FUNDING THE SUSTAINABLE DEVELOPMENT GOALS

Current Trends and Potential Options

Michael Fleet
mfleet@balsillieschool.ca

On January 1st, 2016, the Sustainable Development Goals (SDGs) came into force, as part of the United Nations (UN) 2030 Agenda for Sustainable Development. In examining the SDGs, the UN Development Group (UNDG) has acknowledged that they are "integrated and indivisible and balance the three dimensions of sustainable development: the economic, social and environmental" (Swanson 2017, p.67). Seeing the intertwined and complex nature of the SDG's objectives, it must be said that developing a sufficient institutional approach is paramount to providing effective and efficient policy and service delivery. In the past, previous efforts have occurred in the UN to coordinate and standardize business practices and operating procedures, and establish clear roles for collaborative policy building in recognition of the complex nature of development. Throughout the UN's existence, we can see this in the forms of the Economic and Social Council (ECOSOC), the United Nations Development Group (UNDG), the Resident Coordinator system (RC), the Office for the Coordination of Humanitarian Affairs (OCHA) and, recently a system wide effort, Delivering as One (DaO).

Considering these initiatives, progress has been made in improving service delivery and coordination while reducing 'double-dipping,' or needless duplication of programs. However, there are still numerous issues across the different UN bodies in encouraging collaboration in both policy formulation and implementation, and as well as issues in 'silos' in UN operations between agencies and the humanitarian, peace and security, and development pillars. While many previously made recommendations for DaO and other initiatives provide ample recommendations for strategic, operational, and tactical realities of reforms, a consistent recommendation was to develop further incentives for the UN system to break down silos and encourage 'horizontal accountability" for staff and RCs. When looking at DaO and Figures 1 and 2, we can see that the common budgetary framework and operating as one are the least implemented areas of DaO. Much of the current issues of poor collaboration can be traced back towards the shifting development of the UN budgetary framework away from primarily core funding towards a majority of non-core funding, with ear-marked funds, and a shift of the majority of funding growth away from development and towards humanitarian.
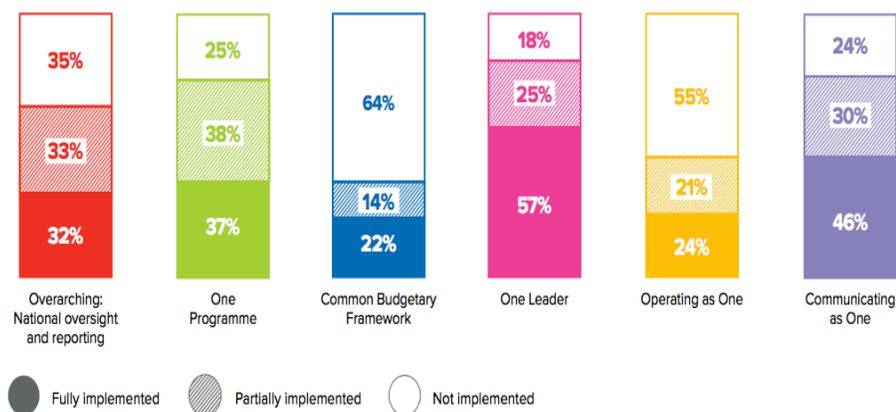

Figure 1: Progress achieved on the SOPs per the 'Delivering as One' Pillar (UNDOCO 2016a, p.10.)

○ Global average 2015 data
● Global average 2016 data

Fully achieved

Partly achieved

Not achieved

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

1. Joint National/UN Steering Committee
2. Annual Report on Joint Results
3. Signed UNDAF
4. Joint Workplans (for Results Groups)
5. Results Groups Established

6. Medium-Term Common Budgetary Framework
7. Annual Common Budgetary Framework
8. Joint Resource Mobilization Strategy
9. Full implementation of the Management/ Accountability Framework and UNCT Conduct and working arrangements
10. Joint Decision-Making by UNCT

