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INTERGOVERNMENTAL STUDY GROUP ON FUTURE FINANCING OF THE PROGRAMME

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FUTURE FINANCING OF UNDP

Note by the Administrator

Summary

As a part the general issue of over-all planning for UNDP resources, the Governing Council at its twenty-sixth session decided to convene an open-ended intergovernmental study group to consider possible options for achieving more stable and predictable financing, and in particular, questions related to multiyear pledging and a more equitable sharing of the cost of the Programme. This report contains a brief review of general trends in multiyear pledging; a statement of the issues relating to annual pledging to UNDP; views of the Governments which responded to the Administrator's inquiry on multiyear pledging and equitable participation; and the recommendation of the Administrator.

Introduction

1. The Governing Council, at its twenty-fourth session^{1/} and subsequently, appealed to all Governments to increase their voluntary contributions to UNDP with a view to achieving the over-all annual growth rate of 14 per cent recommended for the second cycle and to bear in mind the need for a better and wider

^{1/} See Official Records of the Economic and Social Council, Sixty-third Session, Supplement No. 3A (E/6013/Rev.1), para.311(2).

distribution in providing such resources for the Programme. The Council also has recognized the vital need for greater assurance in adequately financing UNDP. Accordingly, it invited all Governments in a position to do so to consider indicating their likely voluntary contributions for a multiyear period, and requested the Administrator to continue consultations on ways of achieving long-term financing for UNDP.^{2/}

2. These decisions of the Council harmonize with General Assembly resolution 33/136 on the acceleration of the transfer of real resources to developing countries. That resolution emphasized that the assistance of the United Nations development system must be made available to the developing countries on a more predictable, continuous and increasingly assured basis.^{3/}

3. At its twenty-sixth session, the Governing Council in decision 79/11^{4/} decided to convene an open-ended intergovernmental study group to consider possible options for achieving more stable and predictable financing, in particular, questions related to multiyear pledging and a more equitable sharing of the cost of the Programme, taking due account of the legislative constraints on multiyear commitments faced by some Governments, and bearing in mind the right of Governments to determine the relative proportion of multilateral and bilateral assistance in their aid programmes. All participating Governments were invited to join in the study group which will report to the Governing Council at its twenty-seventh session.

4. Accordingly, the Administrator wrote to all member Governments soliciting their views on these matters since he considered that the documentation to be submitted to the meeting of the Intergovernmental Study Group should be reflective of the views of member States on the vital issues of multiyear pledging and the development of means of achieving a more equitable sharing of the cost of the Programme. The present note is based mainly on the responses received from twelve Governments.^{5/}

^{2/} See Official Records of the Economic and Social Council, 1978, Supplement No. 13 (E/1978/53/Rev.1), decision 25/16, paras. 11-13, p.189.

^{3/} It may be noted that at the 18th meeting of the OECD Development and Assistance Committee (DAC), 19-20 November 1979, substantial agreement emerged among senior officials of donor and recipient countries on areas of desirable improvement in aid implementation. These included continuity and predictability of aid flows.

^{4/} See Official Records of the Economic and Social Council, 1979, Supplement No. 10 (E/1979/40), page 141.

^{5/} Canada, Finland, France, Gabon, Luxembourg, Netherlands, Norway, Poland, Singapore, Sweden, Switzerland and Tunisia.

but also takes into account statements of delegations in meetings of the Council and other intergovernmental forums.

Present practices in multiyear aid programming and budgeting^{6/}

5. Before considering the possibilities of multiyear financing for UNDP, it may be useful to take note of general tendencies in multiyear financing. In most countries, funds for public expenditures for development assistance are allocated on an annual basis, reflecting the desire of legislative and executive authorities to maintain close supervision of the use of public resources. It has been found increasingly inappropriate, however, to maintain a strictly annual approach in regard to projects and programmes which require planning and implementation over a longer period of time. For this reason, most Governments undertake, with varying degrees of formality, multiyear planning and programming of a growing proportion of development assistance resources. Whereas some countries adopt fairly formal programmes which are publicly announced, others undertake only indicative plans for internal purposes. These approaches vary with regard to the treatment they accord bilateral and multilateral development assistance transfers, to the periods they cover, and to the degree of advance assurance they provide to individual recipients. While some countries communicate to the recipients the volumes of assistance expected for a number of years in advance, in other countries such information is provided only for the coming year. It should be pointed out, however, that such communication does not commit donor countries formally since legislatures continue to have the final say in the context of annual appropriations.

