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**International environmental governance: implementation of decisions
of the seventh special session of the Governing Council/Global Ministerial
Environment Forum and the World Summit on Sustainable Development
on the report of the Intergovernmental Group of Ministers or Their
Representatives on International Environmental Governance**

**Strengthening of the financing of the United Nations
Environment Programme**

Note by the Executive Director

The Executive Director has the honour to provide, in the annex to the present note, information pertaining to strengthening the financing of the United Nations Environment Programme (UNEP), as referred to in document UNEP/GC.23/6.

* UNEP/GC.23/1.

Annex

Strengthening of the financing of the United Nations Environment Programme

Report by the Executive Director

I. Background

1. The United Nations Environment Programme (UNEP) needs adequate, stable and predictable financial resources for efficient delivery of its mandate and implementation of the work programme approved by the Governing Council. That statement contained in the Nairobi Declaration on the Role and Mandate of UNEP, approved by the Governing Council at its nineteenth session in 1997, remains valid today. Further consultations held in 1999–2001 resulted in the approval of the UNEP resource mobilization strategy at the twenty-first session of the Governing Council in 2001. The strategy identified clear priorities in resource mobilization and requested UNEP to focus on achieving a target of a 5–10 per cent annual increase in financial resources for successful implementation of the work programme during the mid-term period of 2002–2005. The strategy recommended a broadening of the donor base and the stimulation of higher contributions.
2. The main sources of funds used for financing UNEP activities include the following:
 - (a) Environment Fund;
 - (b) Trust funds;
 - (c) Trust fund support;
 - (d) Earmarked contributions to the Environment Fund and trust funds; and
 - (e) United Nations regular budget.
3. Voluntary payments to the Environment Fund, trust funds and earmarked contributions are made directly by countries and other donors. The regular budget of the United Nations provides support to UNEP in line with General Assembly resolution 2997 (XXVII) of 15 December 1972.
4. The financial situation of UNEP was considered further by the Governing Council/Global Ministerial Environment Forum at its seventh special session held in Cartagena, Colombia, in 2002, in the course of the discussion on international environmental governance. Governments emphasized that UNEP continued to be hampered by insufficient and unpredictable resources and reconfirmed that all States Members of the United Nations should contribute financially to UNEP. Following the discussions, the Council/Forum approved the application of an indicative scale of contributions, while retaining the principle of voluntary payments (decision SS.VII/1 of 15 February 2002).
5. Following the decision taken by the Governing Council at its seventh special session in Cartagena, the Executive Director launched a pilot phase of the voluntary indicative scale of contributions in 2003 and extended it to 2004–2005.
6. The need to raise additional earmarked contributions in support of key programme areas was another challenge identified in the resource mobilization strategy. UNEP identified the most urgent programme needs and developed a series of long-term partnership agreements securing significant additional financing of the priority programme activities. The major agreements signed in 2001–2004 included partnerships with Belgium, Ireland, the Netherlands and Norway.
7. An important element in financing UNEP core activities is the financial support coming from the United Nations regular budget. Following a recommendation in the strategy to seek an increase in appropriations for UNEP from the United Nations regular budget, UNEP and the United Nations Office at Nairobi approached United Nations Headquarters and reached an agreement on a further increase in the regular budget support to the United Nations Office at Nairobi in 2004–2005 as a new step towards improving the indirect financing of UNEP activities. In addition, the United Nations also increased direct funding of UNEP activities by financing a new P-5 post.
8. At its seventh special session, the Council/Forum also emphasized the need for additional efforts to ensure more efficient and effective use of available resources (decision SS.VII/1 of 15 February

2002). UNEP has responded to that call by organizing a series of management reviews and intensifying dialogue with Governments on ways of making more efficient use of available resources.

II. Environment Fund and the voluntary indicative scale of contributions

9. Governments remain the most important donors in the long-term process of ensuring adequate, stable and predictable financial resources for UNEP. The priority in resource mobilization is to secure timely and increased contributions from Governments to the Environment Fund. This will ensure adequate capacity on the part of UNEP to implement the Environment Fund programme of work agreed upon by Governments.

10. Since 2000, the annual contributions to the Environment Fund have been growing in terms of United States dollars at an average rate of around 9–10 per cent (see table 1, below). The number of donor countries has also been increasing and reached a total of 126 countries that pledged or paid a total of nearly \$52.7 million in 2003 (see table 1).