11. Business Operations Strategy Endorsed by UNCT
12. OMT Chaired by Head of Agency
13. Operations Costs/ Budgets in Medium Term Common Budgetary Framework
14. Joint Communication Strategy
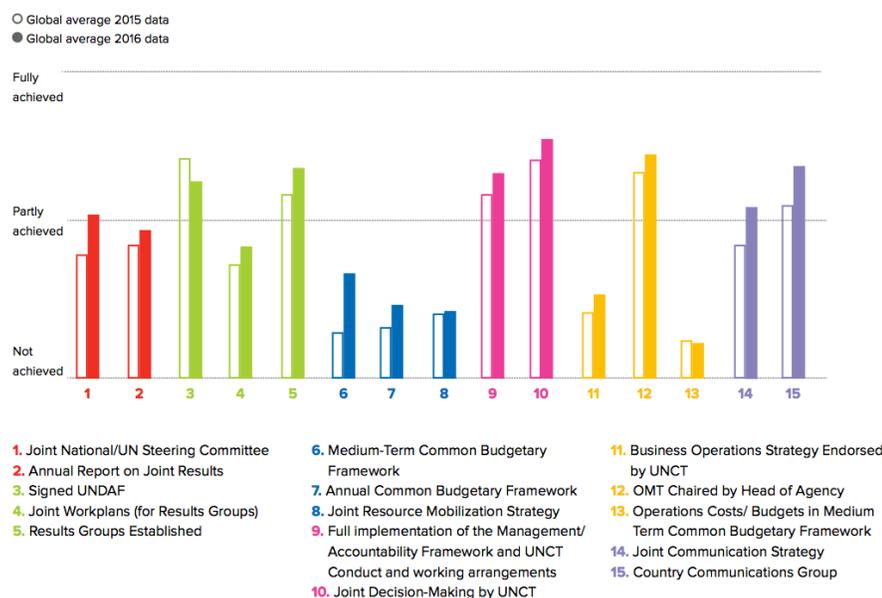**15.** Country Communications Group

Figure 2: 2015-2016 Progress on the 15 core elements of the SOPs (UNDOCO 2016a, p.10.)

To suitably approach these SDGs, I argue for four policy objectives:

(1) Continue the process of Business Operations Strategy and Standard Operational Procedures;
(2) Continue to push for the One Fund and Common Budgetary Framework to become less earmarked;
(3) Expand usage of Pooled Funds in UNCTs and develop clear rules on how to use pooled funding; and
(4) UNDAF be clearer on roles and accountability, as well as the training of staff to encourage collaborative policies.

To explain my case, I will first elaborate on why and how the issue of earmarked funding and the budgetary structure has developed into a dis-incentivizing model against inter-agency collaboration. I will then explain what pooled funding is, and follow with my recommendations and how they can help mitigate the issues of current trends, followed by a discussion on their limitations.

Funding Trends

The changing funding dynamics of the UN has a great impact on how the UNDS operates. Core funding contributions "are resources provided to UN entities which are commingled without restrictions and whose use and application are directly linked to the multilateral mandates and strategic plans that are approved by the governing bodies of individual UN entities as part of an established intergovernmental process" (UN-DESA 2016, p.1). Core contributions provide flexibility and predictability to UNCT projects, allowing for more longer-term sustainability. On the other hand, non-core contributions are "earmarked and thus restricted

with regard to their use and application" (UN-DESA 2016, p.1). Non-core contributions, when abused, can create UN entity 'turf' for states in their contribution patterns, and over time can severely restrict UNCT mandates and flexibility. In other words, states can effectively control the projects done by UN entities and from whom they procure. This can create issues such as forcing project managers to only procure workers and materials from the provider of the funding, thereby potentially raising costs, and not really providing local workers and communities with the opportunities to become stakeholders in the project.

