



THE UN'S ROLE IN GRANT-FINANCED DEVELOPMENT

Much of the interest in the United Nations in recent years has focused upon the reform of its main governing institutions, such as the Security Council, and its performance in peace-keeping operations. This interest has highlighted a 'financial crisis' in the UN as a whole. Relatively little attention, however, has been paid to whether or not funding difficulties have jeopardised its role in the economic and social development of poorer countries where, according to the UNDP, around \$5 billion annually is provided by all UN funds, programmes and specialist agencies combined.

This Briefing Paper describes the evolution of the UN's work in development, assesses its contribution to global assistance efforts, and explains how its main components have been financed in the past (and how financial support is changing). The particular focus is on the Development Programme (UNDP), the World Food Programme (WFP), the Children's Fund (UNICEF), the Population Fund (UNFPA), and the High Commission for Refugees (UNHCR). Finally, the possible consequences of recent changes in the volume and nature of funding for grant-assisted development are assessed.

The UN in Development

The role of the UN in development has grown considerably in scale and complexity over fifty years. When it was established in 1945 there were four main global concerns: post-war reconstruction, full employment, international economic stability, and economic progress in the underdeveloped parts of the world. The first three concerns reflected the upheavals of the previous three decades, and it was the task of the newly established International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund to tackle the challenges of long-term economic growth and short-term financial stability respectively. Although formally within the UN system, these organisations have always retained autonomy from its central monitoring and co-ordinating bodies.

The fourth main concern – economic development – was, however, seen as a direct UN responsibility, and it gained greater prominence with the establishment of the Expanded Programme of Technical Assistance in 1950. In the 1950s the UN's development work grew as membership increased from the original 51 countries to 82, but the major transformation took place in the 1960s with the admission of over 40 mainly newly independent African states. Within the General Assembly and the governing bodies of the operational agencies where each member state has a single unweighted vote, the new members combined in the Group of 77 to shift the UN increasingly towards development. Reflecting this shift came the creation of several new agencies and programmes such as UNDP, UNCTAD, UNIDO and WFP.

Box 1 lists the principal organisations within the UN system which have development responsibilities. In addition to these, there are Regional Commissions, such as the Economic Commission for Africa (ECA), which report to the UN directly, and Regional Development Banks, such as the Asian Development Bank (ADB), which are related but autonomous. There are also a number of 'functional' Commissions, such as the Commission for Sustainable Development.

Box 1: Principal UN organisations in economic and social development

Funds and Programmes reporting to the General Assembly and/or to ECOSOC

UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WFP	World Food Programme
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme

Specialised Agencies

ILO	International Labour Organization
FAO	Food and Agriculture Organization
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
WHO	World Health Organization

Autonomous Organisations Related to the UN

World Bank Group	
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IFAD	International Fund for Agricultural Development
WTO	World Trade Organization

Source: United Nations Handbook 1996

In terms of the volume of development assistance directly from the UN, the five main programmes are UNDP, WFP, UNICEF, UNFPA and UNHCR provided almost 75% of all grants to developing countries between 1990 and 1995.

The Specialised Agencies of the UN are largely financed, like the principal programmes and funds of the UN itself, from assessed contributions determined by the General Assembly, from time to time, on the advice of the Committee on Contributions. However, countries can withdraw from the Specialised Agencies (as the UK Conservative Government did with UNIDO and UNESCO) without losing UN membership. The work of the Specialised Agencies is not confined to developing countries. In calculating that part of a member's assessed contributions which is eligible for inclusion in the OECD's figures for 'official development assistance', the OECD's Development Assistance Committee therefore applies an agreed formula (the so-called 'DAC correlates').

In the case of the UK, the total of assessed contributions to the UN as a whole in 1995 was £227m, including the various peace-keeping costs. Voluntary contributions amounted to a

further £102m. Table 1 lists the principal contributions in the financial year 1995/6 and shows which Department (or part of a Department in the case of the former Overseas Development Administration) is responsible to Parliament for expenditure (the 'lead' department). Under the Conservative Government, the UN 'Regular Budget' (assessed at £37m in 1995) was the responsibility of the Foreign and Commonwealth Office (FCO). The UK grants to the UN's development work amounted to some £110m overall in 1995/6. This figure is close to the total of the UK's assessed contributions to the various peace-keeping operations approved by the Security Council in 1995, the largest of which were UNPROFOR (£75m), UNOSOM (£13m) and UNAMIR (£17m).

