System (CRS)’. Data from this source was downloaded in March 2019.

**iv)** In Figures 25–26 and 28a and 28b, and 34–35, the term ‘UN Pooled Funds Database’ refers to the UN Pooled Funds Database published to the International Aid Transparency Initiative (IATI), which is available at the IATI’s website: [www.iatistandard.org](http://www.iatistandard.org). It uses the publisher name UN Pooled Funds (XI-IATI-UNPF). For figures 25, 26, 28a and 28b, the term UN Pooled Funds Database also is meant to include the 2017 overview of single-agency thematic funds prepared jointly by United Nations Development Operations Coordination Office (UNDOCO) and the MPTFO.

**v)** In Figures 4, 10, 25–26, 29–30 core consists of assessed contributions and voluntary core contributions.

## Figures

### Figure 1

**i)** Data from the United Nations System Chief Executives Board for Coordination (CEB) Financial Statistics Database, series ‘Total Revenue by Revenue Type’ (FS-K00-01), 2017 (<https://www.unsceb.org/content/FS-K00-01>).

**ii)** CEB figures reflect revenue and expenses as reported to the CEB by United Nations organisations, based on their audited financial statements. They have not been adjusted for revenue and/or expenses associated with transfers of funding between UN organisations.

**iii)** Total earmarked contributions presented in Figures 1 and 2 were obtained by adding ‘Voluntary contributions pending earmarking’ and ‘Voluntary Contributions – Specified’.

### Figure 2

**i)** Nominal values

**ii)** Based on the historical series ‘Total Revenue by Revenue Type’ (FS-K00-01) from Chief Executives Board for Coordination (CEB), 2010–2017.

### Figure 3

**i)** Total UN revenue data is based on CEB (FS-K00-01), 2017.

**ii)** Revenue data for UN operational activities for development (UN OAD) is based on the ‘Report of the Secretary-General (A/74/73 – E/2019/4)’, Table A-3a: ‘Contributions for operational activities for development by contributor, type of activity.’

**iii)** United Nations Department of Economic and Social Affairs (UNDESA) uses the designation ‘United Nations development system’ (UNDS) to identify the UN entities that undertake operational activities for development and are eligible for Official Development Assistance (ODA). This definition does not include the following entities: International Organization for Migration (IOM), World Trade Organization (WTO), Universal Postal Union of the United Nations (UNU) and International Atomic Energy Agency (IAEA). United Nations Office for Project Services (UNOPS) is only partially incorporated to avoid double counting.

**iv)** ‘Voluntary Core’ contributions to UN non-OAD below US\$ 1 billion are not shown in Figure 3; however, they are included in the total.

**v)** ‘Core’ contributions for UN-OAD, as calculated in the Report of the Secretary-General (A/74/73-E/2019/4), include amounts of assessed contributions that are considered ODA.

#### Figure 4

- i) Nominal values.
- ii) Core contributions for UN-OAD, as calculated in the Report of the Secretary-General (A/74/73-E/2019/4), include amounts of assessed contributions that are considered ODA.
- iii) Nominal values for 2017 are based on the Report of the Secretary-General (A/74/73-E/2019/4) – Table A-2: ‘Contributions for operational activities of United Nations system, by UNDS entity, core and other resources: 2003–2017’. Historical values in the series were calculated by United Nations Department of Economic and Social Affairs (UNDESA) and were presented in the 2018 report on *Financing the UN Development System: Opening Doors*.
- iv) The series depicted in this Figure and the one presented in the latest online version of Table A-2 differ because the data reported are continually being refined.

#### Figure 5

- i) Nominal values.
- ii) Data is based on United Nations Department of Economic and Social Affairs (UNDESA) expense data, as revenue is not reported in such categories. Therefore, the percentages reflect the shares in overall UN 2017 expenditures.
- iii) UNDESA considers all activities of High Commissioner for Refugees (UNHCR), United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and Office for the Coordination of Humanitarian Affairs (UNOCHA) humanitarian, as well as emergency operations of United Nations Children’s Fund (UNICEF), humanitarian emergencies of United Nations Population Fund (UNFPA) and humanitarian operations of World Food Programme (WFP). All other operational activities are treated as development assistance.