6. Six Governments which responded to the Administrator's questionnaire have indicated that it is customary in bilateral aid that, after negotiations with the recipient country's authorities, a planning framework, which can vary up to five years, is approved by the donor Government, in some cases on an annual rolling basis. This framework, which includes the specific yearly volumes, is reflected in the state budget, and in some cases is communicated to the Parliament and the recipient country. The responding Governments have indicated that the annual appropriations, however, require parliamentary approval. This also gives the Government an opportunity to review the allocations. Other Governments, however, do not use the multiyear approach for individual countries in their bilateral programmes for development assistance.

7. In multilateral assistance, most countries have accepted the habitual replenishment procedure of the organization in question. At United Nations pledging conferences, most donors pledge contributions only for the coming financial year. A number of donor countries, however, e.g. Denmark, Netherlands, Norway, Sweden, make a firm pledge for the upcoming year and indicative pledges, subject to parliamentary approval, for the next two or three years. Most donors have adopted a different approach mainly towards those multilateral development institutions which deliver capital assistance. The present practice is that each of these institutions

^{6/} A full description of the situation in various countries as of 1976 appears in General Assembly document, A/31/186.

makes a periodic review of its resource requirements, taking into account all relevant factors, and then invites countries to subscribe to replenishment or to increases in capital. In other words, some multilateral development institutions, such as the regional development banks, the International Development Association (IDA), and the European Development Fund, are assured by the contributing Governments of financing on a multiyear basis. A similar agreement exists with regard to the International Fund for Agricultural Development (IFAD). It should be noted in this context that amounts allocated by individual countries to some of these international development institutions are often larger than those needed to meet the targets of the UNDP.

Multiyear financing for UNDP

8. The concept of the multiyear financing of UNDP is by no means a new one. In fact, it had already been discussed during the existence of one of UNDP's predecessor programmes. After 1970, the possibilities of this means of financing assumed a new character. At that time, the UNDP Consensus abolished the system of full funding of expenditures.^{7/} In its place, the Consensus prescribed that the Programme was to formulate five-year expenditure plans through a system of Indicative Planning Figures for recipient countries. But, while the aggregate of planning figures for field activities was to be related to an assumed rate of financial inflow agreed by the Council, no change was made in the method of resource mobilization. This remained based on a system of annual pledges, even though the Consensus implied consideration of a system of multiyear pledges.

9. This current system of annual pledges to UNDP does not provide a sound basis on which to forecast future years' resources, and this deficiency was a factor contributing to the liquidity problems which the Programme encountered in late 1975. While the likelihood of such problems in the future has been materially diminished by the establishment of a fully liquid Operational Reserve and a new management information system, the uncertain level of contributions over the medium term remains as a potential source of difficulty for financial and programme management. Thus, a dramatic and unforeseen downward movement in pledges would have wide-ranging effects on recipient countries through a curtailment and postponement of development programmes and projects. Agencies executing such projects would also be adversely affected since their activities are generally planned on a medium-term basis. But even large unanticipated increases in pledges, while vital in meeting the continuing development needs of countries, could lead to under-delivery in the short run and

7/ Full funding is a system under which UNDP formerly set aside, at the time of approval of a multiyear project, the full amount needed for the expected lifetime of that project, up to a maximum of five years.

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this, in turn, could affect the level of future contributions. All parties involved in the administration and execution of technical co-operation have repeatedly underlined the need for more certainty as to the availability of resources to allow for sound development projects which require several years for their planning and implementation. The experience of other international development institutions and of bilateral programmes confirms these views.

