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## TOWARDS A SUSTAINABLE FUNDING STRATEGY FOR UNDP

### SUMMARY

The present conference room paper aims at raising questions and stimulating discussion between UNDP and its Executive Board on important issues relating to the funding strategy for UNDP, in response to General Assembly resolution 50/227, adopted on 24 May 1996, on further measures for the restructuring of the United Nations in the economic, social and related fields. The paper represents work-in-progress in developing a comprehensive strategy for improving the core resource situation of UNDP, and provides entry-points through which discussion might be generated towards reaching a common understanding with the Board on the most suitable and feasible options for funding UNDP in the future.

Given the complexity of the issues related to ensuring a sustainable funding strategy for UNDP, it will be critical for UNDP to obtain concrete suggestions from Board members on this pressing issue, in order to enable UNDP to fulfil its full potential in meeting programme country demands, in the areas in which the Board has mandated it to operate.

Based on the discussions at the present session, it is proposed that UNDP will further develop the ideas contained in this paper, through consultations within the organization, with the United Nations Secretariat, in the context of the reform of the United Nations, and with members of the Board, as well as through research into how other institutions have successfully tackled their funding constraints. It is suggested that the findings from these consultations and further research and analysis should be incorporated into a paper to be submitted to the Board in 1998.

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## INTRODUCTION

1. The human development goals set out by the international community in the last decade will remain elusive and in jeopardy unless the poorest countries succeed in achieving people-centred sustainable development. Despite increases in the flow of private capital and trade liberalization, development assistance remains essential for many, indeed, most programme countries.

2. Legislation adopted by the General Assembly, the Economic and Social Council and the Executive Board emphasizes the urgent need to increase substantially official development assistance (ODA) and to ensure predictable, continuous and assured funding for United Nations operational activities for development, commensurate with the needs of programme countries.

3. Increasingly, calls have been made for enhancing the relevance, effectiveness and efficiency of operational activities, to ensure the highest possible value for money and impact of these activities. The United Nations Development Programme (UNDP), together with its Executive Board, is implementing radical changes in its operations to achieve just that. The commitment to reform and change has never been stronger.

4. The Administrator expects that, as UNDP continues to demonstrate the positive impact of ongoing change, the Executive Board as well as programme countries and donors will support these efforts by allowing UNDP to grow to its full potential. Thus, a new compact and commitment by all are called for.

5. Without such a compact, as this conference room paper will illustrate, the current low level of core resources will have a negative impact not only on the countries in which UNDP works, but also on the full implementation of landmark legislation adopted by the Executive Board to support the reform of UNDP. The tide must turn.

6. This paper raises a number of issues related to the development of a comprehensive funding strategy for UNDP, with particular emphasis on contributions to UNDP core resources. The paper is divided into five chapters, covering:

- The supply of resources to UNDP compared with trends in ODA;
- The needs of programme countries;
- The consequences of the decline and shortfalls in core resources;
- Elements for a UNDP funding strategy;
- The role of the Executive Board.

Discussions of issues raised by this paper at the present session of the Executive Board will constitute an important element in developing a comprehensive funding strategy for UNDP, both in the immediate future and in the longer term.

### I. SUPPLY SIDE: RESOURCES CHANNELLED THROUGH UNDP VERSUS TRENDS IN ODA

7. As highlighted in Economic and Social Council document E/1997/65 on operational activities of the United Nations for international development

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cooperation, the steady decline in core funding has "...inhibited the capacity of the United Nations funds and programmes to play the roles assigned to them and to respond effectively to national needs while maintaining their universal and multilateral character" (para. 21). UNDP is no exception. The need to increase resources for operational activities for development on a predictable, continuous and assured basis has been a continuing concern of the General Assembly <sup>1/</sup> as it has of the Economic and Social Council and the Executive Board of the United Nations Development Programme and the United Nations Population Fund.

8. "As far back as 1977, the General Assembly, in its resolution 32/197 of 20 December 1977 on restructuring the economic and social sectors of the United Nations system, called for a real increase in the flow of resources for operational activities on a predictable, continuous and assured basis" (E/1997/65, para. 18). What is the status of the funding of UNDP twenty years after the adoption of that General Assembly resolution?

9. Programme countries can access resources made available to UNDP by the international community through four main windows. The first window is the UNDP general fund (UNDP account), which relies on three sources of income: voluntary contributions to core resources, cost-sharing contributions, and miscellaneous income. The second window consists of the funds administered by UNDP, including the United Nations Capital Development Fund, the United Nations Development Fund for Women, the United Nations Volunteer programme, the United Nations Revolving Fund for Natural Resources and Exploration, the United Nations Fund for Science and Technology for Development, and the Office to Combat Desertification and Drought. The third window consists of UNDP trust funds, including Capacity 21 and trust funds that UNDP manages or co-manages, such as the Montreal Protocol and the Global Environment Facility. The fourth window consists of management services.