#### Figure 6

- i) Nominal values.
- ii) Data is based on the statistical annex of the Report of the Secretary-General (A/74/73-E/2019/4) – Table A-3a. Historical values in the series were calculated by United Nations Department of Economic and Social Affairs (UNDESA) and were presented in the 2018 report on *Financing the UN Development System: Opening Doors*.

#### Figure 7

- i) Data provided by United Nations Department of Economic and Social Affairs (UNDESA). See also: Report of the Secretary-General (A/74/73-E/2019/4).
- ii) Growth in real terms (2000= 100%).
- iii) Official Development Assistance (ODA) is defined by the OECD Development Assistance Committee (OECD-DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries.
- iv) Values upon which the growth rates are calculated are based on amounts expressed in constant 2016 United States dollars by applying deflators published by OECD-DAC. These deflators consider the combined effect of inflation and exchange rate movements.

#### Figure 8

- i) Nominal values.
- ii) Data from the Financial Tracking Service of the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA), <https://fts.unocha.org/appeals/overview/2018>. Data was downloaded in February 2019.
- iii) Humanitarian response plans and flash appeals articulate how to respond to the affected population’s assessed and expressed needs

in a humanitarian emergency. They are also a management tool for response and support decision-making by humanitarian country teams that comprise UN agencies, NGOs and other actors. The plans include: a country or context strategy, with strategic objectives and indicators; and cluster plans, with objectives, activities and accompanying projects. Together they detail how the strategy will be implemented and how much funding is required.

- iv) The percentage labels shown in each bar represent the unmet requirements as a percentage of the total response plans and appeals for each year.

#### Figure 9 and 10

- i) Data from the Organisation for Economic Co-operation and Development (OECD)
- ii) Values are in constant 2016 prices.
- iii) The Credit Reporting System (CRS) database presents the International Monetary Fund (IMF) and the World Bank Group (WBG) as separate categories. For these figures, their data has been integrated into one category to describe a channel of multilateral assistance.
- iv) In the CRS database, the World Trade Organization (WTO) is presented as a channel of multilateral assistance separate from the ‘UN development system’. For this figure both have been integrated under the latter category.

#### Figure 11

- i) Data from the Report of the Secretary-General (A/74/73-E/2019/4), Tables A-3a and A-3b: ‘Non-core contributions for operational activities for development by contributor, type of non-core: 2017’
- ii) The list of Organisation for Economic Co-operation and Development’s Development Assistance Committee (OECD-DAC) members used was downloaded from the OECD website.
- iii) Although the European Union is an OECD member, for this figure it is considered in a separate category from the OECD-DAC countries.
- iv) The category ‘NGO, private and others’ includes private contributions and contributions from other UN entities, IFIs, other non-state donors.

#### Figures 12 to 17

- i) Data from the following selected UN entities: United Nations Development Programme (UNDP), United Nations Population Fund (UNFPA), United Nations High Commissioner for Refugees (UNHCR), United Nations Children’s Fund (UNICEF), World Food Programme (WFP) and World Health Organization (WHO).
- ii) For UNDP, ‘Academic, training and research’ showed a negative contribution of US\$ 2.4 million because the balance of contributions was transferred to another project/donor. This amount has therefore been deducted from the ‘Other’ category.

#### Figures 18-24

- i) Data from the Organisation for Economic Co-operation and Development (OECD) statistics database.
- ii) Data from the Creditor Reporting System (CRS) cover all ODA contributions from OECD-DAC members.
- iii) The categories of the different sources of ODA have been regrouped for this report.

#### Figure 25 and 26

- i) Data from the UN Pooled Funds Database and the Report of the Secretary-General (A/74/73-E/2019/4), Tables A-3a and A-3b.

### Figure 27

Funding Compact Summary 6 March, distributed by UN Development Coordination Office (UNDCO) to Member States on 26 March 2019.

