

# UNITED NATIONS DEVELOPMENT PROGRAMME



# UNDP

Distr.  
GENERAL

DP/1983/ICW/11  
4 March 1983

ORIGINAL: ENGLISH

GOVERNING COUNCIL  
INTERSESSIONAL COMMITTEE OF THE WHOLE  
Third session  
6-8 April 1983  
Agenda item 4

## ARRANGEMENTS FOR LONG-TERM RESOURCE MOBILIZATION PROVIDING FOR GREATER PREDICTABILITY AND ADAPTED TO THE SPECIFIC CHARACTERISTICS OF UNDP

Note by the Administrator

### Summary

The legislative basis for the modalities for resource mobilization for UNDP is recalled and the pertinent provisions reviewed: voluntariness, predictability, continuity, assuredness and growth. It is concluded that neither the present system of one-year pledges nor a system based on agreed targets for resources but without indications of individual contributions can respond to all the provisions listed above.

A system is proposed whereby, for a five-year cycle, donors would voluntarily undertake, as a minimum target, to maintain each year their contributions in real terms. A growth target will be arrived at by the Governing Council following and taking account of consultations among major donors and net contributors; these consultations would in turn consider among other things an estimate by the Governing Council of UNDP's requirements to meet technical assistance needs during the period. The proposed system is compatible with both annual and multiyear funding.

Finally a distinction is drawn between exchange rate changes caused by temporary factors and those caused by long-term structural factors; proposals are made to counter the effect of both types of change.

### Introduction

1. The Administrator was requested by the ICW at its February 1983 meeting to prepare a proposal for a multiyear funding mechanism which would involve consultations among potential contributors and be consistent with the principles of voluntariness and universality and with those embodied in the consensus. DP/1983/ICW/4 and other papers prepared for the ICW meeting 9-11 February 1983 provide information on the relative performance of the present system of one year voluntary pledges compared with the performance of other funds and programmes funded by multiyear and/or replenishment systems and will not be repeated here. The proposals below represent the Administrator's response to the ICW request. They are based on the discussions which were held at the February ICW meeting and attempt to set out a balanced modality which might find endorsement from those members of the Council who have expressed support for a middle course between the present system and a full replenishment scheme. It is also hoped that those members who felt that no change should be made and those who were prepared to move to a full replenishment system might find the proposals acceptable in view of their expressed willingness to adopt a flexible approach.

### Provisions of the Consensus and other General Assembly decisions on Resources

2. The starting point for any proposals must be to deal with the concerns of the very many delegates who indicated that all proposals must be within the provisions of the Consensus. The only statement in the Consensus dealing with the size of resources is in para. 13 which reads as follows:

"the resources to be devoted to country programming will be a specified percentage of the total resources for the current year, projected over a given period of time and including a rate of growth per annum over that period, one of the assumptions being that the resources of the Programme will increase at least at the same rate as the average of the last few years."

It will be seen that nothing is said in the Consensus regarding the methods or modalities for mobilization of resources or contributions to the Programme. It does, however, provide that in making projections, there should be an assumption of growth each year at least equal to the same rate as in the last few years.

3. The restructuring resolution 32/197 is the most comprehensive statement by the General Assembly on operational activities for development of the United Nations system and on the mobilization of resources. This resolution, together with the Consensus, could be regarded as providing the existing legislative framework in these matters. Para. 28 of resolution 32/197 provides that restructuring measures should promote "(a) a real increase in the flow of resources for such activities on a predictable continuous and assured basis; and "(d) the achievement of optimum efficiency and the

reduction of administrative costs with a consequent increase in the proportion of resources available to meet the assistance requirements of recipient countries."

4. Para. 30. Integration measures should be undertaken bearing in mind the "major premise" that "they will stimulate substantially higher levels of voluntary contributions to operational activities for development"; and

para. 31 provides that there should be a single annual United Nations Pledging Conference for all United Nations operational activities for development.

