



Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.: General
4 June 2003

Original: English

Annual session 2003

6 to 20 June 2003, New York

Item 5 of the provisional agenda

Funding commitments

Status of regular resources funding commitments to UNDP and its associated funds and programmes for 2003 and onward

Elements of a decision

The Executive Board may wish to request all countries that have not yet done so to provide contributions to regular resources for 2003, and to request those that have already made contributions to consider supplementing their 2003 contributions – if they are in a position to do so – so as to accelerate the rebuilding of the regular resource base of UNDP. The Executive Board may also wish to encourage States members of UNDP to announce payment schedules, and to adhere to such payment schedules thereafter.

I. Introduction

1. UNDP and its associated funds and programmes have made significant progress towards achieving the objectives outlined in the Administrator's Business Plans, 2000-2003. In 2001-2002, efforts focused on implementing the reform through all layers of the organization with a view to improving performance, strengthening partnerships with a range of intergovernmental, governmental and civil society organizations, and realigning applied policy and substantive capacity. In this final year of the Business Plans, the results can now be clearly felt. UNDP has changed and has become a more results-oriented, knowledge-driven, outward-looking and accountable organization with a significantly improved capacity to support the development efforts of programme countries.

2. These results notwithstanding, the regular (core) resource base of UNDP is not yet on a sound and sustainable footing. In 2002, the organization was able to sustain the growth initiated in 2001, when the seven-year downward trend in

contributions to regular resources was turned around. While this upward trend reflects an increased political will and support to the organization, it remains fragile, and is insufficient to meet the agreed targets for regular resources set by the Executive Board. The modest increases achieved in 2001 and 2002 cannot keep pace with the growing demands placed on UNDP and do not permit the organization to maximize the impact of its work, particularly in the least-developed countries (LDCs). Even though the preliminary projections for 2003 contributions are encouraging, mobilizing an adequate level of regular resources to take full advantage of a strong, multilateral United Nations development presence must remain a top priority.

3. The issue of restoring growth and enhanced predictability to the regular funding of the United Nations development activities has been discussed widely, including in the context of the triennial comprehensive policy review of operational activities for development (E/2001/66). It continues to be discussed in the overall context of General Assembly resolution 56/201. The Executive Board recognized, in its decision 2002/16, that the ability of UNDP to fulfil its mandate and preserve its multilateral, impartial and universal character depends on its having an adequate and secure regular funding base. Progress has been made to ensure that the profile of UNDP, and the importance of adequate funding of the United Nations development activities overall, is more consistently reviewed at the ministerial level in national, regional and international settings. The reform effort is starting to reap dividends in terms of political support for, and recognition of, the unique role that UNDP and its associated funds and programmes can play. Much remains to be done, however, to consolidate the recent upward trend in contributions and to enable the organization to carry out its mandate and build on the achievements of the reform process.

II. Background

United Nations Development Programme

4. Through its decisions 98/23, 99/1 and 99/23, reaffirmed in decision 2002/9, the Executive Board has put in place a funding system for UNDP designed to generate a transparent dialogue on regular funding and to facilitate greater volume and enhanced predictability. Through these decisions, the Board adopted an annual funding target of \$1.1 billion and stressed the urgent need to achieve annual increases until the target is met. The Board reaffirmed the need to reverse the downward trend in core resources and establish a mechanism that would place UNDP core funding on a predictable footing. The Board also recognized that over-dependence on a limited number of donors carries risks for the long-term financial sustainability of UNDP and therefore urged all countries in a position to do so to increase their core contributions.

5. In this context, UNDP was requested to develop the multi-year funding framework (MYFF), which integrates programme objectives, resources, budget and outcomes with the aim of increasing regular resources. The MYFF thus constitutes the tool required to respond to programme country needs in a flexible and coherent manner, based on the concept of collective ownership and partnership and regardless of the funding source. It acknowledges that the availability of a secure and adequate level of regular resources is crucial to both the character and operations of a multilateral organization.