Over the years, funding trends for the UN Official Development Assistance (ODA) has seen a shift away from core funding towards non-core funding, primarily towards earmarked funding. Since 2000, humanitarian related assistance non-core funding has grown 229% and development related non-core funding has grown 146%, while core funding for humanitarian assistance has grown 118% by 2015, and development related core funding has grown only 17%. This is illustrated in Graph 1.
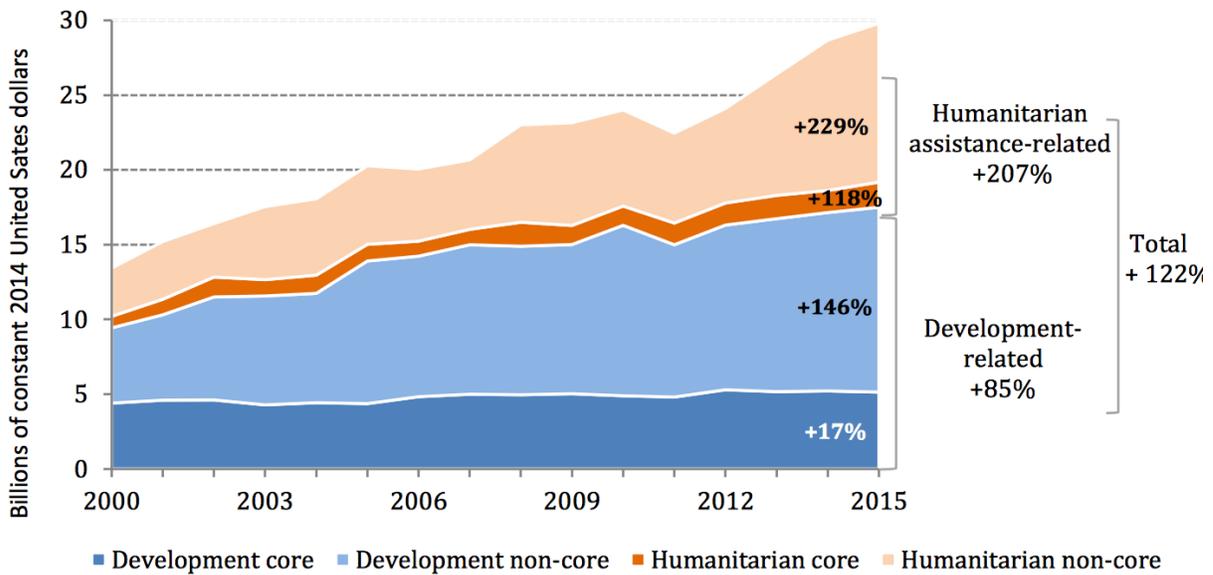
Graph 1: Real change over time in funding for United Nations operational activities for development: 2000-2015 (Percentage change relative to 2000) (UN, 2016, p.10).
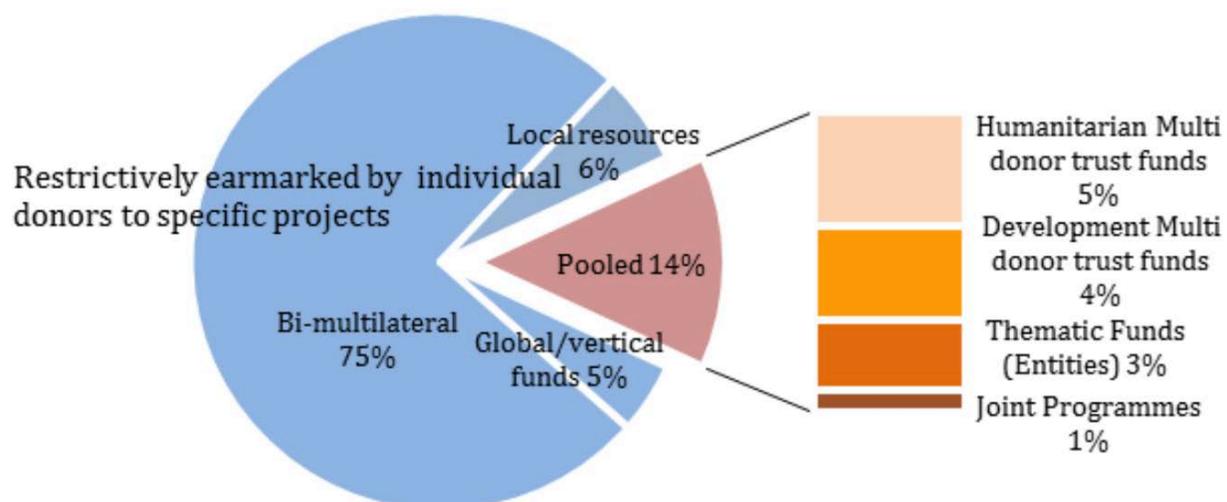
Figure 3: Non-core funding channels: 2014 (UN-DESA, 2016, p.3)