Basic requirements for a longer term financing modality

5. Using the provision cited in paras 2, 3 and 4 above as the legislative basis for the modalities for resource mobilization for UNDP and taking into account what is said in paragraph 1 above, it is envisaged that any proposals for a longer term financing modality for UNDP should have regard to the following with respect to contributions to the Programme's resources:

(a) Voluntariness;

(b) Predictability. This can only have meaning if the organization has prior knowledge of resources likely to be available over a reasonable period of time; for example, a three-year period; from the nature of technical assistance, where projects in the areas of training and institution building extend necessarily over a period well in excess of one year, it is clear that both the requirements of the Programme and the specific decisions of the General Assembly would contemplate some system under which funds would be pledged on a multiyear basis;

(c) Continuity. This is interpreted to mean that programmes and funds could assume that beyond the period of the present pledge, there would be further pledges to enable existing programmes and projects to continue and new ones to be started;

(d) Assuredness. This is interpreted to mean that pledges would not just be indicative but that there would be an assurance that they would be honoured; and

(e) Growth. In the Consensus, as already mentioned, there is an assumption that there would be annual growth and the interpretation is that growth in real terms is envisaged; since, of course, there can be many varying views on what is an appropriate percentage growth, any resource mobilization modality should provide a mechanism under which understandings could be reached about rates of growth; it would follow from the Consensus also that one assumption which is non-controversial is that future contributions should as a minimum be no less in real terms than past contributions; if this is accepted, then the maintenance of programmes at the same level in real terms

could be regarded as a basic minimum agreed to by all, while growth percentages would be subject to discussions and/or negotiations among contributors.

6. It is clear from these considerations and from the analysis presented in the other documentation before the ICW that the present system of one year pledges would not satisfy the criteria which contributing Governments themselves have already laid down in the Consensus and in relevant General Assembly resolutions. Further, that a system in which overall targets for resources were set by consensus but no indications given or commitments made by individual contributors regarding their contributions towards the targets could not be regarded as responding to the General Assembly decisions on assuredness, growth and other factors previously mentioned.

7. Taking this into account, as well as the views expressed in the ICW, one option for a longer term financing modality for UNDP could incorporate the following:

(a) The present five-year planning cycle would be retained. The Governing Council, two years before the end of any cycle, would review the performance of the current and past cycles; examine the extent to which the Programme had contributed to satisfying the needs of the developing countries for technical assistance; review the support for the Programme by all donors and contributors; and, on the basis of information provided by the Secretariat, make some broad judgment of the needs likely to arise in the next cycle for technical assistance and the role the Programme could play in helping to satisfy those needs. On the basis of these reviews and the information provided and on a pragmatic examination of resources likely to be made available, the Council would give its views on the approximate magnitude of resources which should be available for the programme in the next cycle. Unless there were indications that developing countries were likely to have a lower level of needs in the next cycle than in the current one, it is assumed that the Council would set as a minimum target the maintenance of the programme at the same level in real terms as in the past. This would require forecasts about likely inflation rates, but whatever assumptions were made, the Council would agree to recognize adjustments in the level of resources required in current dollars which would result from revised forecasts of inflation as the cycle progressed. The difference between the minimum target and the amount proposed by the Council following its analysis of needs and resources would be the growth element.

(b) On the basis of (a), it would be assumed that each Government would agree to maintain the minimum position (i.e., ensuring that its contributions each year would be at least the same in real terms) so that in total the Programme could be maintained at the same level in real terms. This would be a voluntary act on the part of donors; there would be no legal instruments required of them; but the Administrator should be put in the position where unless he were advised to the contrary, he could assume in his resource planning that this minimum position would be maintained.