United Nations Capital Development Fund

6. The United Nations Capital Development Fund (UNCDF) presented its second results-oriented annual report in 2002 (DP/2002/14). The report was received with appreciation by the Executive Board in its decision 2002/26, which recognized that the mission of UNCDF was consistent with the poverty reduction objective of the Millennium Declaration and relevant to the implementation of the Brussels Programme of Action for the Least Developed Countries endorsed by the United Nations General Assembly in its resolution 55/279 of 12 July 2001. This recognition notwithstanding, the core resources made available to UNCDF in 2002 fell again far below what would be required to meet the demands of programme countries – in particular the least developed countries – for small-scale investments and capacity-building services in the two areas of concentration of the fund: local governance and microfinance. As a consequence, in its decision 2002/26, the Executive Board recognized the excellent work performed by UNCDF and invited the international community to help achieve \$30 million per year core resources mobilization target of the Fund.

United Nations Development Fund for Women

7. The United Nations Development Fund for Women (UNIFEM) continues to focus on increasing opportunities for women, particularly those living in poverty, and supporting United Nations system capacity to promote gender equality and women's empowerment. Increased cost-sharing resources in 2002 enabled the Fund to strengthen its work in connection with peace and security, advocating for system-wide recognition of the impact of conflict on women and implementation of Security Council resolution 1325 through the publication of *Women, War and Peace* (available online at www.undp.org/unifem/resources/assessment); to move forward from piloting and capacity building in the area of HIV/AIDS to a focus on policy change and advocacy strategies; and to add to its pioneering work on gender-related budget initiatives in an ever growing number of countries. Increased synergy with other United Nations organizations was achieved through inter-agency initiatives as well as memoranda of understanding and other implementation agreements. Collaboration with UNDP; UNFPA; the Joint United Nations Programme on HIV/AIDS (UNAIDS); the International Labour Organization (ILO); the United Nations Children's Fund (UNICEF); and the Office of the United Nations High Commissioner for Refugees (UNHCR) was strengthened at the country level, including UNIFEM execution of 10 projects for UNDP and commencement of work on six new agreements. Gender mainstreaming through inter-agency and coordination mechanisms received a high priority, with UNIFEM chairing or co-chairing inter-agency thematic groups on gender in 15 countries, and continuing to strengthen networks and capacity to advocate for gender equality concerns in the common country assessment, United Nations Development Assistance Framework, poverty reduction strategy paper and Millennium Development Goals exercises.

United Nations Volunteers

8. United Nations Volunteers (UNV) continues to demonstrate the pivotal role of volunteerism and volunteer action in the promotion of economic and social development. This was duly recognized by delegations at the annual session 2002 of the UNDP Executive Board, in the report of the Secretary-General on the follow-up to the International Year of Volunteers (A/57/352) to the 57th session of the General Assembly,

and through the co-sponsorship by 142 countries of General Assembly resolution 57/106 on volunteerism. The year 2002 also marked the sixth successive year of growth of UNV, with some 5 230 volunteers – representing 158 nationalities – carrying out over 5 550 assignments in 139 countries. In financial terms, the magnitude of the programme surpassed \$100 million for the third consecutive year. Of this, some six per cent was financed from the UNV Special Voluntary Fund (SFV). Given the increasing importance countries attach to volunteer action in attaining agreed international development goals, it is fully expected that UNV will continue to grow in 2003.

III. The preparatory process

9. In March 2003, the Executive Board secretariat wrote to all States members of UNDP to outline the preparatory process for this year's annual funding meeting. In line with Executive Board decisions 98/23 and 99/1, reaffirmed in decisions 99/23, 2000/1 and 2002/9, States members were requested to communicate in writing their intended voluntary contributions to UNDP and its associated funds and programmes and were encouraged to provide multi-year pledges and fixed payment schedules. As with previous annual funding meetings, States members were encouraged to address three of the five main elements of Executive Board decision 98/23: volume of regular resources; predictability; and measures to reduce financial dependence on a limited number of donors.

