



**Executive Board of the
United Nations Development
Programme, the United Nations
Population Fund and the United
Nations Office for Project Services**

Distr.: General
13 July 2021

Original: English

Second regular session 2021

30 August to 2 September 2021, New York

Item 4 of the provisional agenda

Structured funding dialogue

**Structured dialogue on financing the results of the UNDP Strategic
Plan, 2018-2021**

Summary

The present report is prepared in response to Executive Board decisions on the UNDP structured funding dialogue, including most recently decisions 2019/18 and 2020/14, in which the Board requested UNDP to present harmonized annual reporting on the entity-specific commitments of the funding compact, and to update the Board on its efforts to mitigate the effects of potential decreases in global official development assistance.

The report provides an update on the structured funding dialogues, an overview of resource trends and progress made to date in supporting the UNDP Strategic Plan, 2018-2021. A full review of the 2020 financial situation is presented in annex I, and progress on the entity-specific commitments of the funding compact in annex II.

In 2020, UNDP demonstrated its agility through the speed and scale of its response to the coronavirus disease (COVID-19) pandemic, improved its efficiency ratio, increased the allocation of regular resources to development programmes, balanced its budget for a fourth consecutive year, garnered a sixteenth consecutive unqualified audit opinion and remained the most transparent United Nations organization.

With the long-lasting impact of the pandemic, it is vital that Member States and funding partners continue to co-invest in an inclusive and greener recovery through supporting UNDP and its strategic offers. Contributions to regular and flexible resources remain critical for UNDP to support the poor and marginalized, eradicate poverty, respond to crises with agility, deliver integrated socioeconomic responses, test innovative approaches and fill critical resource gaps in underfunded areas of the Strategic Plan.

Elements of a decision

The Executive Board may wish to:

(a) Welcome the report on the structured dialogue on financing the results of the UNDP Strategic Plan, 2018-2021 (DP/2021/31) and its annexes, including progress made on entity-specific commitments of the Secretary-General's funding compact;

(b) Note the importance of sufficient and predictable regular resources, and urge Member States to prioritize contributing to UNDP regular resources to enable UNDP to deliver the intended results of the Strategic Plan, restore development gains that have been eroded by the COVID-19 pandemic and maintain robust internal control and accountability systems;



- (c) Recall the importance of funding predictability and urge Member States to contribute on a multi-year basis for 2021 and future years, to enable UNDP to respond to the evolving needs of programme countries with agility and reduce the risk of jeopardizing its ability to achieve the results of the Strategic Plans for 2018-2021 and 2022-2025;
- (d) Note the importance of flexible thematic funding, which is critical for UNDP to accelerate programming to meet the Sustainable Development Goals;
- (e) Encourage Member States to continue their dialogue with UNDP through structured funding dialogues, on shifting from highly-earmarked to regular and flexible resources, and adhere to the mutually reinforcing commitments of the funding compact.

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Annexes (available on the UNDP Executive Board website)

- Annex I. Detailed annual review of the financial situation, 2020
- Annex II. Progress against entity-specific commitments to the funding compact

I. Introduction: the structured funding dialogue

1. This report provides an update on financing the results of the UNDP Strategic Plan, 2018-2020, on progress made on entity-specific commitments of the funding compact and on financial highlights for 2020. UNDP has made significant progress in harmonizing its structured funding dialogue report with those of the United Nations Population Fund (UNFPA), the United Nations Children's Fund (UNICEF) and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), and improving the quality of the dialogues through joint informal sessions with Member States.

2. The structured funding dialogues provide UNDP the opportunity to have transparent and critical discussions with Member States to improve funding behaviour to enable UNDP and the United Nations development system to deliver on sustainable development. They also provide the space for UNDP to advocate and make the case for securing adequate levels of flexible and predictable funding to achieve the objectives of its Strategic Plan and the funding compact.

3. The coronavirus disease (COVID-19) pandemic tested UNDP operations and support to countries and the ability of the United Nations system to respond to the crisis. UNDP was able to transition to digital work in six days and helped 82 countries to keep functioning remotely to deliver essential public services. As the technical lead for the socioeconomic response, UNDP led the United Nations system-wide efforts to develop 144 socioeconomic impact assessments across 97 countries and 119 response plans, generating critical data for decision-making and ensuring that support reached the most vulnerable groups.

4. The generous financial support from partners in 2020 enabled UNDP to respond to countries' needs with agility and effectiveness. Regular resources played a critical role in the ability of UNDP to quickly deploy funds, procure essential life-saving services, ensure business continuity for many Governments and build digital capabilities to continue providing basic services.