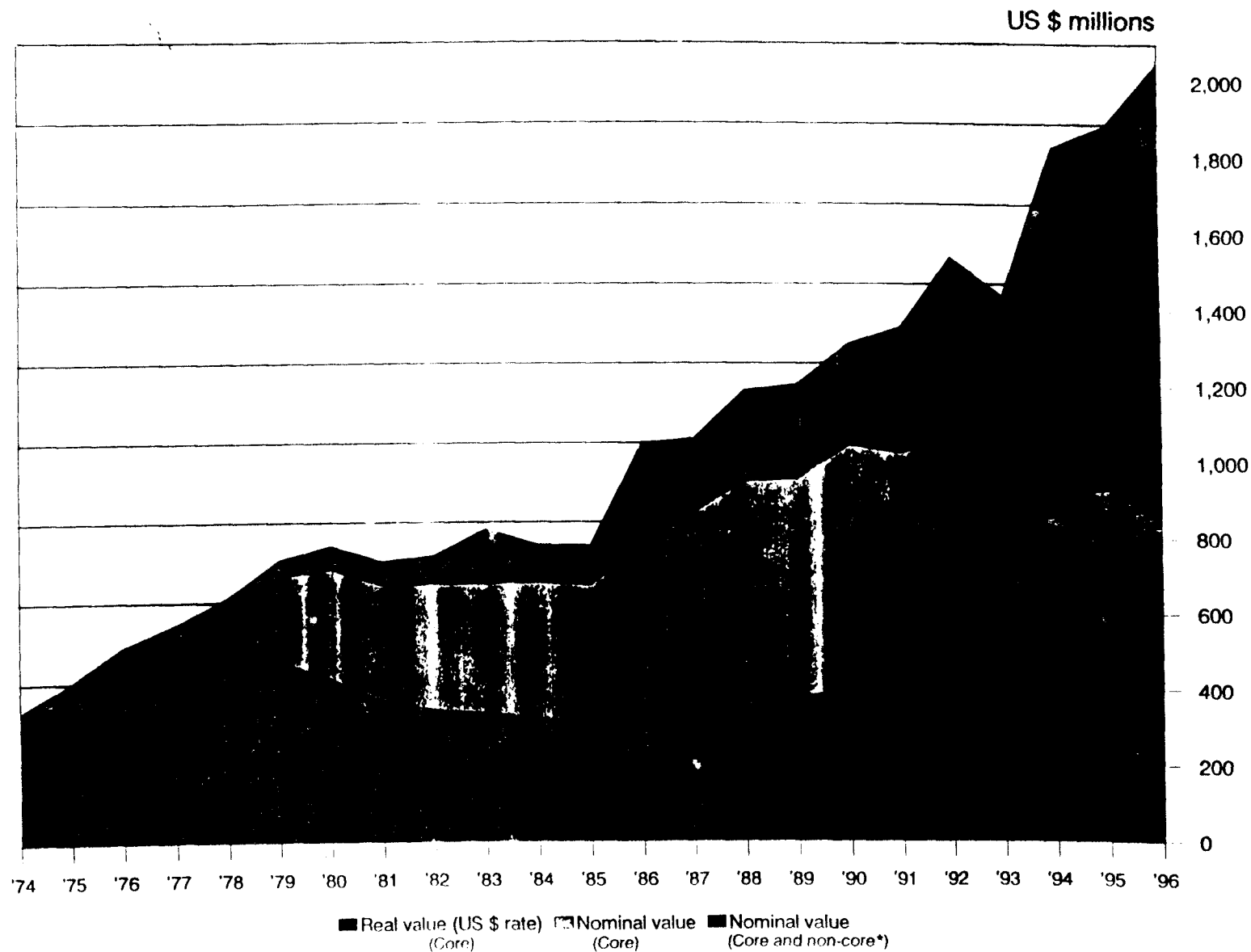
10. The trends in the resource situation presented in this paper relate to the fifth cycle, that is, the period 1992-1996.

- Total resources - core and non-core - of the four resource windows listed in paragraph 9 above, excluding residual miscellaneous income, rose from \$1,854 million in 1992 to \$2,305 million in 1996 (see figure 1);
- Total resources to the first window (the UNDP general fund) rose from \$1,526 million in 1992 to \$1,743 million in 1996;
- Total resources in the second window declined from \$91.7 million in 1992 to \$85.3 million in 1996;
- Total resources in the third window rose from \$120.3 million in 1992 to \$308.7 million in 1996;
- Total resources in the fourth window rose from \$114 million in 1992 to \$168 million in 1996.

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<sup>1/</sup> See, for example, General Assembly resolutions 47/199, 48/162, 50/120 and 50/227.

Figure 1. Contributions to UNDP in nominal and real value (1974-1996)



\*Cost-sharing, trust funds, administered funds.

Note: Contributions adjusted for inflation using the United States consumer price index for each year.

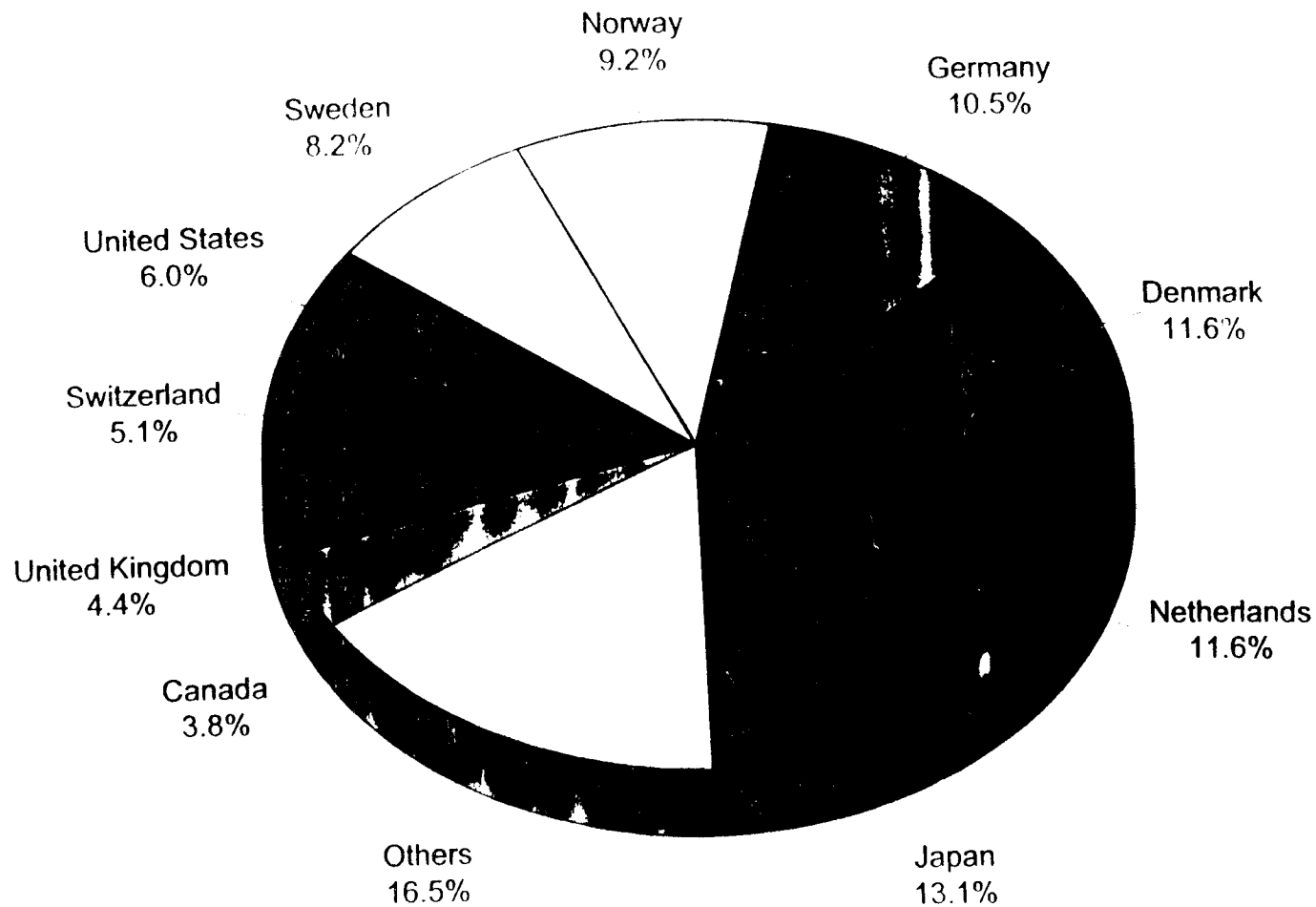
Sources: International Monetary Fund Statistical Yearbook