10. Careful attention needs to be given, nevertheless, to potential problems which have been identified with multiyear pledging. It has been suggested, for example, that multiyear pledging might have an adverse effect on the dynamic growth of the Programme. Two Governments have raised the question of a possibility of stagnation of the resources for UNDP, should a comprehensive system of multiyear pledging be applied, since public disclosures of future pledging intentions might tend to make some donors more conservative and less flexible in their pledges. Their treatment of the inflation factor would be disadvantageous to UNDP should such Governments make pledges in nominal terms and maintain the nominal level for the duration of their multiyear pledge. A clear reduction of the real resources available for the Programme would follow.

11. In view of the initial results of the 1979 Pledging Conference, there is a particular need to consider the advantages of seeking a more stable financial base for the Programme. When this present report was prepared, ten of the larger contributors to the Programme had not yet made a firm pledge for the forthcoming year, 1980. (See table 1).^{8/} The donor pattern of UNDP's financing is such that the contributions of many of these countries normally provide the bulk of the funds available for the Programme. The Administrator is presently making a major effort to persuade Governments in a position to do so to make larger contributions. This effort extends, also, to those countries that traditionally have not been major contributors. Nevertheless, in order to secure the financial basis for the Programme multiyear pledges from the larger donor Governments would give a firm assurance of support to developing countries.

12. UNDP has attained a level of resources which has resulted in its having a significant catalytic impact on development efforts in developing countries. Should UNDP, in 1982-1986, continue to receive increasing support as a major channel for providing technical co-operation, and contributions continue to increase at an over-all average annual level of 14 per cent, aggregate contributions for UNDP's third planning cycle could be in the range of \$6.5 billion.

^{8/} See document DP/ 425 submitted to the Special Meeting of the Governing Council (February 1980) for a further consideration of trends in resources mobilization.

Table 1
UNDP: Voluntary Contributions for 1977, 1978, 1979 and 1980

(US \$ million) a/

Countries <u>b/</u>	1977	1978	1979	1980
Argentina	1.2	1.3	1.5	1.5
Australia	4.6	7.8	7.7	8.0
Austria	3.7	4.2	5.0	5.5
Belgium	12.8	15.4	16.6	19.3
Brazil	1.5	1.6	1.8	<u>d/</u>
Canada	32.4	34.6	35.1	35.0
Denmark	45.3	43.1	62.6	<u>d/</u>
Finland	5.4	5.9	6.8	7.6
France	10.0	14.0	16.0	<u>d/</u>
Germany, Fed. Rep. of	39.2	49.8	58.3	62.2
India	6.3	6.9	7.7	7.3
Indonesia	1.6	1.7	1.8	<u>d/</u>
Iran	4.3	4.3	-	<u>d/</u>
Italy	4.2	5.3	5.4	16.3
Japan	22.0	25.0	35.0	<u>d/</u>
Libyan Arab Jamahiriya	1.1	1.1	1.0	<u>d/</u>
Mexico	1.3	1.3	1.3	1.1
Netherlands	56.7	61.8	73.5	76.5
New Zealand	1.5	1.2	1.6	1.3
Norway	28.3	34.2	41.1	47.4
Pakistan	1.2	1.5	1.6	1.8
Saudi Arabia	2.7	2.5	2.5	2.5
Sweden	57.6	61.1	70.3	75.3
Switzerland	9.1	10.4	14.2	16.0
Turkey	1.1	1.1	1.1	<u>d/</u>
USSR (including Byelorussian and Ukrainian SSR)	4.3	4.8	4.8	4.9
United Kingdom	34.4	47.6	58.1	<u>d/</u>
United States	100.0	115.0	126.0	<u>d/</u>
Venezuela	2.2	2.0	2.0	2.0
Yugoslavia	1.9	2.2	2.4	2.6
Sub-total	497.9	568.7	662.8	<u>d/</u>
Others	26.2	27.4	28.6	<u>d/</u>
TOTAL	524.1	596.1	691.4 <u>c/</u>	<u>d/</u>

a/ Pledges denominated in national currency have been converted into their dollar equivalent amounts by using the UN rate of exchange effective 6 November 1979, except that contributions paid are converted into the US dollar equivalent amounts by using the UN rate of exchange in effect on the date of payment.

b/ Countries listed are those whose average annual contributions to UNDP for the years 1977, 1978 and 1979 exceeded \$1 million.

c/ The total for 1979 contributions includes estimated pledges totaling \$0.8 million for those countries which have not yet announced their contribution to UNDP for 1979.

d/ Data not available at the time of preparation of this document.