10. Specifically, States members of UNDP were requested to communicate in writing to the secretariat, no later than 31 March 2003, but preferably as early as possible in the year: (a) a firm funding commitment for the current year (2003); for those in a position to do so, a firm contribution or indication of the contribution for the following year (2004); and a firm or tentative contribution for the third year (2005) if possible; and (b) a schedule of payments based on one of the following: (i) early payment in full; (ii) quarterly payments at the beginning of each quarter; or (iii) twice-yearly payments at the beginning of each half-year.

11. As of the time of preparing the present report, several States members of UNDP had communicated their firm 2003 pledges and, in some cases, their indicative pledges for 2004 and 2005, including their payment schedules. However, a number of members were not yet in a position to do so. Tables 1 and 2 (see annex) have therefore been prepared based on the information received and on best estimates of 2003 contributions made by the secretariat. Table 3 (see annex) provides information on government in-kind contributions.

12. It is important to bear in mind that all 2002 figures are provisional and subject to modification upon confirmation of actual income figures for the year.

IV. Volume

Regular resources

13. UNDP regular resources grew for the second consecutive year in 2002, following the turn-around of 2001 when they increased for the first time after seven years of steady decline. Provisional data show that contributions to regular resources for 2002 reached

about \$670 million, representing a small increase of 1.5 per cent as compared to 2001. In 2003, current projections suggest that the growth in regular contributions could be stronger. Based on the official United Nations exchange rate as of 1 May 2003, contributions are expected to total about \$746 million. This would represent an increase of more than 11 per cent over the 2002 level, and of almost 16 per cent, i.e., more than \$100 million, over 2000, first year of the MYFF.

14. It is particularly encouraging to note that nine members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) increased their contributions in local currency terms in 2002, many for the third consecutive year. Although three donors reduced their contributions in local currency terms, three others increased them by more than 10 per cent. These positive developments regarding the volume of contributions to regular resources reflect a strong political endorsement of the UNDP reform process on the part of donors.

15. The political commitment of Member States to an enhanced regular resource base for UNDP is also reflected in the fact that 33 programme countries made contributions to the regular resource base of the organization in 2002, including seven that increased or resumed contributions, often despite considerable internal constraints. In the previous year, 43 programme countries made contributions to regular resources, with 17 increasing and commencing or resuming contributions. Four of the programme countries that made contributions in 2002 paid in excess of \$1 million to the regular resources of UNDP. This is a clear indication of the high value that programme countries place on the work of UNDP.

16. There have been indications that some donors may be in a position to make additional pledges and payments to regular resources in the course of the year. This would be particularly important given that anticipated income levels for 2003 continue to be far below what would be required to put UNDP on a solid financial footing. It remains critical to ensure that donors translate their political expressions of support into increased contributions in order to allow the organization to fulfil its mandate.

Other resources

17. Recent trends have shown a significant increase in other (non-core) resource contributions to UNDP. Provisional data show that in 2002, total non-core contributions reached \$1.95 billion, an increase of \$200 million or 11.4 per cent over the level achieved in 2001, and of about 30 per cent since the beginning of the MYFF period in 2000. Donor co-financing, including third-party cost-sharing (\$232 million) and trust funds (\$703 million), amounted to some \$935 million, an increase of 37 per cent. Virtually all OECD/DAC donors are now active in co-financing UNDP programmes. Consequently, donor resources, which refer to contributions to regular resources and co-financing by OECD/DAC donors, rose to over \$1.5 billion in 2002. This compares to \$1.3 billion at the beginning of the MYFF period. Programme-country government cost-sharing – which refers to resources channelled through UNDP by governments in support of their own development programmes – amounted to just over \$1 billion in 2002. This compares to \$934 million at the beginning of the MYFF period.

18. Non-core resources represent an important complement to the regular resource base of UNDP. They make possible the conclusion of a broad range of partnerships, in particular with international and regional development banks, the European Commission and other partners. But core and non-core resources are not interchangeable. Non-core resources represent earmarked contributions to specific themes, programmes and activities, and tend to be geographically concentrated. In addition, the ability of UNDP

to mobilize such resources depends on the existence of an adequate and secure multilateral funding base that can only be ensured by an adequate, predictable influx of core resources.