Table 1

Increase in pledges and number of donor countries paying to the Environment Fund

	2000	2001	2002	2003	2004*
Contributions and pledges (thousands of US dollars)	41,003	44,071	48,323	52,689	57,360
Percentage	100 per cent	107 per cent	118 per cent	128 per cent	140 per cent
Number of donor countries	75	81	91	126	126
Percentage	100 per cent	108 per cent	121 per cent	168 per cent	168 per cent

* Estimated. More complete information on contributions in 2004 will be available by the beginning of the twenty-third session of the Governing Council.

11. The improvement in the financial situation of UNEP was stimulated by Governing Council/Global Ministerial Environment Forum decision SS.VII/1 of 15 February 2002 by which the Council/Forum approved the application of the voluntary indicative scale of contributions. Following that decision, the Executive Director decided to launch a pilot phase of the voluntary indicative scale of contributions in 2003. By mid-2002, the proposed scale was developed and distributed to all Governments of the United Nations Member States, inviting them to consider the proposed scale and inform UNEP whether or not they would use it. A total of 135 countries responded to that call by UNEP and 126 of them made pledges and payments to the Environment Fund.

12. A significant widening of the donor base for voluntary contributions was the most impressive result of introducing the indicative scale of contributions. The number of donor countries increased by about 70 per cent compared to an average of 74 donors before 2000. The indicative scale of contributions initiative also stimulated higher payments, as more than 70 Governments pledged or paid higher contributions in 2003 than the year before.

13. That trend was maintained in 2004, as over 40 countries further increased their pledges and payments. The contributions to the Environment Fund for 2004 continue to arrive and the final figure will be available in mid-2005.

III. Supplementary and earmarked funds

14. Mobilization of adequate contributions to the core Environment Fund remains a top priority in fund-raising for UNEP. The supplementary funds, including trust funds, trust fund support and earmarked contributions, are equally vital to the organization as they allow UNEP to implement fully

the work programme approved by the Governing Council and to facilitate the attainment of the internationally agreed goals of the Millennium Declaration.

A. Trust funds

15. Trust funds at UNEP are earmarked by donors for specific purposes. The United Nations system has two types of trust funds, namely, technical cooperation trust funds which provide economic and social development assistance to developing countries, and general trust funds which are used to support activities other than those of an exclusively technical nature. UNEP goes further and separates its trust funds, both general and technical cooperation trust funds, into two basic categories, namely, those that directly support the UNEP programme of work and those that support multilateral environmental agreements and other special purposes, e.g. the Global Environment Facility (GEF). In 2000–2001, direct support to the programme of work from trust funds amounted to approximately \$41 million and in 2002–2003 to \$60 million. By the end of 2004, UNEP was administering 74 trust funds.

B. Trust fund support

16. In accordance with the United Nations Financial Regulations and Rules, UNEP charges a fee of up to 13 per cent for programme support on the expenditure of trust funds and earmarked contributions. Those resources are used for financial management and administrative services provided to the trust funds. The amount of trust fund support fees charged to trust funds directly supporting the UNEP programme of work increased from \$14.3 million in 2000–2001 to \$17.4 million in 2002–2003.

C. Earmarked contributions

17. Earmarked contributions are made by Governments, United Nations agencies, other organizations, non-State partners and individuals, for specific activities, services and facilities for individual projects. In 2000–2001, earmarked contributions almost doubled compared to the previous biennium, and reached \$19.6 million. In 2002–2003, growth was even higher and the total amount of earmarked contributions reached \$41.5 million. This rapid growth in funding priority programme activities was achieved mainly through the conclusion of long-term partnership agreements with selected donors.

IV. Partnership agreements

18. Over the period 2001–2004, UNEP and certain donor countries made joint efforts to strengthen collaboration and streamline the provision of additional direct support to the UNEP programme of work and implementation of the strategies for meeting the internationally agreed goals of the Millennium Declaration. That has been achieved through developing cooperation mechanisms that can best be described as partnerships. Partnerships were concluded with development cooperation institutions within the ministries of foreign affairs of Belgium, Ireland, the Netherlands and Norway, which are described in more detail in the appendix to the present report. While the partnerships have taken the form of different agreements or mechanisms covering various programme areas, they have a similar focus on:

- (a) Providing a framework for strategic policy dialogue and programme collaboration; and
- (b) Providing a mechanism for long-term and coherent support ensuring stable and predictable financing of the UNEP programme of work.

