

Prioritizing Development Financing Amidst Multiple Crises
Joint Structured Funding Dialogue
Informal Briefing of the Executive Boards
10.30 am - 12:00 pm 5 May 2022

A. What are the implications of the growing magnitude and complexity of humanitarian crises on international aid?

Speaker: Steve Utterwulghe, UNDP, Director of Public Partnerships

- In today's session, we will discuss the implications of the growing and complex humanitarian crises on international aid, what it means to the multilateral development system, how we as agencies and members of the UN development system are responding, and what we need from you, our partners, in order to continue supporting countries in need.
- The growing magnitude and complexity of multiple crises presents serious implications to sustainable development and could reverse decades of gains in poverty reduction. Even before the Ukraine war broke out, the world faced economic disruptions due to the COVID-19 pandemic, crippling supply bottlenecks, rising inflation and debt stress, climate-related disasters, and a weakening of long-term growth drivers.
- Global economic growth is projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. Beyond 2023, global growth is forecast to decline to about 3.3 percent over the medium term. War-induced commodity price increases push up global consumer price inflation by approximately 2.5 percentage points, which exacerbates existing concerns about energy and food security.
- A decline in global economic output will diminish the availability of financing for development, both from public and private sources. In a scenario of a prolonged conflict and retaliatory economic sanctions by key global actors, the projected global economic recovery would be adversely impacted. In such a low growth scenario, the amount of aid is expected to decline even in situations where aid providers maintain the same level of ODA/GNI commitment.
- The crisis could dampen investor confidence and cause capital flight. FDI, portfolio flows, and remittances suffered from COVID-19 induced disruptions over the last three years. (OECD projected private finance for low- and middle-income countries to have plunged by USD 700 billion in 2020, a drop 60% larger than the impact of the 2008 global financial crisis). With both public and private financial flows coming under pressure from lingering effects of COVID-19 and the unfolding Ukraine crisis, the abilities of countries, particularly those in vulnerable and fragile situations, to mobilize adequate development finance will be seriously constrained.
- The increased commodity and energy prices coupled with mounting inflationary and debt pressures will exacerbate development and humanitarian needs and is likely to fuel instability and unrest. This is happening on top of a projected increase in the SDG financing gap from USD 2.5 trillion to USD 4.2 trillion, fueled by a USD 1 trillion additional needs for COVID-19 spending and a USD 700 billion drop in external private resources in 2020.
- With the war in Ukraine intensifying, unless a workable solution is found, the long-term ramifications could be felt for generations to come not just in Ukraine but far beyond. Already sidelined crises (Yemen, Afghanistan, Syria, Myanmar, etc.) could become more peripheral with a collective global focus on the Ukraine crisis. If the crisis drags on, the

broader geopolitical and economic fallout poses a direct threat to global peace and derails the progress towards the 2030 Agenda.

- As reported by the Global Crisis Response Group on Food, Energy, and Finance, as many as 1.7 billion people — one-third of whom are already living in poverty — are now highly exposed to disruptions in food, energy and finance systems that are triggering increases in poverty and hunger.
- While ODA rose to an all-time high of \$179 billion in 2021, up 4.4% in real terms from 2020, 3.5% of that went to providing COVID-19 vaccines to low- and middle-income countries. Excluding ODA for donated COVID-19 vaccines, ODA was up by only 0.6%. The effects of COVID-19 — and now growing demand for support as a result of the Ukraine crisis — have many worried about how much aid remains for pursuing the SDGs, seriously threatening countries' ability to achieve them by 2030.
- As most OECD-DAC countries grapple with the Ukraine crisis, major policy shifts are being made with potentially significant implications to the volume, focus and disbursement modalities of aid in the near to medium term. It should also be noted that the recent decision by countries in Europe to increase defense budgets in response to heightened security risks could impact international aid. For instance, several countries have announced decisions to raise defense spending to or above 2% of GDP. There are already signs that ODA contributions could suffer direct cuts. Some European donors already indicated that they would have to dip into their aid budget to finance costs of receiving Ukrainian refugees.
- With over 5.5 million Ukrainians fleeing to neighboring countries, the impending refugee crisis is likely to divert a substantial amount of ODA to cover for hosting the refugees and related humanitarian needs. At the height of the migration crisis in Europe, donor countries spent 11% (USD 15.4 billion) of their ODA on in-donor refugee costs in 2016, up from 3% (USD 3.9 billion) in 2012.
- OCHA frets that the average humanitarian crisis now lasts more than nine years and the majority of humanitarian needs occur in long-lasting crises in which there has been limited progress in addressing root causes. Therefore, we must find a way to embed integrated development solutions at the centre, and not as a postscript, of the global response to the unfolding crises.
- My counterpart, Ian McFarlane, UNFPA Director of the Division of Communications and Strategic Partnerships, will provide more information on the impact of this challenging global environment on UN Funds and Programmes.