### Figure 28a and 28b

- i) UN Development Coordination Office (UNDCO), 'Data Compendium to the Funding Compact', (document, UNDCO, 2019). The graph has been updated with more recent United Nations Department of Economic and Social Affairs (UNDESA) numbers that have since become available.
- ii) Data from the Report of the Secretary-General (A/74/73-E/2019/4), Tables A-3a and A-3b and UN Pooled Funds Database.
- iii) Data presented in Figure 28a is presented as a proportion of total contributions for development assistance, while the data in Figure 28b reflects the level of contributions for development assistance.

### Figure 29 and 30

- i) Data from the CEB Financial Statistics Database, Series FS-D02-01: 'Agency revenue by government donor (Voluntary Contributions, non-specified)', <https://www.unsceb.org/content/FS-D02-01>.
- ii) Data does not account for any negative values (reversals) reported by organisations.

### Figure 31 and 32

- i) Data from the CEB Financial Statistics database, Series FS-D03-01: 'Agency revenue by government donor (Voluntary Contributions, specified)', <https://www.unsceb.org/content/FS-D03-01>.
- ii) Data does not account for any negative values (reversals) reported by organisations.

### Figure 33

- i) Data from the UN Pooled Funds Database and the Report of the Secretary-General (A/74/73-E/2019/4), Table A-3a and Table A-3b.
- ii) The category 'Development assistance' aggregates the categories of 'Development', 'Climate', and 'Transition' used in the UN Pooled Funds Database.

### Figure 34 and 35

- i) Data from the CEB Financial Statistics database, series 'Agency revenue by government donor (Voluntary Contributions, specified)' (FS-D03-01), and UN Pooled Funds Database.
- ii) To obtain the 'total earmarked contributions to the UN' by country, the contributions to non UNOCHA administered pooled funds have been added to the 'Voluntary contributions – specified' as reported to the CEB for each country.
- iii) European Union, which is part of the CEB data, is not included since, as per CEB guidance, their data should not be appearing under agency revenue by government donor.
- iv) The percentage inside each bar represents the inter-agency pooled fund share of the total earmarked contributions.

### Figure 36

- i) Data from the Report of the Secretary-General (A/74/73-E/2019/4), Table B-2: 'Expenditures on operational activities for development by recipient, type of activity (development- and humanitarian assistance-related) and type of funding (core and non-core): 2017'.
- ii) Countries were aggregated to regional level with the 'List of countries/territories by region' contained in the Report of the Secretary-General (A/74/73-E/2019/4), Table C-3.

iii) In the UNDESA data, programme support costs are often included within the data on expenditures. These are costs of activities of a policy-advisory, technical and implementation nature that are needed for achievement of the objectives of programmes and projects in the development focus areas of the organisations. Even though these inputs are considered essential to the delivery of development results, they may not be included in specific programme components or projects in country, regional, or global programme documents.

### Figure 37

- i) Data from the Report of the Secretary-General (A/74/73-E/2019/4), Table B-2 and World Development Indicators.
- ii) As of 1 July 2017, low-income economies were defined as those with a gross national income (GNI) per capita of US\$ 1,005 or less; lower middle-income economies are those with a GNI per capita between US\$ 1,006 and US\$ 3,955; upper middle-income economies are those between US\$ 3,956 and US\$ 12,235; high-income economies are those with a GNI per capita of US\$ 12,236 or more. (World Bank GNI per capita Operational Guidelines & Analytical Classifications).
- iii) 'Crisis-affected countries' must be in the DAC list of ODA recipients. The latter list shows all countries and territories eligible to receive ODA. These consist of all low and middle-income countries as published by the World Bank [except for G8 members, EU members, and countries with a firm date for entry into the EU], and all of the Least Developed Countries (LDCs) as defined by the UN.
- iv) Crisis-affected countries are countries in the DAC list of ODA that fulfil one or more of the following criteria:
  - a) report expenditure for an ongoing or recently discontinued peacekeeping mission;
  - b) report expenditure for an ongoing or recently discontinued political mission, group of experts, panel, office of special envoy or special adviser;
  - c) report expenditure from the Peacebuilding Fund higher than US\$ 500,000; and/or
  - d) have had a humanitarian response plan for the two past years, ie 2016 and 2017.
- v) The 50 crisis-affected countries are drawn from different income groups.