As the UNDS has seen little growth in assessed contributions, UNCTs are increasingly reliant on voluntary contributions. As such, "[t]he year-by-year, sector-by-sector, project-by-project nature of strictly earmarked/non-core funding weakens the ability of UN entities to engage in a long-term, predictable and strategic collaboration with governments" (UN-DESA 2016, p.4). The poor predictability of funding also inhibits a project's ability to be able to address systemic issues, issues that take multiple years be suitably resolved. As illustrated in Figure 3, the grand majority of non-core funding channels in 2014 were bi-multilateral and restrictively earmarked. Only 14% of funds were pooled.

While there have been system wide reforms and initiatives such as Delivering as One, broader funding trends towards earmarked funding and the growth of the humanitarian pillar of funds over development has led to a system which has no incentives for cross-collaboration amongst staff for project creation. To understand why these issues continue to exist, we must look at the donor base, the current predominant budget/funding structure, and continuing trends in funding. To explain Graph 2, the Development Assistance Committee (DAC) of the OECD makes up the broad majority of funding in the UN. When viewed in terms of the growth of earmarked funding, this has led to a situation where the UN is fragmented, collaboration disincentivized, and UNCTs being forced to comply with the many rigid protocols of earmarked funding, thereby reducing project efficacy and usage to the SDGs in favour of what different state funders wish to see with their funding.
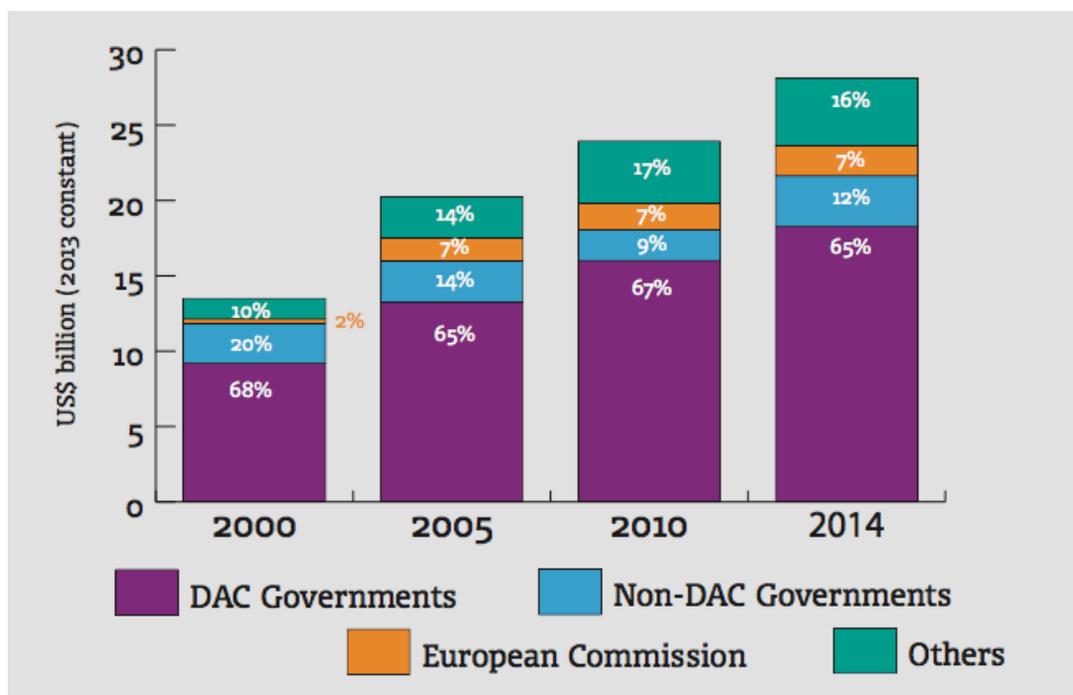
Graph 2: UN Donor Base (2000-2014) (Jenks & Topping 2016, p.19.)