11. In the case of the first window - the UNDP general fund - core resources declined from \$1,178 million in 1992 to \$848 million in 1996. By comparison, twenty years ago, in 1977, the level was \$521 million. Not only have core resources declined during the fifth cycle, but they have remained dependent largely on a limited number of countries - despite the increasing importance of contributions from a new set of countries, including a growing number of programme countries and emerging donors. At present, 89 programme countries are contributing to the core resources of UNDP. Of these, 9 countries contribute over \$1 million each per annum. Of the 29 major contributors, 9 are currently programme countries. The 10 largest contributor countries (all members of the Organisation for Economic Co-operation and Development (OECD)/Development Assistance Committee (DAC)) together provided over 80 per cent of core resources in 1996 (see figure 2). About half of total core resources came from 5 of these 10 OECD/DAC members.
12. As indicated in paragraphs 4-5 of the report of the Administrator on the financial situation in 1996 (DP/1997/24), which is being submitted to the Board at its present session, the overall income structure of the UNDP general account underwent a considerable change in 1996. The proportion of voluntary contributions fell to 49 per cent of income in 1996 from 57 per cent of income in 1995, attributable largely to a combination of factors, namely, a lower level of pledges, late payments by donor countries, and the continued appreciation of the United States dollar.
13. In the case of the second window - funds administered by UNDP - core resources have failed to increase to a level commensurate with the needs that UNDP-administered funds must address. Moreover, these resources are contributed by a small number of donors.
14. In the case of the third window - UNDP trust funds - as a result of implementing the strategy outlined in document DP/1990/20, 2/ and as reported in paragraphs 6-11 of document DP/1997/24, UNDP has attracted additional non-core resources during the period 1992-1996, as a means of complementing core resources, in order to support programme countries in meeting their national objectives and priorities. In line with its decisions 96/44 and 97/15, a comprehensive review of the modality of non-core resources is scheduled to be submitted to the Executive Board at its first regular session 1998.
15. In the case of the fourth window - management services agreements (MSAs) - they are currently executed solely by the United Nations Office of Project Services and are reviewed in detail every three years, in accordance with Governing Council decision 92/39. The report of the Administrator on the status of MSAs (DP/1997/24/Add.2) will be taken up by the Board at its present session.
16. In sum, core resources to the UNDP general fund declined in current prices by 28 per cent over the period 1992-1996.

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2/ Entitled "The role of the United Nations Development Programme in the 1990s: elements for a funding strategy for the United Nations Development Programme".

Figure 2. Major contributors to UNDP core (1996)



17. Does this decline in UNDP core resources parallel overall trends in ODA?

- Total ODA in nominal terms over the period 1992-1996 is estimated to have dropped by 1 per cent. <sup>3/</sup> But, measured in real terms, the 14 per cent decrease in ODA over the three-year period 1992-1995 was the sharpest three-year drop since the early 1970s <sup>4/</sup>;
- The amount of ODA to developing countries for development purposes has shifted in favour of funding relief and emergencies <sup>5/</sup>;
- The share of ODA to multilateral organizations has also been decreasing <sup>6/</sup>;
- The UNDP share of ODA to multilateral organizations has declined from 8.5 per cent in 1981/1982 to 5.6 per cent in 1994/1995. <sup>7/</sup>

18. The above-mentioned trends must be taken into account in defining a comprehensive UNDP funding strategy

## II. DEMAND SIDE: THE NEEDS OF PROGRAMME COUNTRIES

19. This chapter addresses paragraph 12 of annex I of General Assembly resolution 50/227, adopted on 24 May 1996, which requests programmes and funds coordinated by the Economic and Social Council to adopt, *inter alia*, "...a specific and realistic target for core resources, based on the needs arising from their agreed programmes and priorities, as well as the specific mandates of each programme and fund."

20. At the aggregate level, the needs of programme countries for development assistance are reflected in the plans of action emanating from global conferences. At its 1996 high-level meeting, in its strategy "Shaping the 21st Century: The Contribution of Development Co-operation", OECD/DAC also set targets for the year 2015, linked with the goals of global United Nations conferences in the 1990s. In the case of poverty, OECD/DAC established the

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<sup>3/</sup> See Global Development Finance 1997, vol. I, The World Bank, Washington, D.C., "Overview", table 1, "Aggregate net long-term flows to developing countries, 1990-1996".

<sup>4/</sup> See Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee, 1996 Report, OECD, Paris, France, chapter IV, section I, "Key ODA trends in 1995".

<sup>5/</sup> See Global Development Finance 1997, vol. I, The World Bank, Washington, D.C. According to page 7 of the "Overview" of the report, "The Organization for Economic Cooperation and Development (OECD) estimates that about 12 percent of all official assistance (including technical cooperation grants) is now devoted to emergency aid, compared with less than 2 percent in 1990".

<sup>6/</sup> See Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee, 1996 Report, OECD, Paris, France.

<sup>7/</sup> See Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee, 1996 Report, OECD, Paris, France, chart III-5, "Total DAC ODA to multilateral agencies".



target of reducing extreme poverty in developing countries by at least half, by the year 2015.

21. Considering the UNDP-mandated goal of poverty eradication, what are total programme country needs? For instance, in response to the action plan of the World Summit for Social Development, it is estimated that \$80 billion per annum will be required, over the 10-year period 1996-2005: \$40 billion per annum to ensure social services for all in developing countries, plus \$40 billion per annum to "...clos[e] the gap between the annual income of poor people and the minimum income at which they would no longer be in extreme poverty". 8/

22. At the country level, programme countries are responsible for determining their development assistance needs, based on their national plans and priorities. UNDP-supported national human development reports, 9/ round-table meetings and Expanded Consolidated Appeals (E-CAPs) provide programme countries with nationally owned instruments to define needs and mobilize resources from the international community. Recent examples of the usefulness of round-table meetings include those held for Angola and Rwanda in 1995 and for the Lao People's Democratic Republic in 1997. The needs of countries in special circumstances are immediate and immense. In bringing relief and development planning mechanisms together in a common vision, the new strategic framework recently adopted by the Administrative Committee on Coordination constitutes a useful tool for countries in special circumstances to identify their recovery and development needs to be addressed with the support of the international community. The first such strategic framework was elaborated in Rwanda.