Table 1: UK support for UN development work in 1995/6 (£m)

	Gross Public Expenditure	Lead Departments ^a
UNDP	26.0	ODA
UNICEF	13.6	ODA
UNHCR	16.0	ODA
WHO	15.2	Department of Health and Social Security ^b
FAO	11.7	ODA
UNPF	6.8	ODA
UNWRA	6.7	ODA
UNEP	5.0	Department of the Environment
UNIDO	4.7	ODA
WFP	3.2 ^c	ODA
ILO	1.4	Department of Education and Employment

^a Following the May 1997 election the responsibilities of the ODA were taken over by the new Department for International Development (DFID) with the status of a separate ministry.

^b Includes £5,969,000 contributed via ODA expenditure.

^c In 1996/7 estimated to rise to £27m by the inclusion of relief expenditure on the Protracted Refugee Operations and to the International Emergency Food Reserve.

Source: FCO 1997 Department Report

UN Development Assistance in Context

ODI has calculated that in 1994 (the most recent year that all figures are available for comparison), net contributions by developed countries to developing countries via the UN amounted to US\$3.8 billion. This figure consists largely of developed country grants to UNDP, UNICEF, WFP and UNFPA (US\$3 billion) and excludes contributions to the UN from developing countries largely via their membership of the Specialised Agencies. UN aid accounted for 9% of total flows, with almost half the amount provided on concessional terms by the multilateral development banks (see *ODI Briefing Paper* 1996 (4)).

Some 30% of multilateral funds, in 1994, were channelled via the UN Specialised Agencies, programmes and funds (i.e. excluding the MDBs and IFAD). In 1975, according to DAC figures, disbursements from the same UN sources amounted to 35% of total aid flows via multilateral organisations, and it is largely the growth in the European Community's programmes since then which has reduced the share to 30%.

While the UN's regular budget and its peace-keeping operations have put pressure on the loyalty of its members, and instigated calls for an organisational reform as a condition of payment of contributions, the pattern of funding for

development does not show such levels of concern. Again according to DAC data, the financial flows to the UN relative to those reaching other multilateral organisations have not changed significantly over the period 1975–95, despite the prominence accorded by some donors, such as the UK, to the important role of the World Bank in promoting policy reform in developing countries. Similarly, the figures over twenty years do not suggest any reorientation of DAC country aid away from, or towards, multilateral aid overall. Since 1975, the figure has fluctuated between 9 and 11.3%.

On the face of it, therefore, there is no funding 'crisis' for the UN in development: or at least, there is no evidence that the funding crisis is any more severe for UN aid than it is for bilateral or other multilateral aid programmes. However, this conclusion disguises changes in the *pattern* of funding which have significant implications for the UN's role in development. To understand these, it is necessary to examine the mechanism whereby the UN raises finance for development.

Flows of UN Funds

In order to give an indication of the focus of disbursements Table 2 shows real gross expenditure over a 16-year period by the main UN funds and programmes. The largest programme over the period was the UNDP with its focus on technical assistance and institution building. However, the UNDP's disbursements were exceeded on average in 1992/4 by the WFP, when food aid requirements rose.

The rise in the WFP's real disbursements between 1979/81 and 1989/91, and then again in 1992/4, was substantial. Within those figures is hidden a switch in the concentration of disbursements to emergency food aid for humanitarian assistance. In 1989, only one-third were directed this way, but this had risen to two-thirds by 1994.

Real gross expenditure by UNICEF rose by 40% between 1989/91 and 1992/4, but similarly the proportion directed to humanitarian assistance increased from 8% in 1988 to 28% in 1994. In the case of UNHCR there was a near doubling of its disbursements in the early 1990s which further illustrates the mounting demands of humanitarian relief work in the period.

The decline in grant-financed expenditures in 1995 (except for UNFPA) emphasises the influence of humanitarian crises on the budgets of the main programmes and funds. Operational expenditures on relief dropped to 55% of total WFP expenditures in 1995, and to 25% for UNICEF, a

Table 2: Grant-financed gross expenditure by main UN funds and programmes (US\$m, 1990 prices)^a

	1979/81	1989/91	1992/4	1995
WFP ^b	455	1,033	1,480	953
UNDP ^c	859	1,150	1,217	1,135
UNFPA	188	175	156	209
UNICEF	293	576	789	724
UNHCR	498	598	1,123	800

^a 3-year averages. The unit price of industrial country exports is used as the price deflator in all cases except the WFP, where the weighted average of wheat export prices has been chosen.

^b Includes disbursements for projects implemented by other parties.

^c Includes UNDP-administered funds and trust funds.

Sources: UN, ECOSOC; UN, *Monthly Digest of Statistics*; OECD, DAC Report, various years.

welcome reversal of the tide of humanitarian relief needs that had been so strong since 1990. However, their operations are still directed far more to humanitarian relief than in the 1980s.