Overall, the total revenue of the UN system stood at US$ 48 billion in 2014. Earmarked funding constituted the biggest proportion of funding with 55% of the total UN system revenue in 2014, followed by assessed contribution (29%) and core funding (10%). Of the total UN budget (in 2014 US$):

- Assessed Grants: $13.7 Billion
- Voluntary Core: $5 Billion
- Earmarked: $26.3 billion (Jenks & Topping 2016, pp.87-90)

It is also important to keep in mind the comparative funding of the UNDS to global ODA. Global ODA in 2015 hit around US$131.6 billion (OECD 2016), while the UN donor base contributed around US$28 billion in 2014 (Jenks & Topping 2016, p.19). The reason for the massive disparity between UN funding and global ODA is that states prefer to utilize their own development agencies. This allows states to have complete control over what projects, policies, and initiatives are engaged in, and in what countries, with their money. As well, it allows them the credit for their projects, projecting soft power.

Pooled Funds

Before I begin with my recommendations, I will define what pooled funds are. The UNDP MPTFO 2015 report, "Designing Pooled Funds for Performance," explains pooled funds as such:

> A United Nations inter-agency pooled fund is a mechanism used to receive contributions from multiple financial partners and allocate such resources to multiple implementing entities to support specific national, regional or global development priorities. These open-ended funds operate as pass-through mechanisms and as such do not require all participating organizations to comply with the operating procedures of a lead agency. Instead, pooled funds offer a flexible mechanism that enables participating organizations to handle implementation according to their own operating procedures for

procurement and financial management. By avoiding any duplication of operating procedures, pass-through mechanisms minimize implementation delays and transaction costs. Single-agency pooled funds, on the other hand, receive contributions from multiple financial partners and allocate such resources to projects implemented by the receiving agency only (MPTFO 2015, p.v).

With the correct sequencing, pooled funds can provide the necessary predictable funding patterns to encourage inter-agency project collaboration and reduce fragmentation. It also provides the means to remove the silos between the different aid pillars, and allow projects to evolve as the needs of the project environment change with time. This is illustrated in Figure 4.
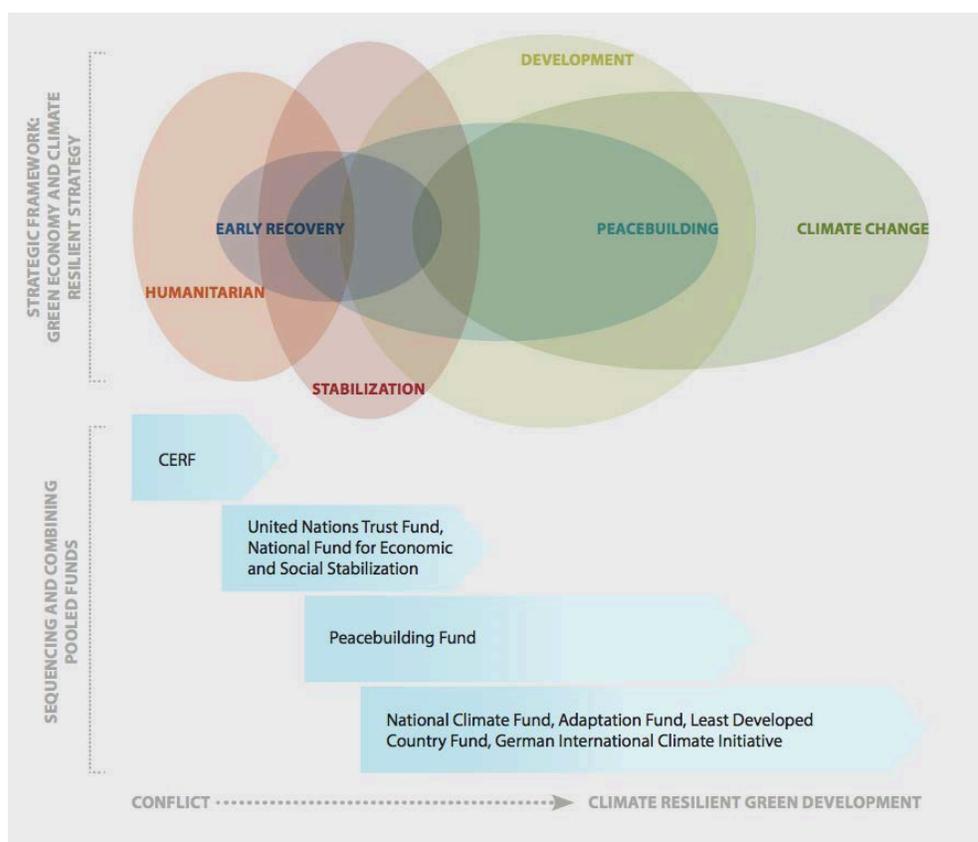

