

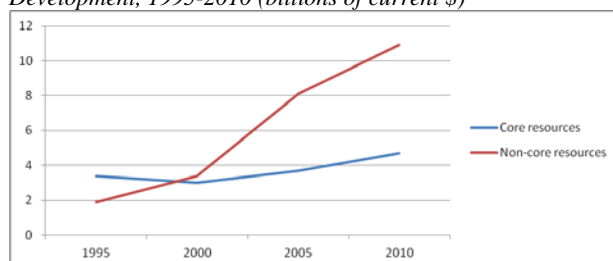
# Can the UN Adjust to the Changing Funding Landscape?

Asmita Naik

**Private sources of financing have become a growing feature of UN budgets. An evaluation of the private financing of UNDP activities reveals both advantages (e.g., increased resources, more technical expertise, better management) and challenges (e.g., distorted priorities, unhealthy competition, weakened multilateralism).**

The past two decades have seen a rapid diversification in the types of actors and funding mechanisms involved in development. The United Nations has always been and remains a significant avenue for development aid. But the sources of funds and the vehicles through which aid is delivered have undergone significant change. Traditionally, core funds—contributions made directly by member states to UN organizations with few, if any, conditions attached—comprised the bulk of the resources available for UN development programs. These resources underpinned the administration, core personnel, and programs of the respective organizations in line with their established mandates. Since 1995, however, “non-core” contributions to the UN development organizations (which are from official and private sources and fund operational activities in specific sectors and countries) have risen more than five-fold and are now substantially larger than core funds (see Figure 1). These non-core funds are channeled through different mechanisms and are increasingly from nongovernmental sources, including philanthropic organizations and the private sector.

*Figure 1: Core and Non-core Contributions to UN Development, 1995-2010 (billions of current \$)*



This trend is highly likely to continue into the future and raises questions about the nature and purposes of the UN’s future development work. The author was a member of an evaluation team, commissioned by the UN Development Programme (UNDP) in 2011, whose report examined partnerships with two kinds of new funding sources—global funds and philanthropic foundations—in order to understand how the UN is adapting to these changes. While the report<sup>1</sup> analyzes one part of the UN only, it yields useful lessons for the system as a whole in terms of future financial planning. Within the UN system, the instinctive reaction to non-core funding was initially cautious, with fears that it would limit the recipient organization’s work and autonomy. This brief tests these pre-conceptions by examining the range of benefits and challenges that arise when working with non-core funds.

## BACKGROUND

In the 1960s and 1970s, multilateral aid was channelled mainly through the UN, rather than the World Bank or regional development banks. Also, multilateral aid increased faster than bilateral aid, rising from about 10 percent of total Official Development Assistance (ODA) in 1960 to almost 40 percent in the mid-1970s before falling back to around 30 percent, where it has remained. From 2000, ODA has shown four distinct trends:

- Bilateral aid has grown more rapidly than multilateral aid with an increasing amount being channelled through the UN in the form of non-core (i.e., earmarked) funding.

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**FUNDS** supports and helps accelerate change in the UN development system to increase effective responses to global development challenges—especially after 2015, the target date for the Millennium Development Goals. Recognizing the many frustrations that have accompanied UN reform efforts, FUNDS envisages a multi-year process designed to help build consensus around necessary changes. Financial support currently comes from the governments of Norway, Sweden, and Switzerland.

- There has been rapid growth in “global funds,” in which a wide range of donors and implementing agencies collaborate in tackling single development issues.
- New private donors have entered the aid arena. There are now more than 200,000 philanthropic foundations globally, the majority in the United States and Western Europe. In 1997, for instance, the media mogul and philanthropist Ted Turner made an unprecedented donation of \$1 billion to the UN.
- Additional official donors have emerged—e.g., Republic of Korea, new members of the European Union, and emerging economies such as Brazil, China, and India, all contributing both core and non-core funds.

The most striking change is in the ratio of contributions to the UN development system, and to UNDP in particular, with a clear donor preference for making additional funding available through non-core channels. The UN’s overall share of multilateral core funding declined from 30 percent in 2000 to 16 percent in 2010, with commensurate rises in other multilateral institutions (European Union, World Bank, regional development banks). With the substantial rise in non-core funding, the UN’s share of total multilateral resources (core and non-core) is now around 40 percent.

This shift to non-core funding reflects a desire among donors, traditional and non-traditional alike, for more control. Disillusionment with the performance of existing multilateral arrangements embodied by the UN and multilateral development banks have led to increased earmarking of public funding by donor governments as they seek to verify the use and impact of taxpayer funds. This dissatisfaction has also led to the search for new financial mechanisms, like global funds, that are able to provide quick, efficient and targeted support for specific development challenges like health, education, and the environment. Private donors likewise have sought to exercise more control over development outcomes by setting up their own foundations.