23. In defining their needs for UNDP cooperation, programme countries also take into account the UNDP mandate, areas of focus, comparative advantages, and complementarity with other suppliers of development support and services. Currently, this is being done through such instruments as the country strategy note and the country cooperation framework (CCF). The United Nations Development Assistance Framework (UNDAF) proposed by the Secretary-General in his United Nations reform package will help to ensure greater complementarity and synergy.

24. While such new tools as the CCF provide useful information for establishing the needs for UNDP development assistance - core and non-core - more work will need to be done in light of the results of the mid-term reviews of the programmes, in order to further refine the methodology for determining resource mobilization targets (RMTs) for each country. The views of the Board on the most suitable methodological approach to define realistic targets - especially for core resources - as called for in General Assembly resolution 50/227, would be most useful.

25. A preliminary survey of the RMTs of the CCFs, which were introduced in 1996, indicates that the needs for the priority programmes covered by the CCFs are on average four times the current level of UNDP core resources. These needs

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8/ See Human Development Report 1997, Oxford University Press, 1997, New York and Oxford, page 112, box 6.4.

9/ See document DP/1997/16, "Annual Report of the Administrator for 1996 and related matters: introduction by the Administrator", para. 6 and annex IV.

by far exceed the initial figure of \$3.3 billion for the core resources adopted by the Board in its decision 95/23 for planning purposes for the three-year period starting in 1997. Clearly, there is not a single country where core resources currently available to UNDP are commensurate with the amounts required to meet the development needs they are meant to address in the areas of focus mandated by the Board.

### III. CONSEQUENCES OF THE DECLINE AND SHORTFALLS IN CORE RESOURCES

26. It is outside the scope of the present paper to provide a detailed assessment of the full range of consequences that the decline and shortfalls in core resources are having on UNDP. Board members are already aware of some, if not all, of these consequences. This paper will, therefore, limit itself to focusing on a few of the most significant consequences. The purpose is to stimulate discussion with the Board and to obtain suggestions from the Board on how to tackle this pressing issue.

27. As indicated in paragraph 11 above, core resources to the UNDP general fund declined from \$1,178 million in 1992 to \$848 million in 1996. Moreover, based on current estimates, core resources for the period 1997-1999 are unlikely to exceed \$2.3 billion - that is, equivalent to under 70 per cent of the \$3.3 billion level indicated in decision 95/23, and well below the \$3 billion subsequently used for the allocation of resources to programme countries under the target for resource assignment from the core (TRAC) mechanism (see DP/1996/CRP.2).

28. The decline and shortfalls in core resources to UNDP are:

- Hitting the poorest countries hardest. Almost 90 per cent of UNDP core resources are allocated to low-income countries, home to some 90 per cent of the world's poorest. These countries continue to rely almost entirely on concessional financing for their development <sup>10/</sup>;
- Forcing UNDP to stretch out the implementation period of the programmes currently approved from three to four years. Furthermore, the machinery in place to speed up delivery will have to be slowed down. Fluctuations and lack of continuity in flows are causing the organization to become prey to stop-go policies, instead of engaging in longer-term strategic management;
- Undermining the incentive element of the successor programming arrangements adopted in decision 95/23;

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<sup>10/</sup> While there has been an increasing flow of private capital to developing countries, these flows have gone to only about 12 countries, mainly middle-income. The poorest developing countries and the countries with economies in transition will continue to rely on multilateral grant assistance, if they are not to incur significant external debt burdens. As the World Bank noted in its publication Global Development Finance 1997, "Some of the poorest countries suffer from debt overhangs, and even after debt forgiveness will require substantial official support to supplement their own development efforts" (vol. I, "Overview", page 4).

- Putting at risk the universality of the UNDP presence, as well as the effectiveness of the resident coordinator system, which UNDP has the responsibility to manage and to fund 11/;
- Putting at risk the full impact of the UNDP change management package, approved by the Board in its decision 97/15, especially where it stands to have the most potential for positive impact, that is, at the country level;
- Working against the organization's drive to increase the proportion of UNDP core resources going to programmes as opposed to administrative costs. The Board will recall that UNDP has reduced its administrative budget by 19 per cent in real terms during the period 1992-1997. As indicated in paragraph 10 of the budget estimates for the biennium 1998-1999 (DP/1997/23), which is being submitted to the Board at its present session, "The downsizing of the past six years has cut more than the fat from the UNDP budget. It has cut into the muscle and bone of the organization, leaving it weakened in numerous areas. Therefore any additional cuts would compromise the quality of its funded programmes and core capabilities".

#### IV. ELEMENTS FOR A UNDP FUNDING STRATEGY

29. This chapter is aimed at engaging the Board in finding the way to implement the aspect of General Assembly resolution 50/227 that addresses the funding of operational activities for development of the United Nations system, focusing on the UNDP component.

##### A. Objectives

30. In the spirit of General Assembly resolution 50/227, the recent Economic and Social Council resolution 1997/59 on operational activities of the United Nations for international development cooperation, adopted on 24 July 1997, Executive Board decisions 94/14 on the future of UNDP and 95/23 on the new programming arrangements, and the Secretary-General's United Nations reform package, 12/ the objectives of the UNDP funding strategy should be the following:

- To meet the needs for UNDP assistance, as defined by programme countries, by closing the gap between the target for core resources - to be adopted by the Board - and the current level of core resources being channelled through UNDP;
- To meet the needs for UNDP assistance, as defined by programme countries, by mobilizing non-core resources to supplement this increased level of core resources;

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11/ See document A/51/950, "Renewing the United Nations: a programme for reform, report of the Secretary-General", dated 14 July 1997, para. 152.

12/ See document A/51/190, "Renewing the United Nations: a programme for reform, report of the Secretary-General", dated 14 July 1997, paras. 165-169.

- To move towards an adequate, predictable, continuous and assured level of core resources, in order to maintain the universal and multilateral character of UNDP and to enable UNDP to fulfil its role as manager and funder of the resident coordinator system.

31. In concrete terms, these objectives can be summarized as follows:

- Reversing the downward trend in core resources to UNDP and assuring growth in core resources so that they reach a minimum floor level that is commensurate with the planning figure of \$3.3 billion for the period 1997-1999 referred to in decision 33/23, in order to implement effectively the successor programming arrangements;
- Continuing to attract non-core resources, in support of programme countries' development needs, as reflected in their CCFs;
- Above all, ensuring that additional core resources over and above the current level are used specifically for programme purposes.

#### B. Previous funding strategies

32. This paper represents a third round of formal consultations with the Board on the critical issue of ensuring sustainable funding for UNDP.