A Programme of this size, focusing on technical co-operation programmes extending over a longer period of time, would logically require a considerable extension of the present slowly developing practice of multiyear pledging. Satisfaction of such a demand would be beneficial to donors and to recipients alike. The most important beneficiaries would be the least developed and other low-income developing countries, both because of the nature of their development needs and because of the increasing orientation of the Programme to such countries.

13. There is also a broader aspect to the issue of more effectively securing the longer term financial base of such development programmes as UNDP. In all major forums discussing global development issues (e.g. UNCTAD V), the international community has repeatedly stressed the urgent need for increased transfer of real resources for development. Support for organizations devoted to assist in this vital process has been pledged by the participating Governments, and particularly by the countries in a position to make an immediate tangible contribution. In the United Nations General Assembly, the Director-General for Development and International Economic Co-operation has made an urgent plea for efforts by the members of the international community to contribute constructively in the process of the necessary transition to a new pattern of economic growth of developing countries. In this process, technical co-operation has an increasingly critical role. Against this background, the logic of securing the financial base for such multilateral programmes as UNDP is evident.

Alternative methods for future financing for UNDP

14. The Administrator's note to the twenty-sixth session of the Governing Council DP/377(Part II), referred to various options for a system of multiyear pledging for UNDP. The first option related to pledges for a three-year period on a rolling basis. Thus, each year Governments would announce their pledges for the following three years, subject to parliamentary approval. A second suggestion allowed for Governments to indicate their contributions for a five-year planning cycle in two stages. Initially, prior to the beginning of the UNDP cycle, Governments would indicate their pledges for the first three years of the five-year period, again subject to parliamentary approval. Towards the middle of the UNDP cycle, Government would then announce their contributions for the fourth and fifth years. The third possibility referred to in DP/377 was that Governments would provide firm pledges for the first year of the cycle and indicative pledges for its remaining years subject to parliamentary approval. These four indicative figures eventually would be substituted by firm pledges at each successive annual pledging conference.

15. While recognizing the advantages to recipient countries of achieving a more predictable, continuous and assured basis of assistance through UNDP by the general adoption of multiyear pledging, most donor Governments considered that because of constitutional or parliamentary requirements it would be difficult to make multi-year pledges for the whole five-year period of a UNDP programming cycle. However,

in the examples studied of voluntary replenishments of multilateral development finance institutions, Governments have found it possible to agree to make an annual contribution extending over a number of years, but with the clear proviso that each year's payment is subject to parliamentary approval for that year.

16. Seven of the Governments which responded to the Administrator's questionnaire suggested that, should a system of multiyear pledging be introduced, the form most likely to be agreed upon would be the one under which the contributing Governments give a firm pledge for the upcoming financial year and indicative pledges for the following two to three years, subject to parliamentary approval each year thereafter. In the view of some of those Governments, it would be preferable to make the pledges on a rolling basis. Under this approach UNDP would be able, inter alia, to smooth the transition between programme cycles in its planning. Two Governments, however, felt that this solution would serve only a transitory purpose towards achieving the ultimate goal of negotiated financing for the whole planning period. On the other hand, some Governments regarded the introduction of such a system as unlikely since it would require major changes in their legislative and budgetary practices. None of the responding countries envisaged any major problems within the executive branch of Government, if multiyear pledging to UNDP were permissible within the legislative framework.