Figure 4: Accessing, sequencing and combining pooled financing mechanisms in support of Mali's Green Economy and Climate Resilient Strategy (MPTFO 2015, p.8).

In addition, pooled funds can suitably address gaps in the current funding structure of UNCTs while also providing further opportunities for the money to stretch further. This is outlined in Table 1.

Characteristics of the financing gap, opportunities and constraints	Main function of the fund	Main added value of the fund
There are critical gaps throughout the strategic framework and high risks that certain critical interventions may not be financed.	COHERENCE	Most pooled funds will support policy coherence. In addition, some funds will emphasize programme coherence by filling critical gaps and supporting underfinanced priorities. These coherence funds should aim to mobilize from 10 to 15 percent of the overall resources required in order to act as a gravity centre that can also align assistance. The credibility of the costing underpinning the financial requirements will be particularly important in such funds. Examples: Common Humanitarian Fund, UN Ebola Fund, UN One Funds.
(i) Financing has not yet been secured for most of the strategic framework. Interest from partners in channeling the majority of their support through a fund; or (ii) The mapping shows a proliferation of existing financing instruments.	CONSOLIDATION	Reduces fragmentation with respect to particular priorities. In many cases, the fund is the largest investment vehicle. Examples: Somalia Multi-Partner Trust Fund (MPTF), Iraq Trust Fund.
The financing gap is related to specific issues or themes.	SPECIALIZED OR THEMATIC	Has a specific expertise and focus on a particular thematic issue. Usually the case for global funds. Examples: UN Action against Sexual Violence, the Peacebuilding Fund.
Development finance is constrained by a high-risk environment. Most often the case in fragile and conflict-affected countries.	RISK MANAGEMENT	Reduces risks to governments and financial contributors through a comprehensive risk and results-based management system. Can support an earlier release of development finance, particularly in fragile and conflict-affected countries. Examples: Mali Stabilization Fund, Somalia MPTF.
(i) Strengthening national systems and capacity have been identified as key priorities; or (ii) In middle income countries, where building synergies with domestic resources is particularly important.	STRENGTHEN NATIONAL SYSTEMS	Uses and strengthens national systems.[20] Is particularly relevant in the context of the New Deal[21] as well as in middle-income countries. Examples: Central African Republic MPTF, Mali Climate Fund, Jordan Resilience Fund.
Opportunities for innovative financing sources have been identified.	INNOVATION	Provides a mechanism for clear attribution and transparency from innovative sources of finance. Can also deepen national financial systems. Most common in support of climate change. Attracts and channels funding through innovative platforms and from new sources, for example crowd funding for the UN Ebola Fund.