33. In 1981, at its twenty-eighth session, the Governing Council decided that "the policy review item for the twenty-ninth session should be entitled 'New and specific ways and means of mobilizing increased resources on an increasingly predictable, continuous and assured basis'", and requested that the Administrator "prepare relevant documentation, including options and possible courses of action, for the Council's consideration of th[e] subject" (decision 81/37, part II, paras. 1-2). In the course of discussions at that session, the Administrator was asked specifically to examine the "replenishment method". Subsequently, in documents DP/1982/15 and DP/1982/35 and Corr.1, the Administrator presented a broad range of options to the Governing Council, which were reviewed by an Intercessional Committee of The Whole. As a result, the Governing Council adopted decision 83/5 on measures to mobilize increased resources for UNDP on an increasingly predictable, continuous and assured basis, which, inter alia, called for:

- Maintaining the real value of contributions from year-to-year as a minimum;
- Making firm pledges for the current pledging year and indicative or tentative statements on their pledges for the following two years, expressed in special drawing rights (SDRs), if possible;
- Exploring the possibility of introducing a three-year rolling system of pledges and programme implementation.

34. Despite this decision, these funding arrangements have not been implemented. However, it is hard to understand how a funding strategy could possibly ensure the above objectives, especially in terms of predictability and sustainability, without incorporating some, if not all, of the arrangements envisaged in Governing Council decision 33/5. Therefore, it is important to reexamine, with all concerned parties, how these arrangements can be fine-tuned, in order to make them operational.

35. In 1989, in its decision 89/20, the Governing Council "request[ed] the Administrator to propose elements for a funding strategy for UNDP by June 1990" (part II, para. 8). In document DP/1990/20, the Administrator submitted a comprehensive report to the Governing Council, containing:

- An analysis of the specificity of UNDP assistance and the UNDP role within the overall context of development assistance;
- An analysis of the prospective demand for UNDP technical cooperation and the prospects for raising funds to meet this demand;
- An assessment of different types of resources and their implications for both the programme countries and UNDP.

36. In the same document, the Administrator submitted several recommendations, which can be summarized as follows:

- Programme resources during the fifth programming cycle should be increased by at least 10 per cent, in order to maintain their levels in real terms;
- A technical cooperation and development profile of UNDP should be developed, taking into account the key challenges of the decade and the comparative advantages and the strengths of UNDP;
- National technical cooperation needs assessments should form the starting point for the UNDP funding strategy and should be used to update estimates for trends in the demand for UNDP assistance;
- An expanded country programme should be developed, covering needs to be funded by both core and non-core UNDP resources.

37. In its decision 90/14, the Governing Council:

- Emphasized, inter alia, the primary importance attached to core resources;
- Invited all Governments to increase, to the extent possible, their voluntary financial support to UNDP;
- Called on the Administrator to explore the concept of an expanded country programme to be implemented through core and non-core funding;
- Encouraged the Administrator to develop additional non-core avenues within the framework of the country programme, taking due account of the neutrality and universality of UNDP;
- Requested the Administrator to improve programme quality and effectiveness.

38. In developing a new funding strategy for UNDP, it is important to take into account recommendations and decisions made in the past, to note action taken to date, and to assess what still remains to be done, in order to ensure a higher level of implementation of the strategy in the future.

#### C. Mobilizing core resources

39. This section concentrates on the achievements and responsibilities of the three main partners directly concerned with the mobilization of core resources:

- The programme countries;
- UNDP;
- The donor countries.

40. The role of the Executive Board will be addressed in chapter v, below.

The role of the programme countries

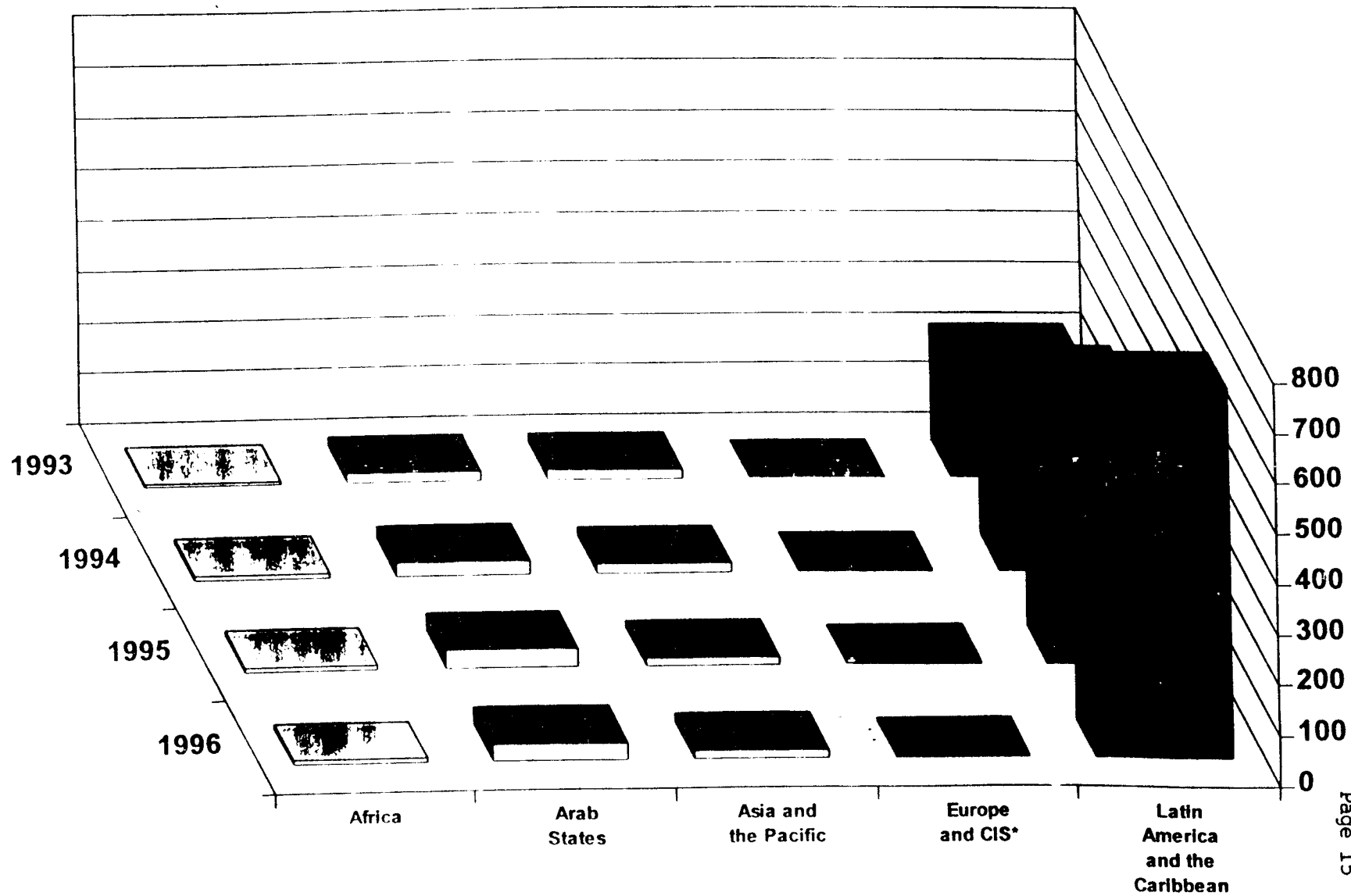
41. Programme countries constitute the starting point in any funding strategy. They have a vital role to play in its successful implementation by:

- Ensuring the maximum development impact of the resources made available through UNDP;
- Reporting on results achieved, thus confirming the need for such resources;
- Contributing in cash and in kind to UNDP core resources, to the functioning of the country offices, and to the implementation of their own national programmes.