## UNDP’s STATUS

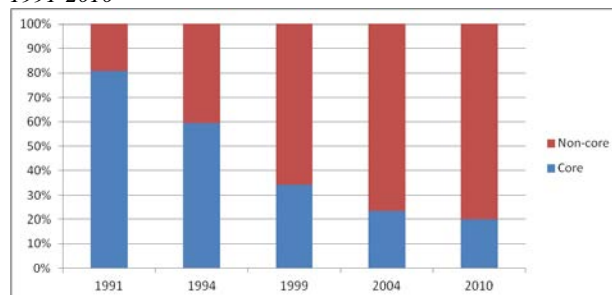
These developments have had a significant impact on UNDP.<sup>2</sup> Its reliance on non-core funding—including from traditional and non-traditional donors, global funds, and philanthropic foundations—grew from 19 percent in 1991 to 80 percent in 2010 (see Figure 2). By 2010, core resources amounted to just under \$1 billion out of total annual resources of \$5 billion. UNDP’s non-core funding has come from a range of partnerships and funding mechanisms. The evaluation discussed in this briefing focused on a sample of:

- Three Global Funds: Global Environment Facility (GEF); Global Fund to Fight AIDS, Tuberculosis and

Malaria (GF); and Multilateral Fund for the Implementation of the Montreal Protocol (MLF).

- Three Philanthropic Foundations: Mohammed bin Rashid Al Maktoum Foundation (Al Maktoum Foundation); Bill and Melinda Gates Foundation (Gates Foundation); and Open Society Institute/Soros Foundation.

Figure 2: Percentage of Core and Non-core Funding to UNDP, 1991-2010



## BENEFITS

The partnership with global funds and philanthropic foundations has brought four clear benefits to UNDP’s development work: more resources, technical capacity building, enhanced impact, and strengthened management. First, the most obvious benefit is a substantial increase in resources. While core resources have stagnated, non-core funds doubled from around \$2 billion to around \$4 billion between 2001 and 2010. As a result, UNDP’s total resources today amount to over \$5 billion. The three global funds have played a key part in this growth, their contributions rising from just under \$250 million in 2004 to almost \$700 million in 2010 (from 8 percent to about 16 percent of total UNDP resources). On an annual basis, GEF accounts for around \$260 million, GF \$370 million, and MLF \$25 million. Contributions from philanthropic foundations account only 0.2 percent and therefore a much smaller amount of the increase in non-core resources since UNDP’s partnerships with these institutions have been short-lived and ad hoc in nature.

Second, global funds are widely regarded as being of substantive value to UNDP, enabling it to expand its engagement in global policy dialogue and to develop country-specific technical expertise. Examples are HIV/AIDS programs in the Maldives through work with the GF, or energy efficiency in Mauritania through the GEF. In Zimbabwe, the GF functioned as a catalyst for mobilizing other donor funding at a time of financial crisis. In Lebanon, GEF funding facilitated cutting-edge energy efficiency projects by the UNDP country office. Likewise, the GF in Iran provided opportunities for innovative programming in support of human development principles.

Third, a survey of UNDP resident representatives carried out as part of the evaluation reaffirmed the importance of global fund money in enabling the organization to address environmental issues and disease control—activities that would not otherwise have been given priority due to funding gaps. The GF-UNDP partnership led to the virtual elimination of malaria in Tajikistan. Similarly, changes to health-care approaches to tuberculosis in Belarus have been recognized as a best practice in the region. The large scale of GEF funding has also enabled systemic change in the environmental field in a number of countries. The same scale of impact cannot be reported for projects funded by philanthropic foundations due to the difference in funding size. Nonetheless, there are positive developments in a number of smaller projects. The Multifunctional Platform Initiative in West Africa (a structure placed in villages, and driven by a diesel engine, to power devices such as pumps, grain mills, and generators) has made an important difference to the lives of many poor people, especially women. The involvement of the Gates Foundation in this longstanding initiative helped broaden the reach and mobilize budgetary support from the government. In Liberia, a Soros Foundation project facilitated the recruitment of high level government officials from the diaspora, and claimed to have helped reverse the brain drain.

Fourth, non-core funds entail specific reporting requirements that are beneficial in themselves. Exposure to different systems and new ways of managing programs facilitates learning, capacity-building, and increased accountability. For instance, cross-practice work facilitated by global funds can lead to a better integration of programs within UNDP itself—the GEF program in Tajikistan acquired best-practice recognition within UNDP for the quality of its portfolios. The monitoring and evaluation systems of global funds are recognized as being more advanced than those of UNDP. Each fund has its own rigorous process and UNDP units showed willingness to adapt and learn from these systems. The UNDP Namibia office, for example, reported using GEF monitoring frameworks for other types of projects. UNDP country evaluations, e.g., in Malaysia and the Maldives, noted the positive effect of engaging with such funds. The same is true for philanthropic foundations, albeit on a smaller scale, with the emphasis on results frameworks being generally appreciated by staff.

## CHALLENGES

Despite the evident benefits from increased resources, however, partnerships with non-core funders have brought challenges too. Five come immediately to mind.

First, funds earmarked for specific purposes may not necessarily meet the most pressing needs at country level. The UNDP evaluation found that most global fund projects fitted well with national priorities; but in some

instances, priority needs are overlooked in the pursuit of funding. For instance, a recent country level evaluation in the Maldives suggested that small island developing countries consider climate mitigation activities supported through UNDP-GEF less relevant than energy initiatives. The report argued that the UNDP environment portfolio had become skewed towards areas in which funding was available, although the portfolio has since been adjusted. Activities with funding from philanthropic foundations have not been of sufficient size to have a distorting influence.