B. What do these crises mean to the multilateral development system that is already under stress?

Speaker: Ian McFarlane, UNFPA, Director of Division of Communications and Strategic Partnerships

- Building upon the overview of the impact of an increasingly complex humanitarian and development context, what do these crises mean for the multilateral system that is already under stress?
- It is clear that we are seeing increasing humanitarian needs since the onset of the COVID-19 pandemic and multiple unfolding humanitarian situations in Ukraine, Afghanistan, Yemen, Tigray etc. The Ukraine crisis added to the already under stress multilateral development system. In December 2021, before the conflict in Ukraine broke out, UN OCHA

appealed for a record \$41 billion to help 183 million of the world's most vulnerable people suffering from multiple crises, including poverty, hunger, conflict, and the impact of COVID-19.

- We are pleased to see the generosity and continued commitment of donors to the UN's humanitarian response. We saw many governments come together to support COVAX and provide other forms of support in addressing the immediate and secondary impacts of COVID. The UN and other partners have stayed and are delivering in Afghanistan and we now are also focusing attention on the situation in Ukraine.
- A key notable trend in 2021 was a substantial growth in humanitarian funding to agencies with a larger humanitarian footprint. This led to record high funding for both UNICEF and UNFPA, largely due to the growth in humanitarian funds. UNICEF saw a growth of 36% in earmarked humanitarian funding last year to reach US\$2.98 billion, representing 36% of UNICEF's total income in 2021. UNFPA reached a record high of US\$350 million in humanitarian funds, which represents over one-third of UNFPA's non-core resources. Donors have also continued their commitment to providing multi-year funding to allow agencies to plan and respond to sudden onset, as well as protracted crises. UNICEF saw a 13% growth in multi-year earmarked humanitarian funding in 2021, but this was also highly concentrated around a few key crises, leaving many forgotten crises with substantial funding gaps. Over 30% of UNFPA's humanitarian funds were multi-year in 2021, which is a nominal decline from previous years.
- While appreciative of this humanitarian focus attention and funding was concentrated around many key emergencies leaving many other crises significantly underfunded.
- Additionally, those agencies with a smaller humanitarian footprint have not experienced similar growth in income. Both UNDP and UN Women's overall funding was stagnant from 2020; UN Women saw a 1% growth, whereas UNDP saw a 1% decrease.
- This situation raises a broader issue of how we will deliver on our normative mandates and support governments in reaching the SDGs by 2030. According to the SG's 2021 SDG report, the SDGs are even further off track, partially due to COVID threatening decades of development gains.
- The overarching key challenge all of us are facing is declining core. UNICEF saw an overall US\$ 62 million reduction in core, UNDP saw a US\$ 50 million reduction, UNFPA saw a US\$ 5 million reduction, and UN Women saw a US\$ 2 million reduction in core.
- Agencies cannot solely rely on humanitarian funds to deliver in a humanitarian context. It is core that allows us to rapidly respond and scale up at the onset of a crisis.
- A key priority in previous SFD consultations and the Funding Compact is donors' commitment to providing multi-year core funding. Unfortunately, we observed a decline in multi-year core funding in 2021. For UNFPA, multi-year core agreements amounted to 49% in 2020 but only 38% in 2021. UNW value share of core from multi-year commitments declined from 54% in 2019, to 50% in 2020, and down to 35% in 2021. For UNDP, the share of core backed by multi-year agreements dropped to 37% in 2021 from 50% in 2020. For UNICEF, the share of multi-year core contributions declined from 18% in 2020, to 11% in 2021.
- All agencies intensified efforts to grow core and diversify the core donor base. This involved some growth in private sector contributions and growth to the number of donors to core. UN Women increased core donors from 83 to 87 and UNFPA increased from 96 to 101, but

unfortunately, UNDP saw core donors drop by 6, and UNICEF's core donors from member states dropped by 8.