United Nations Capital Development Fund

19. Core contributions to UNCDF decreased from \$24.3 million in 2001 to \$22.2 million in 2002. This was mainly due to one of the most generous contributors to the Fund reducing significantly its core contribution for burden-sharing reasons. The operational activities of UNCDF were severely affected by this cut. Indeed, core contributions to UNCDF in 2002 fell far short of its core resource mobilization target of \$30 million referred to by the Executive Board in its decision 2002/26. UNCDF had to reduce its 2002 expenditures significantly, from a planned level of \$36 million to \$25 million. The consequences on the ground have been severe for those programme countries affected. In light of the performance of UNCDF on the ground and the high demand from the LDCs for UNCDF-funded investments, it is imperative that 2003 represent a turning point for UNCDF core resources and that decision 2002/26 be implemented to ensure the sustainability of the organization. In the meantime, LDCs can no longer obtain from UNCDF – for lack of resources – the kind of support they expect from it.

United Nations Development Fund for Women

20. The role of UNIFEM as an innovator and catalyst is critical to ensure that the commitment of UNDP to gender equality and women's empowerment remains vibrant and meaningful, especially as the United Nations system mobilizes to achieve the Millennium Development Goals. In 2002, while UNIFEM core resources remained relatively stagnant at \$20.1 million, core and non-core contributions increased from \$32 million to \$35.5 million, an increase of 11.2 per cent over 2001. Progress towards the UNIFEM goal of \$40 million in annual resources by the end of 2003 has therefore been steady, and efforts to reach this goal are intensifying in 2003.

United Nations Volunteers

21. In view of the role that UNV is expected to play in promoting volunteerism, the importance of the SVF cannot be overemphasised. Although small, the SVF is the key means through which UNV can respond to its development partners. Voluntary contributions to the SVF increased to \$4.2 million in 2002. Five donor governments increased their regular contributions; one resumed its contribution and another contributed for the first time. While acknowledging this positive response, it is essential that further efforts be made if UNV is to attain its optimal level of \$10 million per annum.

V. Predictability

22. In order to enhance predictability, as outlined in Executive Board decision 98/23 and reaffirmed in its decisions 99/1, 99/23, and 2002/9, members are encouraged to provide multi-year pledges. At the time of writing this report, five countries had made

indicative pledges for 2004, all of which are OECD/DAC donors. This compares to 16 countries that, in 2000, made indicative pledges for 2001. Over the years, new multi-year pledges have been declining gradually in number and have not been able to compensate for those initial pledges that were being phased out as their end periods fell due. In all cases, for the current multi-year pledges, the amount pledged for 2004, and subject to government or parliamentary approval, is at least at the same level as that of 2003. A number of States members of UNDP that are unable to provide a multi-year pledge formally, because of national legislative and other restrictions, have nevertheless provided the organization with indicative amounts for forthcoming years.

23. In addition to calling for multi-year pledges, the Executive Board determined in its decision 98/23 that the predictability of core resources could be further enhanced if States members of UNDP announced specific payment schedules, with early payment being encouraged. In paragraph 12 (b) (iii) of its decision 98/23, the Board decided, *inter alia*, that member countries would review at the funding meeting the timing of payments made in the previous calendar year. In 2002, a total of 14 OECD/DAC donor countries provided fixed payment schedules. This compares with 17 OECD and DAC donor countries that provided payment schedules in 2001 and 15 that did so in 2000. While the number of donors providing payment schedules has declined over the years, a core group of 12 donors has systematically provided payment schedules every year. Donors that have communicated their payment schedules account for 77 per cent of total estimated income for 2002.

24. Non-adherence to payment schedules remained a concern in 2002. Of the 14 OECD/DAC donors that provided payment schedules, only 6 paid as pledged or made early payments. However, 62 per cent of estimated gross income had been received by July 2002, compared with 54 per cent in 2000. As a result, the cash-flow problems have been brought under control and the operational reserves did not have to be used in 2002. The situation remains nonetheless fragile as donors strictly adhering to pledged payment schedules or making early payments tend to change from one year to the next.