42. Indeed, programme countries have a key role to play in ensuring the effectiveness and efficiency of the core resources channelled through UNDP. As underscored in the legislation, national development priorities constitute the determinant of the needs for UNDP-supported development assistance, which is, and must be, country-driven. Furthermore, programme countries have the primary responsibility for the formulation of CCFs. Finally, programme countries also have the primary responsibility, through national execution, to implement, monitor and evaluate their own programmes supported by UNDP.

43. Programme countries have an equally important role in directing some of their limited financial resources to support UNDP. At the global level, this support can take the form of contributions to core resources. Already, 89 programme countries are providing core contributions to UNDP. This is an indication of the appreciation, commitment and support of programme countries to UNDP as a relevant multilateral development organization. At the country level, programme countries also contribute significantly to ensuring the universal presence of UNDP by paying their government contributions to local office costs (GLOC). This is an area that will continue to require attention on the part of the programme countries, in view of its budgetary and symbolic importance. Finally, programme countries have a critical role to play through cost-sharing of their programmes with UNDP. Currently, as many as 81 programme countries are already cost-sharing with UNDP (see figure 3).

Figure 3. Government cost-sharing (1993 - 1996)  
(US \$ millions)



44. The programme countries also have an important advocacy role to play in explaining and publicizing their need for UNDP-type assistance and the comparative advantages that UNDP has from a country perspective. This type of advocacy from programme countries in raising public awareness with regard to UNDP is vital for enabling UNDP to mobilize additional core resources. A recent case in point is the decision adopted by the Council of Ministers of the Organization of African Unity (OAU) during its sixty-sixth session, held in Harare, Zimbabwe, from 28 May through 4 June 1997, which called for the continuous support of its member States for UNDP operational activities in Africa.

45. While the description above of the achievements and responsibilities of the programme countries is far from comprehensive, it nevertheless emphasizes the critical importance of the role of the programme countries in ensuring the successful implementation of a UNDP funding strategy.

46. In the course of the discussion with the Board, it would be useful to assess whether the needs of the programme countries for UNDP support and services are adequately explained to the donor community, or whether these needs should be made more explicit. Similarly, it would be useful to assess whether the impact of UNDP support to programme countries is adequately documented and publicized.

#### The role of UNDP

47. The expectation in the legislation leading up to General Assembly resolution 50/227 was that improved governance, effectiveness and efficiency would lead to greater availability of core resources. Therefore, for the purpose of this paper, it would be useful to take stock of the main accomplishments in these areas and what remains to be done.

#### Governance

48. Since 1994, the governance of UNDP has been significantly improved through its new Executive Board. The process of consultations and discussions has become more business-like, more substantive - focusing more on policies and strategies - and more results-oriented, geared towards ensuring the maximum effectiveness, impact and efficiency of the organization. The Board and the secretariat are engaged in seeking ways and means to further improve their performance.

#### Effectiveness

49. In line with Executive Board decision 90/14, since the beginning of the current decade, UNDP has made significant progress towards improving programme quality and effectiveness. Landmark Executive Board decisions 94/14, 95/22, 95/23, and 97/15 provide the legal framework within which UNDP is improving the quality and effectiveness of its activities.

50. Beginning with Executive Board decision 94/14, UNDP has sharpened the focus of its interventions in support of sustainable human development, giving poverty elimination the overriding priority. In the context of the change management process, UNDP prepared a conference room paper entitled "Narrowing



the focus: UNDP core development services" (DP/1997/CRP.18), which was made available to the Board at its annual session 1997 and which will be subject of an Executive Board workshop on 22 September 1997.

51. In 1995, through Executive Board decision 95/23, an incentive-based system was introduced for allocating core resources to countries to replace the previous entitlement-based method. In 1996, the CCF was introduced, enabling programme countries to reorient UNDP support, in the new areas of concentration mandated by the Board, where the limited resources of UNDP can have maximum impact. The change management process initiated by UNDP in 1996, culminating in Executive Board decision 97/15, has targeted concrete measures to further improve programme quality and effectiveness. These measures include greater decentralization of authority to country offices, more results-based management, and enhanced monitoring and evaluation of impact. UNDP is committed to strengthening the evaluation function and ensuring the recycling of lessons learned in support of improved programme performance. Detailed information on measures taken and to be taken, as well as results achieved to date, are contained in the introduction to the annual report of the Administrator for 1996 (DP/1997/16) and its addendum on change management (DP/1997/16/Add.7).

52. With respect to the relationship between quality and delivery, UNDP reported to the Board at its first regular session 1997 that energetic measures had been taken to improve delivery, with full attention to quality. As indicated in the report of the Administrator on the annual review of the financial situation for 1996 (DP/1997/24), programme expenditures from general resources increased by 11 per cent in 1996 to \$544 million and are expected to rise by 22 per cent to \$664 million in 1997. The delivery machinery now in place is geared towards delivering a level of core resources consistent with the \$3.3 billion level for the period 1997-1999 indicated in Executive Board decision 95/23.

#### Efficiency

53. Since 1992, UNDP has made significant progress in building a leaner and more accountable organization. As a result of its cost-cutting drive, during the period 1992-1997, UNDP reduced its administrative budget in real terms by 19 per cent (see DP/1997/16/Add.7). During the same period, UNDP reduced the total number of regular staff by 15 per cent and the number of headquarters staff by 31 per cent.

54. The change management process has intensified the adoption of measures to further strengthen the efficiency of the organization. These measures, which are described in document DP/1997/16/Add.7, are aimed at achieving efficiency gains for the organization, strengthening organizational values and accountability, giving top priority to human resource development, putting in place the necessary management information systems, and redefining the role of headquarters, in terms of its support to the decentralized UNDP country office network. UNDP will report to the Board, on a regular basis, on progress achieved in implementing the change management action plan.