- While UNICEF's core resources dropped 4% from 2020 to 2021, core resources from the private sector hit an all-time high, accounting for 54% of UNICEF's total core funding. Interestingly, individual givers were the largest contributors to UNICEF core funding in 2021. UNFPA also saw funding from the private sector increase to around \$11 million. We are extremely grateful that \$56 million was also committed from three foundations to help meet an unexpected deficit in UNFPA Supplies.
- This increase in earmarked funding coupled with a decline in core is impacting agencies' flexibility. As per MSs' Funding Compact commitment to provide 30% of resources to core, in 2021, for most agencies this threshold declined further and was below the target. Core resources were only 12% for UNDP, 14% for UNICEF, 28% for UNFPA and UN Women just reached 30%.
- Additionally, this lack of flexibility comes with increasingly complex donor conditions. Our agencies will be working together more closely in 2022 (with WFP also) to track and come up with collective responses to the risks associated with the growth in conditions required by various donors.
- Other forms of flexibility are also being tracked and show mixed results, such as MSs' commitment to provide more thematic funds. For those agencies with thematic funds, investment through UNDP's thematic funding windows decreased by 33 percent in 2021. The share of thematic funding remained below 2 per cent of total contributions. UNFPA saw a small increase in thematic funding from 2020 to 2021 to reach 14% of non-core funding. This was largely due to a concerted effort to compensate for large cuts made by a key donor to the UNFPA Supplies partnership. UNICEF's thematic contributions saw a significant increase of 73% from 2020 levels. However, over half of this came from the private sector, and a large contribution was received in 2021 for the 2022-2025 Strategic Plan period.
- MSs have made their commitment to providing more pooled, interagency funds, but all agencies have seen a decline in 2021 in funding coming via pooled funds. UNDP saw a 14% decrease in pooled funds. While the Afghanistan Law and Order Trust Fund remained the top MPTF implemented by UNDP, contributions in 2021 were down by \$30 million compared to 2020. UNFPA also saw a 6% decline in funding through pooled mechanisms from 2020 to 2021, which represents about 15% of non-core funding to UNFPA. UN Women also saw a decline in pooled funds by 5% in 2021 compared to 2020. Pooled funds represented 30% of total non-core in 2021. UNICEF saw an 8% decrease in pooled funds, which in 2021, represented only 9% of total non-core funds from the public sector, a drop of 2% from the previous year.
- Overall, we are all faced with an increasingly complex funding landscape with finite resources from donors, competing priorities, and increasing donor conditions which are all impacting the flexibility we require to deliver on our mandates, including normative roles, and also on our support to governments outside of a number of humanitarian contexts.
- We applaud our partners' support to COVID, but this changing landscape has forced agencies to further adapt, as will be outlined by my colleague June Kunugi, Director of the Public Partnerships Division at UNICEF.