### Figure 38

- i) The data for this figure has diverse sources: Report of the Secretary-General (A/74/73-E/2019/4), Table B-2, UN Pooled Funds Database, Department for Peacekeeping Operations (DPKO) and Department for Political Affairs (DPA).
- ii) DPKO's financial year starts in July and ends in June. The 2017 data is based on July 2017– June 2018 data: United Nations General Assembly, 'Financial report and audited financial statements for the 12 month period from 1 July 2017 to 30 June 2018 and Report of the Board of Auditors Volume II' [https://undocs.org/en/A/73/5%20\(Vol.%20II\)](https://undocs.org/en/A/73/5%20(Vol.%20II)) page 172, Table V: 'Statement of comparison of budget and actual amounts for the year ended 30 June 2018'.
- iii) The source of DPA data is United Nations Secretary-General, 'Estimates in respect of special political missions, good offices and other political initiatives authorized by the General Assembly and/or the Security Council', (Report of the Secretary-General, A/72/371, United Nations General Assembly, 16 October 2017) [http://www.un.org/ga/search/view\\_doc.asp?symbol=A/72/371](http://www.un.org/ga/search/view_doc.asp?symbol=A/72/371) page 27, Table 4: 'Summary of significant variances between the 2016–2017 appropriation and projected expenditures for missions continuing into 2018'.

**iv)** The figure does not display countries with less than US\$ 100 million in expenditure.

**v)** The countries that are in the crisis-affected list but are not depicted in the figure are: Guatemala, Philippines, Burkina Faso, Guinea, Democratic People's Republic of Korea, Mauritania, Sri Lanka, Kyrgyzstan, Western Sahara, Tajikistan, Papua New Guinea, Djibouti, Kosovo, Eritrea, Gambia and Solomon Islands.

**vi)** Expenditure data from United Nations University (UNU), World Trade Organization (WTO), International Organization for Migration (IOM) and International Atomic Energy Agency (IAEA) are excluded given that the data contains information only from entities which fall under the United Nations Department of Economic and Social Affairs (UNDESA) definition for UN operational activities for development.

**vii)** Expenditures of the following UNDS entities are not included in this data since they do not report disaggregated country expenditures: International Civil Aviation Organization (ICAO), International Fund for Agricultural Development (IFAD), International Maritime Organization (IMO), International Trade Center (ITC), International Telecommunication Union (ITU), Pan American Health Organization (PAHO), United Nations Department of Economic and Social Affairs (UNDESA), United Nations Environmental Programme (UNEP), United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations Framework Convention on Climate Change (UNFCCC), the UN Office for Disaster Risk Reduction (UNISDR), United Nations Office for Drugs and Crime (UNODC), United Nations Research Institute for Social Development (UNRISD), United Nations System Staff College (UNSSC), United Nations University (UNU), United Nations World Tourism Organization (UNWTO), Universal Postal Union of the United Nations (UPU), World Intellectual Property Organization (WIPO), World Meteorological Organization (WMO), and the five regional commissions: United Nations Economic Commission for Africa (UNECA), United Nations Economic Commission for Europe (UNECE), United Nations Economic Commission for Latin America and the Caribbean (ECLAC), The Economic and Social Commission for Asia and the Pacific (ESCAP), and United Nations Economic and Social Commission for Western Asia (ESCWA).

**viii)** The African Union-United Nations Hybrid Operation in Darfur (UNAMID) expenditure was allocated to Sudan. The United Nations Disengagement Observer Force (UNDOF) expenditure was allocated equally to Syria and Israel [Israel is not included in the 'crisis-affected countries' because it is not in the DAC list of ODA recipients]. The United Nations Organization Interim Security Force for Abyei (UNISFA) expenditure is allocated equally to South Sudan and Sudan.

Development Programme (UNDP); United Nations Educational, Scientific and Cultural Organization (UNESCO); United Nations Population Fund (UNFPA); United Nations Children's Fund (UNICEF); United Nations Office for Project Services (UNOPS); United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA); United Nations University (UNU); World Food Programme (WFP); World Health Organization (WHO); and World Intellectual Property Organization (WIPO) jointly account for 93% of revenue in Other (R04).