A. Advantages of partnership agreements

19. Partnership agreements have demonstrated their clear advantages and efficiency compared to traditional project-oriented approaches to fund-raising and ad hoc bilateral discussions on programme issues. Those advantages may be summarized as follows:

- (a) Increased funding opportunities: partnerships provide direct support to the UNEP programme of work approved by the Governing Council. The main focus of all partnerships is on programme activities in developing countries. Partnerships accordingly facilitate UNEP access to development funds of donor countries and enable them to make an adequate contribution towards achieving the internationally agreed goals of the Millennium Declaration by 2015;

(b) Programme planning and budgeting: partnerships provide predictable financial support to the core UNEP programme areas and activities. Partnerships have clear objectives and work plans for a period of three–four years, as set out in the appendix to the present report. That is a major contribution towards improving the strategic planning of UNEP activities as a whole and reducing the administrative burden. In addition, partnerships stimulate innovative approaches and priority setting through the introduction of regular policy dialogue and programme consultations.

V. Regular budget support

20. The United Nations regular budget contribution to UNEP has been stable for the last 30 years and equal to approximately four per cent of the total annual income of UNEP. In 2002–2003, UNEP received \$8,965,000 from the United Nations regular budget, which included a contribution of \$300,000 million from the United Nations Development Account in support of UNEP project activities.

21. Following the submission to the United Nations Headquarters of a request for an increase in the United Nations regular budget funding of UNEP in 2004–2005, the increased figure of \$10.5 million was approved for that biennium. Most of the increase was to cover the re-costing of existing activities and posts. A real increase was the provision for one new P-5 position (Chief, Evaluation and Oversight Unit) of approximately \$370,000 for the biennium.

22. Additional measures were taken to increase what might be termed “indirect” financial support from the United Nations regular budget to UNEP. This was achieved through increased regular budget financing of the United Nations Office at Nairobi. In 2004–2005, the United Nations Office at Nairobi received an additional \$1.8 million. According to the cost-sharing formula for the Office’s extra-budgetary services, agreed by all United Nations organizations based in Nairobi, the UNEP share of payment to the United Nations Office at Nairobi is about 69 per cent. After increased support from the regular budget to the United Nations Office at Nairobi, therefore, during the current biennium UNEP will save about 69 per cent of the \$1.8 million received, or approximately \$1.2 million.

23. UNEP will continue using both approaches by requesting direct and indirect financial support from the United Nations regular budget, as well as competing with other United Nations agencies for funds from the United Nations Development Account. It is expected that, in 2004–2005, UNEP will receive about \$1.2 million from this additional source linked to the United Nations regular budget.

VI. Use of available resources

24. Decision SS.VII/1 of 15 February 2002, adopted by the Governing Council/Global Ministerial Forum at its seventh special session in Cartagena, mentioned the “possibility of utilizing external management review mechanisms” as part of efforts to ensure “more efficient and effective use of available resources in order to address the overall financial situation of UNEP.” The secretariat has responded to that call by using reviews carried out through various mechanisms, including:

- (a) External experts commissioned by the UNEP Evaluation and Oversight Unit;
- (b) The Office of Internal Oversight Services, set up by the General Assembly for the specific task of evaluating the management structures and practices of the United Nations Secretariat, agencies, funds and programmes;
- (c) The Joint Inspection Unit, a long-standing statutory body set up by and reporting to the General Assembly and the governing bodies of United Nations agencies, funds and programmes; and
- (d) The external auditors of the United Nations.

25. Reviews carried out by the Office of Internal Oversight Services, the external audit and the Joint Inspection Unit are recurring. The Office of Internal Oversight Services audits the programme divisions, as well as specific UNEP functions, for example, UNEP publications, to provide management with advice on how to organize and manage cross-cutting functions better. In 2000, it conducted a review of the overall management of UNEP, which looked at the management of UNEP at a global level, e.g., in relation to the United Nations Office at Nairobi.

26. An important role is played by the UNEP Evaluation and Oversight Unit, which has been strengthened in accordance with decisions of the United Nations Secretariat and the General Assembly. The Unit conducts subprogramme, project and self-evaluations of UNEP activities, including evaluations of regional offices, to ensure accountability, learning and self-evaluation.