Second, the availability of earmarked funds may also detract from the pursuit of UNDP's core multilateral purposes, broad though they are. All global fund activity was considered relevant to UNDP's strategic plan which covers a wide range of development sectors. The real issue is whether sector specific activities are sufficiently linked to UNDP's development values and issues such as human rights, poverty reduction, gender equality, and capacity development. The picture is mixed, with observable differences among funds. In Lebanon, for example, MLF-funded activities were narrowly technical in purpose, with few links to wider objectives; development effects in terms of job creation, education, and training were not captured in reporting; and the opportunity of linking the distribution of free machinery to the private sector with the promotion of UNDP core values (e.g., human rights) was missed. More positive were linkages under GEF projects between environmental activities and work with communities and livelihood issues as a result of enhanced efforts by UNDP/GEF to make these connections in response to previous evaluation findings.

Third, administrative practices are a general cause of complaint and probably inevitable when two large established organizations come together. UNDP's procedures are designed to engender trust and confidence, but are also perceived by outsiders and staff alike as overly rigid and prone to delays. At the same time, the procedures of global funds can be equally cumbersome and problematic. The same issue of compatibility of administrative processes applies to philanthropic foundations.

Fourth, global funds and philanthropic foundations foster competition among potential grantees. UNDP is thus in a crowded marketplace competing for such funds with other UN and multilateral organizations, governments, NGOs, and the private sector. Competition can be healthy and lead to improved performance, but it can also have negative side-effects. The search for such funds can lead to tense rivalry, a lack of cooperation, and overlapping roles between organizations. The way that UN agencies are structured, with decentralized offices and individual staff incentives to maximize funds, can distort the UN's overall function which is ultimately to help countries

grow out of the need for its assistance. In brief, concerns with turf can outweigh results.

Admittedly, capacity development can be elusive where governments lack the ability or interest in assuming responsibility for national development. In Tajikistan, for example, the country's poor record on anti-corruption was an impediment to it being assigned direct responsibility for GF funds which were entrusted to UNDP. In other cases, middle-income countries like Malaysia, which are fully capable of managing their own programs, still choose UNDP to implement MLF on its behalf. Nonetheless, because of its preoccupation with attracting resources, the UNDP was clearly not prioritizing building local capacity or getting countries to manage their own programs. This issue became a source of contention between UNDP and GF, leading to a stronger resolve by UNDP to give more attention to capacity development under GF projects.

Fifth, the link with non-core donors also raises fundamental questions about the United Nations as a sovereign development institution. Another major disagreement arose between UNDP and the GF on financial transparency. GF, as an autonomous donor, wanted access to UNDP's books as it might any other grantee. UNDP refused on the grounds that the "sovereign" UN is governed by the single-audit principle, with its own governance structure and accounting systems. The dispute was partially resolved by a UNDP Executive Board decision to share some audit reports and agreements. However, the disagreement suggests that UNDP needs to acknowledge an evolution in its role in an ever-changing external context. When it comes to new financial instruments providing non-core funds, the UN no longer has the unique relationship it enjoys vis-à-vis core contributions from member states. Like any other

grant applicant, it has to meet the particular requirements of a donor if it chooses to seek funding from it, or work with other grant recipients to improve the system.. The single-audit principle was established as a means of accounting for core contributions from member states. By citing this principle in relation to non-core funds, UNDP fails to recognize that taking on implementing functions on behalf of other external financing mechanisms amounts to a fundamental change in its role, and a diminution in its sovereign status.

## CONCLUSION

The increase in non-core funding constitutes a permanent change in the development scene. The UN continues to play a vital role in delivering programs with the use of such funds. It is a standard bearer for international treaties and principles; its universality means legitimacy; it adds value through its large network of offices and administrative capacities; and its perceived neutrality facilitates access to a range of partners in different country contexts. These advantages help explain the attraction of the UN system for delivering programs with resources from new funding sources. Hitherto, few other organizations have been able to perform this role. However, this role cannot be taken for granted, particularly with the emergence of new global organizations in the public, charitable, and for-profit sectors. Working with these funds has brought much benefit to the UN's development work but also carries risks. As these changes are here to stay, it is essential that the UNDP and other vital organizations of the UN system find ways of optimizing the use of these resources without diminishing their core purpose and values.

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1. UNDP, *Evaluation of UNDP Partnership with Global Funds and Philanthropic Foundations* (New York: UNDP, 2011). The evaluation drew on a meta-analysis of 70 UNDP country programs as well as in-depth case studies in several countries. Report available at: <http://web.undp.org/evaluation/thematic/gfpf.shtml>
2. For overviews, see Craig N. Murphy, *The United Nations Development Programme: A Better Way?* (Cambridge: Cambridge University Press, 2006), and Stephen Browne, *The UN Development Programme and System* (London: Routledge, 2011).