25. Table 2 (see annex) provides payment schedules for 2003 contributions communicated to the Executive Board secretariat by 15 May 2003. The secretariat notes the efforts to date on the part of 12 OECD and DAC donors to communicate payment schedules, and welcomes all efforts made to bring forward the timing of payments. At the time of writing this report, five donors had already paid their contributions in full. States members of UNDP that have not already done so are strongly encouraged to inform the secretariat of their intended payment schedules, including, where possible, early payment. All members are encouraged to adhere to such schedules in terms of currency and timing of payments. UNCDF will also seek to enhance the predictability of its resource base through multi-year funding pledges, consistent with decision 99/22 requesting additional resources and a more secure funding base for the Fund.

26. On a positive note, two OECD and DAC donors and 21 programme countries have assumed any exchange risk directly by making their pledge for 2002 in United States dollars.

VI. Reducing over-dependence on a limited number of donors

27. In its decisions 98/23 and 99/1, the Executive Board recognized that over-dependence on a limited number of donors carries risks for the long-term financial

sustainability of UNDP. Accordingly, it urged all donors and programme countries in a position to do so to increase their contributions to regular resources. In its decision 99/22, the Board similarly recognized the same issues for UNCDF and invited all countries in a position to do so to make voluntary contributions to the Fund in order to secure adequate funding.

28. With the aim of reducing over-dependence and broadening the donor base, the Administrator has made concerted efforts to reach out systematically to key decision-makers in both donor and programme country capitals, as well as regional and international forums, in order to build commitment for common action to ensure that the resource base of the organization is rebuilt to agreed target levels.

29. Many programme countries support efforts to reduce over-dependence by providing UNDP with: (a) contributions to regular resources; (b) government cash contributions towards local office costs; and (c) government in-kind contributions, e.g., the provision of rent-free office premises, in addition to providing substantial amounts of cost-sharing resources to UNDP programmes in their respective countries. The total amount of regular resource contributions from programme countries after the application of the accounting linkage to government local office cost (GLOC), after remaining stable in dollar terms for the past four years at around \$18 million, declined in 2002 to just over \$14 million, mainly due to non-payment by three programme countries that traditionally contribute \$1 million or more. Four programme countries, on the other hand, contributed \$1 million or more. Moreover, contribution to GLOC reached over \$20 million in 2002, compared with \$19 million in 2001. Improved performance in terms of GLOC payments led to a lower adjustment to regular resource contributions due to accounting linkage than in the previous years.

30. These efforts notwithstanding, it is currently estimated that the top 10 donors to UNDP will provide over 84 per cent of total 2003 regular resources. In 2000, the top 10 donors accounted for 86 per cent of total contributions to regular resources. As requested during the first annual funding meeting and implemented in 2000, table 1 (see annex) provides the 2002 contributions to regular resources of the OECD/DAC donors in per capita terms (see annex, notes on methodology). Taking this as the basis, the top contributors to UNDP for 2003 (at least \$1 per capita), in per capita terms are (in order): Norway, Denmark, Sweden, Switzerland, Netherlands, Finland, Ireland, Luxembourg and Belgium.

31. UNCDF will work closely with the Executive Board to ensure the implementation of decision 2002/26 with regard to its core resources and will continue to work towards widening its geographic resource base in the spirit of greater burden-sharing among contributors. UNCDF will also strengthen its fund-raising capacity with a view to increasing its non-core resources and reach its target of \$10 million per year.

32. UNIFEM is strengthening strategies to diversify and increase its resource base, in both regular and non-core resources. A high priority is to secure multi-year, strategic agreements with bilateral donors, generating more reliable and strategic partnerships to underpin planning, implementation and evaluation. Efforts to develop partnerships with private foundations and international non-governmental organizations have continued with some success, especially at the regional level, and ongoing efforts to strengthen the capacity of UNIFEM national committees have also generated positive results, with more than half signing on to a new Recognition Agreement to build capacity and results in communications, constituency development and resource mobilization.