### Accountability

55. UNDP has adopted a new accountability framework to guide its operations (see DP/1997/CRP.13). The key components of this framework include:

- The establishment and communication of the organization's mandate, mission and goals;
- Shared values and principles to guide staff conduct;
- Identification of core competencies required;
- A system for monitoring and learning.

56. The accountability framework is being implemented through a process known as "Control Self Assessment", which will involve members of the Board as well as senior management and all organizational units within UNDP. Significant progress has already been achieved:

- New procedures have been put into place that impose personal liability for loss to the organization and penalties for infractions of financial or other policies;
- Revised financial policies and controls will be field-tested in the autumn of 1997;
- The Programme Management Oversight Committee reviews UNDP programme plans and initiatives;
- The Management Review and Oversight Committee is operational and has met three times in 1997;
- Performance indicators are being developed and field-tested for programme and management activities;
- Significant additional resources have been identified for the Office of Audit and Performance Review, to enable it to carry out its expanded mandate for audit and oversight activities.

### Communication

57. UNDP also recognizes the need to become better known worldwide, in order to benefit from increased support from the international community. It is for this reason that UNDP is making vigorous efforts to reach a wider range of audiences and to disseminate, in line with Executive Board decision 97/17, more targeted, accurate, and clear information on the difference UNDP makes to the lives of the poor, given its mandate and comparative advantages. As described in documents DP/1997/16 (para. 39) and DP/1997/17, UNDP has implemented its first communications and advocacy strategy and has launched a series of public affairs initiatives in individual countries - donor and programme - to increase public awareness of UNDP and of the United Nations system as a whole. Following Executive Board decision 97/17, and as part of the implementation of the change management action plan, UNDP will give further impetus to that effort.

58. To better understand the development priorities of donors, to provide information on UNDP activities, and to exchange views on the needs and availability of resources, in recent years, UNDP has also intensified consultations with the donors through:

- Regular exchanges with the Permanent Missions in New York;
- Exchanges at the country level between the resident representatives and the key donors represented in programme countries;

- Regular visits by the Administrator and senior staff to donor capitals to meet with government officials, parliamentarians, non-governmental organizations, and the private sector;
- Organizing seminars with parliamentarians and academic institutions in donor countries;
- Arranging visits for donor-country representatives to UNDP-supported field projects.

59. In addition to increasing its effectiveness and efficiency through its own internal reform process, UNDP is also committed to the implementation of the United Nations reform package, including fulfilling its responsibility vis-à-vis the resident coordinator system.

60. Despite the significant progress achieved during the fifth cycle with respect to governance, effectiveness, efficiency, accountability and communication, there has not been a corresponding increase in core resources made available to UNDP. In the discussions with the Executive Board, it would therefore be useful to assess whether such progress influences the level of contributions to UNDP core resources and what else needs to be done in these areas.

#### The role of the donors

61. There can be no successful funding strategy without ownership and commitment on the part of the donor community. During the last two decades, the donor community has played a significant role in shaping the direction of the organization to make it more responsive to the evolving needs of the programme countries. Progress achieved to date is reflected in the rich legislation on operational activities and the role of UNDP adopted by the General Assembly, the Economic and Social Council and the Executive Board. Furthermore, despite budgetary restrictions in major traditional donor countries, 13 out of these 20 countries have maintained or increased in national currencies their support to UNDP, and 9 out of the 13 countries have in fact increased their contributions.

62. Under the current funding arrangements, individual donors determine the level of their annual contributions to UNDP core resources on a voluntary basis. The level of contribution decided by individual donors is a function of:

- Their understanding of the needs of the programme countries for UNDP assistance and of the importance given by the programme countries to this type of assistance;
- Their perception of the effectiveness and efficiency of UNDP;
- The evolution of their domestic policies and their willingness or ability to maintain and increase their ODA to UNDP.

63. As indicated in paragraph 17 above, the level of ODA has declined during the period 1992-1996. Indeed, ODA as a percentage of gross national product averaged 0.25 per cent for the DAC countries as a whole in 1996, down from an average of 0.33 per cent in the 1980s, and well below the 0.7 per cent target adopted by the General Assembly. Furthermore, the share of ODA to multilateral organizations has decreased, and the UNDP share of this multilateral ODA, in turn, has also decreased. It follows that one of the prerequisites for a successful UNDP funding strategy is to reverse these downward trends.

64. How can the UNDP share of multilateral ODA be increased? How can voluntary contributions to UNDP be better protected by donor countries against their budget fluctuations, thus reversing the downward trend in contributions to core resources, almost 90 per cent of which go to the low-income countries? In the case of these two questions, there is no doubt that the first two bulleted items mentioned in paragraph 62 above constitute important factors, and it is for this reason that these issues have been addressed in paragraphs 41-60 above.

65. Donors have an important role to play in announcing their pledges and scheduling payments in such a way as to ensure that their payments are accessible to UNDP in a predictable and timely manner.

66. Donors also have an important role to play in exploring options to offset fluctuations in their exchange rates vis-à-vis the United States dollar in which UNDP core resources are denominated.

67. Donors have an equally important role to play in clarifying their expectations, concerns and interests during their regular consultations with UNDP. In particular, they have a role to play in advising UNDP on the evolution and change of direction of their individual country situations in critical areas, including:

- Public opinion and priority-setting;
- Evolving preferences and channels for international support, e.g., multilateral vs. bilateral, humanitarian vs. development assistance, conditionality vs. non-conditionality;
- The fiscal situation;
- The fact that compulsory contributions may have to be made to others before contributing to UNDP under the current voluntary system.

68. Furthermore, donors have an important role to play in sharing with UNDP critical information on how to promote UNDP with the full range of actors in their respective countries.

69. Finally, and most importantly, in the constructive consensus spirit of the Executive Board, donors have a vital role to play in translating the legislation that they adopt into concrete financial terms.

70. In the course of the discussion with the Board it would be useful if donors would suggest realistic ways for UNDP and its donors to overcome the current funding constraints.

71. Expanded pool of donors. In its effort to address the issues of the volume of core resources, predictability and burden-sharing, UNDP is seeking to enlarge its pool of donors. As indicated above, many programme countries are already contributing to the core resources of UNDP, and UNDP will continue to encourage these important contributions. UNDP will also continue to actively engage in consultations with emerging donors, which represent an important potential for additional resources for UNDP.