Table 1: Fund functions that address certain financing gaps, and associated added value of pooled funds (MPTFO 2015, p.6).

As we can see from the table, there are many current examples of pooled funds providing the coherence, consolidation, risk management, and innovation opportunities necessary to properly tackle the Agenda for 2030 and the SDGs.

Recommendations

To reiterate my recommendations;
(1) Continue the process of Business Operations Strategy and Standard Operational Procedures;
(2) Continue to push for the One UN Fund to become less earmarked, and the Common Budgetary Framework;
(3) Expand usage of Pooled Funds in UNCTs and develop clear rules on how to use pooled funding; and
(4) UNDAF be clearer on roles and accountability, as well as the training of staff to encourage collaborative policies.

Indeed, most of these recommendations are already being enacted to some degree (UNDG 2016; UNDOCO 2016(b)). However, with the ambitious Agenda for 2030 and the SDGs, the usage of pooled funds must be increased considerably with more donors and clearer rules of accessing and using the funds to avoid the issues of the past such as of pooled funds being a

'grab-bag' for agencies to grab as much funding as they can. Furthermore, as pooled funds become used more and adopted by more agencies, they help to reduce transaction costs through economies of scale (MPTFO 2015, p.v). Currently, for smaller agencies, they can raise transaction costs. As I move to explain my recommendations, it will be shown that these issues can be addressed.

First, continue the process of Business Operations Strategy (BOS) and Standard Operational Procedures (SOPs). These procedures are essential in ensuring that agencies are operating on the same page when designing, procuring, and implementing projects and policies. Indeed, the 'Operating as One' aspect of DaO has seen little successful implementation. However, continuing to harmonize business practices will help to bring forward easier means of collaboration in the future. As well, the current funding and budgetary structure restricts and disincentives cross-collaboration, making 'Operating as One' results unsurprising. Once this structure is fixed, then the BOS and SOPs can assist in bringing 'Operating as One' up to speed. Furthermore, for current UNCTs, one of the most painful processes that needs to be reconciled is the time and costs necessary in harmonizing the computer coding across agencies. While this can be expensive and time intensive, it will assist in the long run in providing the same common ground by which projects can operate and flow between agencies and pillars.

Second, continue to push for the One UN Fund to become less earmarked. While intuitive, it is nonetheless important for the UN and its partners to continue to lobby and have output to donors that their money will provide for bigger and better results if it was not earmarked, or if they put their money into inter-agency pooled funds. To do this, the UN should continue to promote internally and externally the value of utilizing measures like pooled funds, while providing concrete evidence that these measures can deliver more assistance that is more effective than if the funding was earmarked. One point to be raised with donors is that pooled funding also reduces risk to financiers through the risk and results-based management system.

Third, expand usage of pooled funds in UNCTs and develop clear rules for staff on how to use and sequence pooled funding. By bringing more partners into the fold, MPTFs will be able to deliver more as they benefit from economies of scale. As inter-agency trust funds only make up around 8% of total UNDS funding, expanding their usage is important to achieving the necessary objectives of DaO and subsequently the SDGs. In addition, and related to the BOS and SOPs, it is important that staff are aware of how to access, use, and sequence the available pooled funds to make full use of the opportunities they present. Indeed, it is estimated that pooled funding mechanisms need to only mobilize between 15-20 percent of the overall non-core funding portfolio to begin truly leveraging its comparative advantages (UNDG 2017, p.28).

Fourth, the UNDAF must be clearer on roles and accountability, as well as the training of staff to encourage collaborative policies. This is key as part of the current issue of the lack of inter-agency collaboration is one of a lack of understanding as to who reports to whom, and who oversees what, once agencies start working together in a project. To avoid a 'too many cooks in the kitchen' scenario, the UNDAF must be clearer on what the roles are and who is accountable for what in cross-collaborative projects, as well as what are the protocols of how these roles shift once a project moves across pillars (such as from humanitarian to transition to development). Part of this process must include the training of staff on how to engage in cross-agency collaboration, and encourage collaborative approaches. Indeed, while the current report for the

UNDAF Guidance (UNDG 2017) recognizes the value in joint programming and joint resource mobilization strategies through pooled funds (pp.27-28), joint work plans (p.29), as well as outlining the UN Management and Accountability System (MAS), the lack of low- to mid-level staff knowledge of accountability structures for joint-programming inhibits the implementation and usage of the resources currently available.