27. Besides evaluations, the Evaluation and Oversight Unit also conducts management studies. A study of trust funds and counterpart contributions was carried out in 2000, using an independent external evaluator. In 2004, the Unit completed a management study of the Environmental Management Group, including its functioning and location.

28. The Evaluation and Oversight Unit also prepares annual evaluation reports, which are intersessional documents of the Governing Council. The reports analyse UNEP activities based on the standard United Nations evaluation parameters of relevance, effectiveness, efficiency in the use of available resources and impact. All the recommendations of evaluations are followed up and implemented where possible.

29. In addition to the standing mechanisms, UNEP maintains dialogue with Governments at the meetings of the Committee of Permanent Representatives to UNEP, as well as through the regional and subregional offices, official visits to capitals and bilateral consultations. As a result, it has been able to ensure more efficient and effective use of available resources and carry out its mandate in accordance with the recommendations of Governments and other stakeholders.

Appendix

Partnerships under implementation

A. Norway

1. In 2001, UNEP concluded a framework agreement on development cooperation with the Government of Norway, working with the Norwegian Ministry of Foreign Affairs through the Ministry of International Development. Following this agreement, Norway has been contributing an amount of 35 million Norwegian kroner annually from 2002 to 2004. In addition, earmarked contributions are made in support of selected UNEP priority projects. Total support for the last three years (2002–2004) amounted to approximately \$15 million. Furthermore, Norway also provides support to projects outside the framework agreement.

2. The framework agreement between UNEP and Norway is focused on the following five priority areas of programme activities:

- (a) Support to Africa;
- (b) Environmental information, monitoring and assessment;
- (c) Environmental policy and law, including trade and environment;
- (d) Support to the implementation of environmental conventions;
- (e) Cooperation between UNEP and civil society.

B. Belgium

3. In 2001 UNEP, and the Belgian Government (Ministry of Foreign Affairs, Directorate-General for International Cooperation, through the Secretary of State for Development Cooperation) reached an agreement on long-term cooperation and financial support to selected UNEP priority projects and programme areas. In 2001, the Belgium Government signed a unilateral act covering the Belgian contribution to UNEP and it signed a second unilateral act in 2002 for the period 2002–2003. Total funding released by Belgium through the mechanism of the first two unilateral acts amounted to approximately \$8.5 million and was earmarked for the following UNEP priority programme areas and conventions in 2001–2003:

- (a) Environmental assessment;
- (b) Environmental law and institutions;
- (c) Water;
- (d) Chemicals;
- (e) Support to Africa and capacity-building; and
- (f) Implementations of multilateral environmental agreements.

4. In 2003, UNEP and the Belgium Government agreed to extend support to selected priority programme areas through 2004–2007. A new unilateral act on the programmes financed by Belgium was signed in 2004 and allocated an initial contribution of \$10.1 million for the period 2004–2007, which is channelled through a UNEP trust fund.

5. The third unilateral act (2004–2007) is focused on support to three major programme areas:

- (a) Strengthening the scientific base and regional capacity for integrated environmental and water assessment;
- (b) Water;
- (c) Capacity-building for the integration and institutionalization of environmental management into national poverty reduction programmes and related activities.

C. Ireland

6. In 2002, UNEP concluded an agreement with the Department of Foreign Affairs/Development Cooperation of Ireland. The Irish Department of the Environment, Heritage and Local Government was given a key role in advising on substantive environmental matters with regard to project design and implementation. The agreement led to the establishment of the Multilateral Environment Trust Fund for Africa at UNEP, with a pledge of annual support of not less than one million euros during the period 2002–2004.

7. The agreement with Ireland is focused entirely on Africa. The following four programme areas have been identified as priorities for UNEP activities in that region:

- (a) Protection of freshwater resources;
- (b) Access to environmental information for decision-making;
- (c) Protection of the coastal and marine environment; and
- (d) Conservation of biological diversity.

D. Netherlands

8. In 2002, UNEP concluded a partnership programme with the Netherlands Ministry of Foreign Affairs (Minister for Development Cooperation). The agreement covers the period from November 2002 to October 2005 and is managed financially through a trust fund established at UNEP. The total support pledged for three years is 12.3 million euros. The partnership programme with the Netherlands provides support to the following five priority programme clusters, to be carried out with priority (or preferably) in the International Development Association (IDA) eligible countries:

- (a) Assessment;
 - (b) Energy and climate;
 - (c) Environmental law;
 - (d) Urban environment; and
 - (e) Water.
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