72. As a promising new avenue for broadening the UNDP financial base, the Executive Board has enabled UNDP to embark on partnerships in development with the private sector. Funding initiatives and guidelines have been prepared for country offices entering into private-sector funding relationships. UNDP is

looking for practical ways of attracting private sector flows, without compromising the principle of neutrality in multilateral assistance. A corporate strategy is being developed to define the types of partnership that UNDP should or could enter into, for the mutual benefit of UNDP and its potential partners.

73. The Board may wish to make suggestions on the best approach for expanding the UNDP pool of donors and for identifying new and innovative sources of funding.

#### D. Mobilizing non-core resources

74. As called for in General Assembly, Economic and Social Council and Executive Board legislation, core resources should continue to remain the bedrock of the UNDP funding base. However, as indicated in Executive Board decision 95/23, non-core resources - including cost-sharing and non-traditional sources of financing - constitute an important mechanism for enhancing the capacity and supplementing the means of UNDP to achieve the goals and priorities specified in Executive Board decision 94/14.

75. The RMTs defined in each CCF provide a useful basis for assessing the gap between the programme country's needs for UNDP-type assistance and the core resources available. Non-core resources are, therefore, one important source of funding available to programme countries to help bridge this gap. It follows that the lower the level of core resources, the greater the need will be for non-core resources.

76. A review of the non-core funding modality is scheduled to be submitted to the Executive Board at its first regular session 1998, in response to its decisions 96/44 and 97/15.

#### V. THE ROLE OF THE EXECUTIVE BOARD

77. General Assembly resolution 50/227 envisages an active role for the Executive Board in developing funding arrangements for UNDP - as in the case of other funds and programmes coordinated by the Economic and Social Council. UNDP views this as a way of strengthening its partnership with the Board and reaching a compact with the Board on how best to bridge the gap between needs and resources, in order to address the expectations of both programme and donor countries. This will also nurture a greater partnership relationship between programme countries, traditional donors and emerging donors.

78. The exchange of views of Board members during the present session on the issues raised in this paper will provide an invaluable contribution to developing a comprehensive funding strategy for UNDP. Such a funding strategy is aimed at not only bridging the gap between the needs of programme countries and available core resources, but also at ensuring more predictable and sustainable core funding for UNDP, taking into account the burden-sharing issue.

79. In responding to General Assembly resolution 50/227 and Economic and Social Council resolution 1997/59, and building on the information and questions

raised in the chapters above, the Executive Board may wish to discuss more specifically how best to reach a common understanding on:

- The needs arising from agreed programmes and priorities;
- Specific and realistic targets for core resources;
- The most suitable and feasible funding mechanisms for the future. 13/

80. The Board may wish to consider the possibility of reviewing, at the beginning of each year, a three-year forecast of the organization's funding situation, taking into account the resources expected to be available to UNDP, and estimates of the needs of UNDP, which could be broadly categorized as:

- Meeting programme countries' needs for UNDP assistance, as defined, for example, in CCFs;
- Implementing legislation approved by the Board;
- Implementing short-term strategic corporate priorities.

In so doing, the Board will also have the possibility of assessing the expected consequences of shortfalls in the resource situation.

81. In addition to this three-year forecast, UNDP will further develop, in the context of the annual report of the Administrator and in other reports on the performance of UNDP, indicators of achievement of the organization against agreed benchmarks, in such areas as:

- Programme focus and impact;
- Accountability;
- Financial resources management;
- Implementation of change management, with special emphasis on gains in effectiveness and efficiency.

82. Based on the above, and specifically in response to the Economic and Social Council resolution 1997/59, the Board may wish to build consensus on realistic funding targets to be reached through a funding mechanism specific to and suited to UNDP. In identifying the most suitable funding mechanism for UNDP, the Board may wish to re-examine previously proposed mechanisms, including multi-year pledges, negotiated contributions, assessed contributions, or a mix of these, notes on which are provided in the annex to the present paper. Alternatively, the Board may wish to identify and propose new options for the type of funding mechanism that would be best suited to UNDP in the future.

83. Based on the discussions at the present session of the Executive Board, it is proposed that UNDP will further develop the present conference room paper, through consultations within UNDP, with the United Nations Secretariat, in the context of the reform of the United Nations, and with members of the Board, as well as through research into how other organizations similar to UNDP have tackled their funding constraints.

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13/ See General Assembly resolution 50/227, annex I, para. 12.

## Annex

### OVERVIEW OF PREVIOUSLY PROPOSED FUNDING MECHANISMS

General Assembly resolution 50/227 requested that three funding mechanisms should be examined: voluntary, negotiated and assessed contributions. A brief review of aspects of these modalities in the UNDP context is presented below.

Under the current voluntary contribution mechanism, the total needs for resources for UNDP over a three-year period are established tentatively for planning purposes only. This was the method adopted in the case of decision 95/23. Such a notional figure is meant to serve as a reference for donors to decide individually on their level of contributions to UNDP core resources. It is worth noting that, at its substantive session in 1997, the Economic and Social Council adopted resolution 1997/59 on operational activities of the United Nations system for international development cooperation, which, in paragraph 6, indicated, inter alia, "...that voluntary contributions from official sources should remain the main source for funding those activities". Given the current problems encountered with this funding mechanism, serious consideration would have to be given to improving it, in order to fulfil the objectives of General Assembly resolution 50/227, particularly with respect to the issues of predictability and burden-sharing.

Negotiated contributions. Under such a system, the total resource requirement over a specific period of time would be established at the aggregate level and then the respective share of each contributor to this amount would be negotiated. Benefits for UNDP and the programme countries would be greater predictability for the current year and, if supplemented by a multi-year pledging system, more predictability for the longer term. For the donors, the system could result in improved burden-sharing. In paragraph 4 of the annex to document DP/1990/20, the Administrator of UNDP suggested that "if a replenishment system were to be adopted for UNDP, the soundest basis would be to start with a core level of contributions based on past contributory patterns by each donor; negotiations would then ensue based on a formula for sharing additional contributions". The paper also made reference to the impact that such a system could have on the governance and decision-making of UNDP.

The assessed contributions mechanism would address primarily the issue of burden-sharing, if each country's contributory share were based, for instance, on the contributory shares stipulated in the United Nations assessed budget. In terms of resources, programme countries and UNDP would lose in core volume unless countries currently pledging less to UNDP than their assessed United Nations share agreed to increase their contributions to at least that level.

A mix of voluntary, negotiated and assessed contributions was suggested in the 1996 Nordic United Nations Reform Project in the Economic and Social Fields. The purpose of this proposal was to ensure greater predictability and flexibility in funding arrangements for United Nations operational activities and to preserve the multilateralism of the United Nations development system. While the assessed contributions would be used first and foremost to cover the administrative costs, the voluntary contributions and the negotiated contributions would be used to finance programme activities.