Equitable participation

18. A further aspect of the future financing of UNDP concerns the achievement of an equitable participation in, or sharing of responsibility for, the adequate financing of the Programme. This question has arisen because of the characteristics of the present pattern of financing of UNDP. In recent years, five or six Governments with developed market economies have provided some 60 per cent of the total contributions to UNDP. This pattern of sharing within UNDP is considerably more uneven, for instance, than either that of the basic United Nations scale of assessments or contributions to the International Development Association (IDA). (See table 2). While not meant to suggest new norms, these illustrations may serve to facilitate an understanding of the interest that has arisen in developing an alternative pattern of financing for UNDP.

19. The issue of equitable sharing of contributions to the Programme is one for member Governments alone to decide. Some Governments consider that the issues of multiyear pledging to UNDP and equitable sharing of the cost of the Programme cannot be considered separately. Some of these Governments have already reached the 0.7 per cent ODA target and feel that the share of their development aid channelled through UNDP is disproportionate. (As noted in table 3, by 1978, the ODA contributions of Denmark, Netherlands, Norway and Sweden were well beyond the 0.7 per cent target.) They point out that they can hardly be expected to be responsible for securing the necessary growth in UNDP's resources for the third IPF cycle to the extent that they had in earlier years. Their position illustrates the need for a multilateral development agency to diversify its major source of financing much beyond a small group of countries which has historically provided

Table 2

Contributions to (i) United Nations, (ii) International Development Association, and (iii) United Nations Development Programme

(percentage shares)

Country	UN <u>a/</u>	IDA <u>b/</u>	UNDP <u>c/</u>
Argentina	0.84	0.003	0.216
Australia	1.54	1.941	1.108
Austria	0.64	0.835	0.724
Belgium	1.08	2.042	2.394
Brazil	1.04	0.003	0.256
Byelorussian Soviet Socialist Republic	0.41	-	0.030
Canada	3.04	5.518	5.079
Denmark	0.64	1.288	9.052
Finland	0.44	0.538	0.979
France	5.82	6.102	2.314
Germany, Federal Republic of	7.70	14.153	8.434
India	0.68	0.018	1.109
Indonesia	0.14	0.003	0.260
Iran	0.40	0.001	-
Italy	3.38	1.040	0.775
Japan	8.64	13.451	5.062
Libyan Arab Jamahiriya	0.16	-	0.145
Mexico	0.79	0.001	0.191
Netherlands	1.42	3.619	10.626
New Zealand	0.26	0.194	0.224
Norway	0.45	1.187	5.950
Pakistan	0.07	0.004	0.235
Saudi Arabia	0.23	3.075	0.362
Sweden	1.24	3.921	10.161
Switzerland	-	-	2.053
Turkey	0.30	0.001	0.157
Union of Soviet Socialist Republics	11.60	-	0.592
Ukrainian Soviet Socialist Republic	1.53	-	0.074
United Kingdom	4.52	12.217	8.403
United States	25.00	26.216	18.223
Venezuela	0.39	-	0.289
Yugoslavia	0.39	0.100	0.352
Other Countries	15.22	2.529	4.171
Total	100.00	100.000	100.000

a/ 1978-1979 scale of assessments for UN as decided by the General Assembly (Official Records of the General Assembly, Supplement 11(A/34/11)).

b/ Percentage share of subscriptions and supplementary resources for IDA under the fourth and fifth replenishments as at 30 June 1979 (see World Bank Report, 1979).

c/ Percentage share of contributions to UNDP for 1979.

Table 3

Official Development Assistance (ODA) of DAC countries

(million dollars and per cent)

(i) Net Disbursements

Countries	1970		1977		1978 ^{a/}	
	US\$ million	per cent of GNP	US\$ million	per cent of GNP	US\$ million	per cent of GNP
Australia	202	0.59	427	0.45	491	0.45
Austria	11	0.07	118	0.24	156	0.27
Belgium	120	0.46	371	0.46	513	0.52
Canada	346	0.42	992	0.50	1 053	0.52
Denmark	59	0.38	258	0.60	386	0.75
Finland	7	0.07	49	0.17	56	0.18
France	971	0.66	2 267	0.60	2 689	0.57
Germany, Fed. Rep. of	599	0.32	1 386	0.27	1 984	0.31
Italy	147	0.16	186	0.10	240	0.10
Japan	458	0.23	1 424	0.21	2 215	0.23
Netherlands	196	0.61	900	0.85	1 072	0.82
New Zealand	14	0.23	52	0.39	55	0.34
Norway	37	0.32	295	0.83	355	0.90
Sweden	117	0.38	779	0.99	783	0.90
Switzerland	30	0.15	119	0.19	176	0.20
United Kingdom	447	0.36	914	0.37	1 226	0.40
United States	3 046	0.31	4 159	0.22	4 857	0.23
TOTAL	6 787	0.34	14 696	0.31	18 308	0.32