33. Efforts undertaken by UNV to build a more diversified resource base continued in 2002, leading to some positive results in terms of two new OECD and DAC donors. Given the increasing recognition of the achievements of the UNV programme, UNV anticipates that it will succeed in further enlarging its resource base.

VII. Conclusions

34. The increase in regular resources to UNDP for the second consecutive year is encouraging and is a clear indication of the political support provided to the organization by its States members. However, the level of growth remains significantly below that required to put UNDP on a sound and sustainable financial footing. This has the potential to jeopardize the gains made through the reform process and seriously hampers the ability of UNDP to meet new challenges.

35. The ability of UNDP to fulfill its mandate depends on its having an adequate, secure regular funding base that guarantees its multilateral, impartial and universal character. Regular contributions constitute the bedrock of UNDP and its associated funds and programmes. Putting them back on a path of sustainable growth to meet agreed targets remains, therefore, a top priority. What is required is a high-level political commitment to define where UNDP belongs in today's international development cooperation architecture, and how to secure the strong, stable resource base that will allow the organization to fully play its role as the key global platform for the development activities of the United Nations system..

Annex

Notes on methodology

Table 1 forms the basis for the summary presentation on total commitments and/or estimates for 2003 contributions to regular resources, preceded by actual income received from contributions to regular resources in 2000 and 2001, and indicative contributions to regular resources for 2004 as a multi-year pledge if so communicated. Anticipated income for 2003 in United States dollars consists of (a) actual payment, according to the official United Nations exchange rate at the time the payment was made; and (b) the remaining balance, based on the official United Nations exchange rate as of 1 April 2002. It should be noted that data presented for 2002 and prior years represent actual income received in the respective year, rather than amounts pledged for that year.

For the OECD/DAC donors, table 1 shows the 2003 contributions to regular resources committed by (or estimated for) each individual country for the current year in (a) local currency terms and (b) United States dollar equivalent according to the United Nations official exchange rate of 1 April, 2003. In addition, as requested during the 1999 funding meeting and implemented in 2000, a column reflects per capita contributions in 2003. This is calculated using pledges and estimates for 2002 (excluding 2001 outstanding balances carried forward, where applicable), and 2000 World Bank population data.

For programme countries, table 1 reflects total pledges received for contributions to regular resources and for GLOC. All financial information is split into GLOC payments and net contributions to regular resources after application of the account linkage. Final GLOC obligations are based on actual expenditures and not on ex ante budget estimates. Initial GLOC targets are made available to programme countries through the country offices in May and June of each calendar year. In arriving at the initial targets, in-kind contributions are taken into account. These targets are subject to retroactive adjustment, so that final GLOC targets are established in accordance with actual expenditures. As reconfirmed by the Executive Board in its decision 99/23, the collection of GLOC obligations, after in-kind contributions, is achieved through two distinct mechanisms: (a) direct cash contributions and (b) the application of the accounting linkage to voluntary contributions, whereby voluntary contributions from programme countries are first accounted for against the local office costs obligations based on the final GLOC target. Local office costs obligations of net contributor countries are in principle covered through the Other resources budget line of the individual countries.

Table 2 also outlines the specific payment schedules for 2003 contributions to regular resources for those contributing countries that provided such a schedule to the secretariat on or before 31 March 2003. Fixed payment schedules permit the organization to establish a known United States dollar value to its contributions for stability and programme planning purposes through the use of financial instruments that ensure in advance a fixed United States dollar amount for the conversion of non-United States dollar contributions. The contractual nature of these financial instruments requires that settlements be effected at the contract dates, hence the critical importance of reliable

amounts and strict adherence to payment schedules. All members are encouraged to adhere to their schedule as communicated, in terms of currency and timing of payments.

Finally, table 3 shows in-kind contributions provided by programme countries for 2001 and 2002.