At the same time, belief in the integration of development with relief has grown. For example, the UNDP stresses 'reconciliation, reintegration and reconstruction' in its support for UN relief agencies, and supporting 'livelihoods as well as lives'.

Financing Mechanisms

A common mechanism for raising finance used by most of the programmes and funds in economic and social development is the annual pledging conference, a means whereby the General Assembly has attempted to encourage greater co-ordination of activities. The pledging conference also allows governments to decide on a year-by-year basis which programmes they wish to finance and which funds they will continue to support. It raises 'core' resources used for programmes previously agreed within each agency.

Other methods are employed to raise additional 'non-core' resources. For example, the UNDP raises non-core resources through third-party cost-sharing (whereby it manages a specific project on behalf of and funded by a particular donor), government cost-sharing (counterpart resources provided by the recipient government) and earmarked contributions to trust funds.

The WFP raises funds biennially, and has recently consolidated its budget into four different programme categories and its funding into three windows. Core funding falls into the multilateral window, which is the most flexible account to use and is directed entirely by the WFP. The donors' ability to direct their contributions increases with the 'directed multilateral' window and the 'bilateral' window, the latter a means whereby the WFP provides logistical support to food aid operations on a full cost-recovery basis.

The distinction between core and non-core funding is an important one, given that the former allows the organisation to direct expenditures according to its own priorities and programmes, while the latter allows the donor to earmark its funds for the programmes and priorities it wishes to support.

In Table 3, developments in core funding as a proportion of total funding are given for UNDP, UNICEF and UNFPA. The table shows that there has been a move away from core towards non-core resources, particularly for UNDP, whose core funding has been fairly stagnant for the past twenty years, and also for UNICEF. Although the direction of resources by donors accounts for part of this, in the case of UNDP it also includes a significant amount of cost-sharing on the part of recipient governments. Recipient cost-sharing is used both as a way of boosting a stagnant operational budget and in order to integrate programmes more closely with recipient government operations.

The same explanation does not apply to UNICEF, where there has been a large rise in the proportion of funding that is supplementary (especially that earmarked for country programmes in specific countries) or spent on emergencies.

WFP has also experienced a trend towards directed contributions, particularly those channelled through the International Emergency Food Reserve. Governments are thus able to ensure that funds are directed at their areas of concern, and, perhaps equally important, not used to support activities to which they are less sympathetic.

Another feature of fund-raising is its dependence on contributions from a small number of donors. In 1994, the ten largest donors to UN agencies (Canada, Denmark, France, Germany, Japan, the Netherlands, Norway, Sweden, the UK and the US) contributed over 73% of all donations to the

funds and programmes, both bilaterally and, by some, through the European Union. In 1995, contributions from the ten largest DAC donors constituted 86% of total DAC contributions to UN agencies. (In 1994, DAC country contributions were about 78% of total contributions.) The Nordic countries and Canada are noteworthy for contributing a considerably larger share of the total than their proportion of assessed contributions agreed by the General Assembly. (The higher a country's oda-to-GNP ratio, the higher also its voluntary contributions to UN programmes and funds.) Conversely the other major funders contribute less than proportionately in relation to their assessment by the General Assembly.

Table 3: Core funds as a proportion of total funds for 3 UN development organisations
(%, based on 3 year averages, except 1995)

	1973-5	1982-4	1992-4	1995
UNDP ^a	97.9	86.0	62.5	50.8
UNICEF ^b	90.1	70.6	56.3	53.4
UNFPA	100.0	96.1	89.9 ^c	n/a

^a Includes UNDP-administered funds and trust funds.
^b General resources are used to represent core funding.
^c Figure for 1991/3.

Sources: UN, ECOSOC; UNICEF 1996 Annual Report; UNDP, Division of Resources Mobilization

Not only is overall funding heavily concentrated, but particular funds and programmes have become dependent on contributions by individual member states. Table 4 shows the percentage contributions to four funds by their largest donors. For all, more than 50% of resources were provided by only ten donors, with the concentration being particularly strong for WFP and UNICEF. In some organisations, one donor in particular contributes a substantial portion of funds. For example, Japan provided one-fifth of the funds raised by UNFPA in 1994, while the US provided one-third of funds to WFP in the same year. However, these proportions are over-estimates to the extent that the four members of the European Union shown in the table also contribute to WFP through the EU's aid programme.

Such a concentrated pattern of funding has significant implications:

- Stability in funding can be dependent on the continued confidence of a few member states in the activities of the UN overall and of specific organisations, and on continuity in their particular international political and economic priorities. For example, recent figures from the UNDP show that its core funding in 1996 dropped by 8%, largely due to a 56% cut in contributions from the US.
- Domestic political factors in member states can have significant but unequal impact on the ability of UN programmes and funds to finance development activities. As can be seen from the table, reductions in overall multilateral funding by, say, Japan will affect UNFPA more than the other agencies.
- Given the increasing importance of non-core funding, particular member states are better able to influence the focus of a particular organisation.
- A small number of industrialised countries can affect the direction of reforms in UN funds and programmes, although to some extent this will be tempered by the wider composition of the executive boards.