To sum up, pooled funds can provide the system structure to incentivize collaboration to suitably approach the SDGs and implement key features of DaO. As such, they should be adopted more widely by UNCTs to make pooled funds more effective. While the use of pooled funds by UNCTs depends on their offer by the allocation of resources by donors, encouraging UNCT intentions and knowledge about pooled funds can deliver beneficial returns. To operate pooled funds effectively UNCT staff must have the tools and knowledge to use them and have the clear understanding of the roles involved with inter-agency collaboration, as well as the BOS and SOPs provided to make the transitioning of projects across pillars unhindered. One point for future research is how pooled funds impact smaller agencies, as they may increase transaction costs for them while lowering transaction costs for larger agencies. By recognizing the unfortunate patterns of funding towards non-core earmarked funds, providing UNCTs with more predictable funding by a clever budgetary structure is a realistic way of tackling the issue. Through such measures, the UN can appropriately apply the necessary collaborative projects needed to suitably approach the SDGs and the Agenda for 2030.

Works Cited

Jenks, Bruce, & Jennifer Topping. 2016. "Financing the United Nations Development System: Current Trends and New Directions." *Dag Hammarskjöld Foundation.* http://www.daghammarskjold.se/wp-content/uploads/2016/06/Financial-Instr-Report -2016-Final-web.pdf.

MPTFO. 2015. "Designing Pooled Funds for Performance: A Manual Prepared by the Multi-Partner Trust Fund Office." *UNDP.* mptf.undp.org/document/download/14290.

OECD. 2016. "Development aid rises again in 2015, spending on refugees doubles." *OECD.* http://www.oecd.org/dac/development-aid-rises-again-in-2015-spending-on-refugees -doubles.htm.

Swanson, Darren. 2017. "Mainstreaming the 2030 Agenda for Sustainable Development: Reference Guide to UN Country Teams." *UNDG.* https://undg.org/wp-content/uploads/2017/03/UNDG-Mainstreaming-the-2030-Agenda-Reference-Guide -2017.pdf.

UN. 2016. "Implementation of General Assembly resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system: funding analysis. Report of the Secretary-General." *United Nations, ECOSOC.* General Assembly, seventy-second session, operational activities for development: operational activities for development of the United Nations system. Retrieved from *https://documents-dds-ny.un.org/doc/UNDOC/GEN/N16/470/10/PDF/N1647010.pdf?OpenElement.*

UN-DESA. 2016. "Background Note: Funding Situation in the UN Development System." *UN-DESA.* http://www.ipu.org/conf-e/135/un-funding.pdf.

UNDG. 2016. "UNDG Business Operations Strategy (BOS) User Manuel: A Step-by-Step Guide to Building a BOS Framework." *UNDG.* https://undg.org/wp-content/uploads/2017/03/UNDG-BOS-Guidance-2016-EN-1.pdf.

UNDG. 2017. "United Nations Development Assistance Framework Guidance." *UNDG.* https://undg.org/wp-content/uploads/2017/05/2017-UNDAF_Guidance_01-May-2017.pdf.

UNDOCO. 2016(a). "Building Blocks towards 2030: UNDG Standard Operating Procedures for 'Delivering as One' 2015 Progress Report." *UNDOCO.* https://undg.org/wp-content/uploads/2016/11/UN-DOCO_2015-SOPs-Report_final.pdf.

UNDOCO. 2016(b). "Building Blocks towards 2030: UNDG Standard Operating Procedures for 'Delivering as One': 2015 Progress Report." *UNDG.* https://undg.org/wp-content/uploads/2016/11/UN-DOCO_2015-SOPs-Report_final.pdf.