(ii) Shares of Bilateral and Multilateral in Total ODA

Item	1970		1977		1978 ^{a/}	
	Bilateral	Multilateral	Bilateral	Multilateral	Bilateral	Multilateral
Total, million dollars	5 663	1 124	10 084	4 612	13 178	5 130
Per cent of total ODA	83	17	69	31	72	28

(iii) Share of UNDP in Total ODA

Item	1970		1977		1978	
	US\$ million	per cent of ODA	US\$ million	per cent of ODA	US\$ million	per cent of ODA
Contributions to UNDP by DAC countries	203	3.0	467	3.2	536	2.9
Contributions to UNDP by all countries	226		524		596	

^{a/} Provisional.

its principal financial support. These Governments wish to see both issues - multiyear pledging and equitable sharing - discussed together in a search for a comprehensive solution to the problem of securing the longer-term financing of UNDP. On the other hand, there are Governments which do not oppose the concept of multiyear pledging, but would like to separate it from the further issue of the sharing of the cost of the Programme. They consider that Governments capable of assuming a greater share of the cost of the Programme would, in fact, do so. Those Governments which do not think it feasible to introduce multiyear pledging for UNDP also believe that any plan for equitable sharing would adversely affect the voluntary character of the Programme.

Conclusion

20. In its consideration of the desirability of extending the practice of multiyear pledging to UNDP, the Intergovernmental Study Group may wish to take as a basis the call of the General Assembly for development assistance to be made available on a predictable, continuous and increasingly assured basis. It may wish, further, to review the implication of the UNDP Consensus that multiyear pledging with regard to resources inflow is the logical complement to the system of indicative planning figures concerning resources outflow for field activities in developing countries.

21. The Administrator believes that the most practical method of implementing the concept of multiyear financing is that envisaged by most of the Governments responding to the questionnaire; i.e., a firm pledge for the first year and indicative pledges for two or three subsequent years, with their eventual commitment being subject to parliamentary approval. The practicality of this approach lies in the fact that UNDP country programmes often contain specific project activities with detailed financial requirements essentially limited to a three-year period. By the time the detailed requirements for the remaining years of the UNDP country programmes have been elaborated, indicative pledges to UNDP for those years would then have been made. Further, from the side of donor countries, a pledging period of some three years would appear as a practical limit both in view of general economic uncertainties, including inflationary tendencies, and in view of the reluctance of Governments to indicate possible contributions in the large amounts which would be required on the basis of a longer period.

22. The Administrator considers, further, that a movement towards multiyear pledging would be meaningful only if it were likely to facilitate achieving, if not surpassing, the over-all target for the increase in Programme activities, as recommended by the Council. Any attempt to extend multiyear pledging would be counterproductive if it resulted in a stagnation in the inflow of resources.

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23. In response to an enquiry by the Administrator whether it would be useful if a target date were established by the Governing Council for the general adoption of multiyear pledging to UNDP and a more equitable sharing of the cost of the Programme, most of the Governments which replied were of the opinion that the start of the third cycle would be an appropriate time in order to provide a more solid basis for the planning of that cycle. It was considered that the Administrator should be an active participant in informal intergovernmental negotiations on these matters. The February 1980 meeting of the Intergovernmental Study Group forms an important part of this process. Further initiatives could be taken prior to the twenty-seventh session of the Governing Council depending on the outcome of the present meeting. The Administrator is ready to respond to all requests by the Study Group designed to improve the future financing of UNDP.