Table 4: The proportion of total contributions to the largest UN funds and programmes by selected donors (%)

	UNDP ^{a,b}	UNICEF ^{a,c}	WFP ^{d,e}	UNFPA ^d
United States	6.2	14.4	33.3	11.7
Japan	8.1	7.8	8.2	19.7
Germany	6.1	7.1	16.8	5.4
Netherlands	6.7	12.4	5.6	11.1
Sweden	4.2	12.1	4.1	2.7
U.K.	2.7	4.1	3.7	5.0
Contribution by 10 largest donors	51.6	76.4	77.6	87.7

^a 1995 figures.

^b Includes core funds and cost-sharing.

^c Includes contributions by governments and non-government institutions to National Committees.

^d 1994 figures.

^e Excludes contributions through the European Union.

Sources: UN, ECOSOC, DAC Report 1996; UNDP; UNICEF 1996 Annual Report

Is There a Funding Crisis?

It is primarily this concentration of funding that causes concerns about the future funding levels for the UN's role in development. These concerns appear to be real, although there is inevitably a delay between changes in funding and the compilation of data which reflect them. The evidence that funding is in decline is piecemeal, but increasing. Figures for the core funding of UNDP for 1996 show a drop in contributions from eight of the ten largest funders. The American Overseas Interests Act of 1995 pledged: 'to responsibly reduce the authorizations of appropriations for United States foreign assistance programs for fiscal years 1996 and 1997, and for other purposes' (*U.S. Congressional Record*). The OECD reported that oda from DAC countries in 1995 dropped by nearly 10% to its lowest level as a proportion of GNP since records began, while overall oda contributions to the UN also fell, although only marginally.

The UN programmes and funds are affected not only by the general decline in development assistance but also by the associated drive for greater effectiveness and value-for-money. UNDP has adopted new programming arrangements, with an initiative to focus more closely on poverty and reductions in management and administration. WFP has increased the number of meetings of its Executive Board to three per year. All agencies stress renewed efforts at ensuring greater co-operation and programme coherence.

New sources of finance are being considered in response to declining funds in general, but in particular to the impact on core funds. There are some more radical ideas along international taxation lines (see *ODI Briefing Paper 1996 (1)*), but there are also more incremental changes. WFP has rationalised the number of fundable programme categories and, for its Immediate Response Account, has set up both a revolving fund and a replenishable fund to improve its flexibility in responding to emergencies. UNDP is increasingly resorting to co-financing, either with the recipient government or a third party; this contributed over half its funds in 1996. UNICEF is turning more towards its National Committees and other non-governmental organisations to raise additional finance, cushioning itself to some extent against cuts by member governments.

Conclusions

The headline figure – the total level of finance available to UN funds and programmes in development – did not decline substantially in the first half of the 1990s. In that narrow sense there is not yet a funding crisis, as the term is frequently applied to the UN as a whole and particularly to peace-keeping. However, when complete figures are available for 1996 and these are combined with commitments for 1997, a bleaker picture of some sharp reductions may be indicated for the late 1990s.

Nonetheless, there is an increasingly *unsatisfactory* funding situation confronting the UN in its development work. As this Briefing Paper has shown, there is no evidence to suggest any reversal in the following trends:

- There has been a decline in core funding and a growing dependence on non-core income (such as special funds and trust funds).
- There has been a substantial, and continuing, trend towards emergency assistance at the expense of development and general programme support, resulting in a decline in income in periods when emergency demands are less severe.
- There is an unevenness in the contributions of major donors to particular funds and programmes which makes these vulnerable to domestic changes in donor priorities.

On the evidence of these trends the UN's freedom of manoeuvre in development activities is being progressively curtailed. It will be extremely difficult for its funds and programmes to assume the position of leadership that they were accorded in international efforts to promote development. What then are the options for the future?

- The extrapolation of recent trends implies that the UN will continue to be a substantial contributor to international development. However, reorganisation will be required to take account of the shift in priority to humanitarian goals.
- A more radical reconstruction of the UN funds and programmes and a concentration of resources, if these could be agreed, might enable the UN to play a more influential role in selected priority areas of development.
- Real increases in funding from conventional or novel sources appear unlikely to command wider support in present circumstances. But if reconstruction were successfully accomplished, this might elicit wider support in major funding countries for providing more resources.

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