#### **Figure 40**

Sources:

CEB 2017 Financial Data; Total Revenue type by entity: Assessed (R01), Voluntary (R02, R03, R03a), and Other (R04).

CEB 2017 Financial Data; Total Revenue type by entity (R01), Donor Revenue type by entity (R01).

UN Pooled Funds Database 2017.

CEB 2017 Financial Data; Total Revenue type by entity: Revenue from UN organisations excluding inter-agency pooled funds (R10).

Selected 2017 Audited Financial Statements, publicly available online; Department for Peacekeeping Operations (DPKO); International Organization for Migration (IOM); Pan American Health Organization (PAHO); UN; United Nations



## Tables

*Table 2a*

i) Data in nominal values, expressed in US\$ million.

The amounts have been rounded up and those below US\$ 1 million are shown as 0 in the table (ie, values for United Nations Institute for Training and Research (UNITAR), United Nations Research Institute for Social Development (UNRISD) and United Nations System Staff College (UNSSC)). However, the total reflects the sum of the total revenue of all individual UN entities.

ii) Data from the CEB, series (FS-A00-02), 2017.

<https://www.unsceb.org/content/FS-A00-02>

*Table 2b*

i) Data in nominal values expressed in US\$ million.

ii) Data from the following selected UN entities: United Nations Development Programme (UNDP), United Nations Population Fund (UNFPA), United Nations High Commissioner for Refugees (UNHCR), United Nations Children's Fund (UNICEF), United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA), World Food Programme (WFP) and World Health Organization (WHO).

*Table 3*

i) Data in nominal values expressed in US\$ million.

ii) Data source for 2010–2017 is CEB, series 'Revenue Type by Agency' (FS-A00-02).

iii) Department for Peacekeeping Operations (DPKO) data prior to 2010 is expenditure figures, used as proxy for revenue data. DPKO data for 2005 is from General Assembly, 'Financial report and audit financial statement for the 12-month period from 1 July 2004 to 30 June 2005',

(Report of the General Assembly, A/60/5, 10 March 2006).

[http://undocs.org/en/A/60/5\(VOL.II\)\(SUPP\)](http://undocs.org/en/A/60/5(VOL.II)(SUPP)). For 1975 to 2000, DPKO data is based on Michael Renner, Peacekeeping Operations Expenditures: 1947–2005 (Table, Global Policy Forum),

<https://www.globalpolicy.org/component/content/article/133-tables-and-charts/27448-peacekeeping-operations-expenditures.html>.

iv) Additional source for assessed contributions to UN specialised agencies, 1971–2013 (not DPKO),

<https://www.globalpolicy.org/component/content/article/133-tables-and-charts/27480-assessed-contributions-to-un-specialized-agencies.html>.

*Table 4*

i) Data in nominal values expressed in US\$ million.

ii) Data for 2010–2017 is from CEB, series (FS-A00-02).

*Table 5*

i) Data from the Organisation for Economic Co-operation and Development (OECD).

ii) Values expressed in constant 2016 prices.

*Table 6*

i) Data in nominal values expressed in US\$ million.

ii) Data for the period 2010–2017 is from the CEB, series 'Total Expenditure by Agency' (FS-F00-03),

<https://www.unsceb.org/content/FS-F00-03>.

iii) DPKO data for 2005 is from the Report of the General Assembly, A/60/5, 10 March 2006.





This is a report about hard choices ahead of us. Choices that governments, leaders, investors and citizens need to make about when and how to fund a multilateral approach to address today's most stubborn and urgent global development challenges – climate change, health, migration, armed conflict and inequality. The case for a multilateral approach needs to be based on evidence that shows effectiveness and impact in addressing these challenges.

The overall ambition of this fifth annual report, *Financing the United Nations Development System*, is to advance the quality of this evidence-based debate and to expand the marketplace of ideas related to the United Nations and development financing. It showcases the complex funding dynamics of the UN development system and its role in spurring greater and more diverse financing flows for the 2030 Agenda.

With a firm platform of data and a strong portfolio of ideas presented in this report, we hope that when hard decisions are made – bilateral, multilateral or other – they will deliver on our shared goals.



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