C. How is the UN development system responding and coping? (focus funding compact principles)

Speaker: June Kunugi, UNICEF, Director, Public Partnerships Division

- Thank you, Ian. In my intervention, I will speak about how core resources are helping us respond to the challenges that have just been highlighted.
- **On the general importance of core:** As you have heard us say in the past, core resources are the backbone of our agencies' work. Core, or regular resources, are un-earmarked voluntary contributions that can be spent flexibly.
- These underpin a range of essential institutional functions and allow us to: provide support to those who need help the most; to prevent and respond to crises; and to deal with massive shocks like COVID-19 and the challenges of multiple ongoing crises, including climate change.
- Importantly, core funding is essential for each of our agencies in bringing us back on track to meet the SDGs, due to the setbacks and gains lost due to the COVID pandemic.
- Additionally, as my colleagues have already mentioned, with the increasing proportion of humanitarian funding and operating in high-risk environments, we are also assuming greater risks. For this, core funding is needed to adequately manage this risk and undertake other key functions needed to ensure sufficient due diligence, risk mitigation, accountability and reporting mechanisms, etc.
- Core funding also allows us to carry out multi-sector, integrated interventions for long-term and sustainable programming—work that is often not possible with project-based funding.
- Our research functions also benefit from core funding, allowing us to provide the evidence to underpin programming decisions and policy.
- **How each agency uses core:** In addition to these important functions, core resources allow each agency to deliver on their mandates:
- For UNFPA, core contributions help amplify the ICPD agenda and lay the foundation for lasting positive changes for the rights, health and well-being of women and young people through critical normative and advocacy work. This is essential to UNFPA's ability to influence and take advantage of opportunities arising from shifts in political climate, decision-making and agenda-setting processes. This central element of UNFPA's work cannot rely on earmarked contributions.
- Core resources are the bedrock of UN Women's gender equality and women's empowerment work worldwide and underpin a range of essential institutional functions. Core resources are especially important to UN Women's normative and coordination functions, as they rely on core funding.
- UNDP relies on its core funding to respond to the development needs of countries affected by conflicts and natural disasters. This includes the analysis of early warnings, advocacy and influencing of policies for crisis risk reduction and conflict prevention, and early intervention.
- For my own agency, UNICEF, core funding allows us to deliver before, during and after an emergency. is the bedrock on which our sustained presence in 190 countries is built, which allows us to build systems, networks and gain expert knowledge. When conflicts hit, we are already present and ready to scale up our support. During crisis, core funding allows us the

flexibility to meet immediate needs and respond to a rapidly-changing environment. After a crisis, UNICEF is still there, relying on core resources to rebuild.

- **How we are using core to response to challenges:** In the face of the mounting international challenges just described by Steve and Ian, core resources are more important than ever.
- UNFPA has three flexible funding mechanisms to support preparedness and response activities in a range of complex and rapid onset humanitarian crises in 2021:
- The Humanitarian Response Reserve is a revolving loan mechanism, funded by a one time core resource allocation. This allows UNFPA to pre-finance various rapid response activities.
- In addition to the Humanitarian Response Reserve, UNFPA's Emergency Fund, which is funded by an annual core allocation, and UNFPA's Humanitarian Thematic Fund, which is a pooled funding mechanism supported by co-financing, work in tandem to respond to needs in more than 50 country offices, while also reducing transaction and procurement costs. The Humanitarian Thematic Fund served as the primary instrument for UNFPA's response to the COVID-19 pandemic.
- For UN Women, of the \$105 million that the agency diverted in 2020 to respond to COVID-19, \$14 million of this came from core.
- For UNDP, core resources have been vital to working with UN partners to respond to the socio-economic fallout from COVID-19 and has played a critical role in leveraging additional resources. As an example, in response to the COVID-19 pandemic, UNDP Niger's reprioritization of US\$2.5 million in Core Resources allowed it to mobilize an additional US\$2.5 million for digital e-governance, community engagement and post-COVID recovery. As another example, in Lake Chad, US\$1.5million in core funding enabled UNDP to bring in US\$92 million in earmarked funding to the Lake Chad Stabilization Facility which is restoring security in communities affected by the Boko Haram insurgency in Cameroon, Chad, Niger and Nigeria.
- In 2021, US\$179 million of UNICEF's core resources were utilized to support humanitarian programmes and the provision of life-saving support in 128 countries. In addition, UNICEF's core-funded Emergency Programme Fund (or EPF) – a loan mechanism which fast-tracks resources to affected countries within 48 hours of a crisis – was used to allocate US\$50 million to 27 countries to support critical emergency responses. Core funding, via the EPF mechanism, allowed UNICEF in Afghanistan to facilitate a nationwide payment and beneficiary data system to provide humanitarian cash transfers and other cash disbursements. In Ethiopia, the core-funded EPF enabled an uninterrupted response to the urgent humanitarian needs in the northern Tigray region; and in South Sudan, it ensured uninterrupted essential health services.
- These are only a few examples among many of the positive impact of core funding. I will now turn over to Daniel, Director of the Strategic Partnerships Division at UN Women, to speak to how member states can help us.