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(c) With respect to growth, the discussions in the ICW have made clear that donors will wish to consult among themselves and even if they do not negotiate on burden sharing, they should at least achieve a better understanding of the position of each government. Opinions and attitudes could be influenced and this exercise should lead to more realistic growth targets being set for the Programme at the Governing Council meeting mentioned below. (The consultations mentioned above would in the first instance be among donors and any country which is either a net contributor or intend to be during the next cycle.) The results of the discussions among donors and net contributors on growth targets would be reported to the Governing Council at the meeting convened 12 months after the meeting in (a) above. The Council, in the light of the reports received on these discussions, would then endeavour to agree on a percentage figure of growth which would be expected to be achieved for the Programme as a whole and would be recognized as a valid target by all participants in the Programme whether they be net contributors or not. Based on these consultations and discussions, the Council would provide guidelines for the level of programming to be undertaken by the Administrator. This arrangement would ensure that the growth target would be credible in the sense that it would have taken into account the results of the detailed discussions on expected increases in contributions by those countries contributing approximately 90 per cent of the resources. The target, however, would be a universal one notwithstanding that, as in all voluntary programmes, any country would be welcome to regard the target as a minimum and to endeavour to provide such increases as it could afford. Provision could also be made for a mid-cycle review of actual experience in order to ascertain whether and what adjustments might be necessary in respect of the programme for that cycle.

(d) Inherent in the arrangements above as previously stated would be the acceptance, as a minimum, of maintaining individual contributions on the same level in real terms as in the past. This would in effect be the equivalent of a system of multiyear funding for these contributions. This would provide a solid basis on which the Programme could be organized and administered and the target amounts for growth could either be the subject of multiyear funding or annual pledges. In practice, this would mean that countries would agree that, even if their pledges were annual, there would be a minimum pledge and if there were any uncertainty, it would only be in respect of increases over the amounts required to maintain the contribution in real terms. There would continue to be annual pledging conferences and each year, the pledging country would indicate: first, the amount of its pledge in national currency or other agreed unit of account which would include the country's own forecast of the inflation rate used to maintain the pledge in real terms; and second, the additional amount above the minimum which it would contribute towards the agreed growth target. Multiyear funding would as previously stated be inherent in the first amount; while in the case of the second amount, there would be either annual or multiyear funding on the same basis as at present.

8. Review of the arrangements outlined above does indicate that all the principles mentioned in discussions in the ICW, the General Assembly and the Governing Council, as well as in relevant resolutions and decisions would be maintained and respected, namely: voluntariness, universality, continuity, predictability, growth and an element of multiyear funding.

9. The legislative basis for replenishment has already been dealt with in previous documentation for the ICW and it is assumed that each Government would make a determination as to how best a commitment to maintain contributions in real terms could be provided for.

#### Exchange rates

10. Several delegations requested that the paper on longer term financing should take into account the effect of exchange rate changes on any new contribution formula. The simplest formula would be to adopt the proposals set out in DP/1983/ICW/4 Add.1 for denominating pledges in Special Drawing Rights (SDRs). If this is not agreeable, it has to be recognized that the maintenance of contributions in real terms in national currency may not necessarily be the same as the maintenance of such contributions in real terms in US dollars. As indicated to the ICW, exchange rate changes need to be placed in two different categories: first there are those changes which occur because of movements in financial flows, differences in interest rates and other factors which are temporary in the sense that they produce both downward and upward movements over time and, therefore, indicate that a contributor would fulfill its commitment where it is expressed in national currency. Second, there are situations where the exchange rate change occurs as a result of long-term structural factors such as a relative deterioration in the economy of the country vis-a-vis its main trading partners; it would be fair to suggest that in such cases, a depreciation in exchange rates should be regarded as a decline in the real value of the national currency concerned, and that appropriate adjustments would be needed to maintain its value.

11. The modalities described above would not require any changes in the present arrangements for determination of IPFs, etc. unless of course the Council were to decide to introduce new guidelines for IPF distribution.

12. This paper presents one of several options. It differs from the present arrangements but preserves all the principles which found support in the Governing Council and ICW discussions. It has regard to the traditional relationships between all governments in UNDP but at the same time has some innovative features which should benefit the Programme.

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