D. What is needed from Member States?

Speaker: Daniel Seymour, UN Women, Director of Strategic Partnerships Division

- Thank colleagues for outlining implications of increasingly complex and multiple crises on the multilateral system.
- The multiple crises we face risk knocking us off course for the SDGs and Agenda 2030. But this isn't inevitable, and the UN Development System can live up to its role as the Member States' vehicle of choice for navigating our way to our shared goals if empowered to do so.
- There are three messages I would like to leave you with today:
- **Firstly, remember the dividends of development:** Too narrow a focus on immediate crises risks obscuring longstanding development priorities that are both urgent in their own right and the seeds of future crisis. For example, food, fuel, finance.
- Therefore, protect development financing, ensure a robust and responsive UNDS and avoid the false economy of reducing development finance in the interests of crisis-related funding.
- **Secondly, stay the course with the Funding Compact** because it is the right blueprint for improving the effectiveness and efficiency of the UNDS.
- Improved flexibility and predictability of funding delivers more efficient and effective results, particularly in the face of crisis. We saw this with COVID, with Afghanistan and now with Ukraine, and I will say a bit more about that momentarily. Unrestricted core funds have been key to what we have achieved and are achieving, while non-core funds channelled as thematic and interagency pooled funds have been a close second.
- The Funding Compact is also right to highlight the value of multiyear contributions, which along with early payment let us plan and manage better and do more with the funds entrusted to us.
- **Third: Align reform ambitions with financing realities.** The UN Reform Agenda and the SG's Our Common Agenda envisage a UNDS that is agile, influential, marrying the normative roles of the UN with its operational activities, a powerful convener of partners for collective results in line with SDG17.
- This vision is not compatible with restricted funding. It is an inescapable reality that however the UNDS is guided by its governing bodies from the Executive Boards to the QCPR, the way we are financed will shape the personality of what we individually and collectively are and offer. The type of resources we receive is as important as the volume of resources we receive in an environment which needs the multilateral system more than ever.
- Finally, let me share two examples of what this means in practice: As has been said many times now, COVID-19 was a test of the UN's ability to coordinate global responses. For UN funds and programmes, flexible funding was a key determinant of our ability to act quickly to support urgent needs.
- It enabled UNDP to prioritize and provide on-demand support to national health systems, including procuring health and medical supplies, managing health waste, and ensuring payments to health workers. Two years on, core funding remains critical to leverage additional resources and tackle socio-economic impact of the pandemic focusing on those left furthest behind.
- UNFPA quickly focused on continuity in providing sexual and reproductive health and gender-based violence information, supplies, and services, and personal protective equipment to protect health workers.

- UNICEF used its data systems to rapidly assess the pandemic's impact on children and leveraged its extensive presence across more than 190 countries and territories, and dual humanitarian and development mandate to play a key role in the UN's coordinated response to COVID-19.
- UN Women, harnessed flexible funding to identify, highlight and publicise, and bring together global resources and action to address the shadow pandemic of gender-based violence that emerged alongside other harmful consequences of COVID-19.
- And right now, flexible funding is underpinning our responses in Ukraine.
- UNICEF is delivering life-saving emergency supplies to support children and families in Ukraine and neighboring countries; UNDP has launched a support programme to address the socio-economic impact on Ukraine caused by the war; and UNFPA staff are on the ground in the region delivering essential medicine, supplies and services to ensure that reproductive health care is sustained. UN Women is acting on our coordination mandate, adding value to the work of our sister agencies and supporting women's organisations to deliver crucial assistance to women and girls in and outside Ukraine. All of this is made possible by our regular resources. None would be possible otherwise.
- This year's dialogue is somewhat unusual, and deliberately so given the environment we are operating in. We understand that in difficult times difficult decisions must be made. It is our intention here to explain the pros and cons of different options as they relate to what the UNDS will deliver at a time when we believe we are needed most. We hope they are useful in your considerations.
- We look forward to your comments and reflections.

###