5. The ongoing multidimensional global challenges – from inequalities to climate crisis – underscore the importance of development cooperation and multilateralism. It is, therefore, critical for Member States to continue to work closely with the United Nations development system, to ensure sustainable funding and political support and honour the shared commitments of the funding compact.

II. The United Nations funding compact

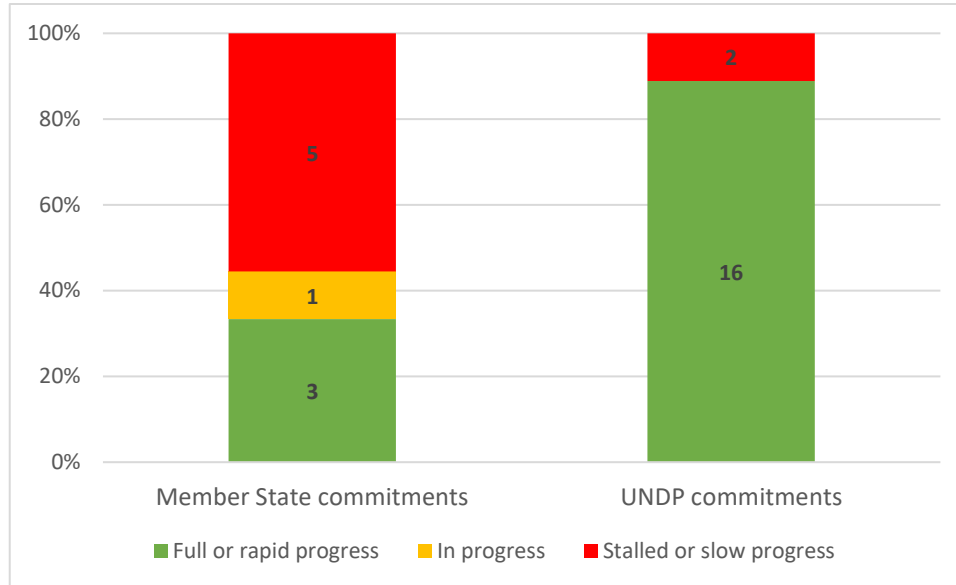
6. The funding compact is a shared commitment between Member States and the United Nations system to respond to global development challenges and achieve the Sustainable Development Goals, through adequate and flexible resources. Responding to COVID-19 has demonstrated the criticality of flexible resources. Fulfilling the funding compact commitments is critical now more than ever to ensure that the United Nations system can respond to complex development challenges, while reducing response times, transaction costs and competition for resources.

Tracking the funding compact commitments

7. The 2021 report of the Secretary-General on the implementation of General Assembly resolution 75/233 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (A/76/75) shows a mixed picture, with some progress observed on 50 per cent of Member States' commitments and 73 per cent of United Nations Sustainable Development Group commitments. For commitments tracked and reported by individual agencies, in 2020, UNDP observed progress on only 44 per cent of

Member States’ commitments and on 89 per cent of UNDP commitments (see figure 1). Annex II provides full details of the latest progress by UNDP against its entity-specific funding compact commitments.

Figure I. Progress on funding compact commitments, 2020



Aligning funding to the requirements of the Strategic Plan

8. While a key objective of the funding compact is to rebalance regular and other resources, Member States continue to channel most of their funding through earmarked resources. While UNDP welcomes the 13 per cent increase in contributions to regular resources in 2020, regular resources continue to account for only 13 per cent of total resources, far below the funding compact target of 30 per cent by 2023.

9. Increasing the number of contributors to regular resources remains a challenge. In 2020, only 49 Member States contributed to UNDP regular resources, down from 52 in 2019. Predictable funding commitments in the form of multi-year agreements allow UNDP to address medium- to long-term development outcomes, reduce fragmentation of interventions and scale up its development offers. In 2020, contributions backed by multi-year commitments accounted for 50 per cent of regular resources in line with the funding compact target.

10. The share of other resources channelled through inter-agency pooled funds to UNDP has declined from 10 per cent in 2019 to 9 per cent in 2020. This is primarily attributable to the transfer of the management function of country-based humanitarian pooled funds to the Office for the Coordination of Humanitarian Affairs (OCHA). Despite this change, UNDP has increased its engagement in and income from inter-agency pooled funds as a participating United Nations organization by 77 per cent since 2019.

11. While the 21 per cent increase in contributions to thematic funding windows is encouraging, thematic funding accounted for only 2.6 per cent of total UNDP other resources, falling short of the milestone set for 2020. UNDP will continue to prioritize engagement with partners to increase flexible and minimally earmarked thematic funding, to reach the funding compact target of 6 per cent by 2023. UNDP will also engage with partners to increase funding towards gender equality through the thematic

windows, as it is the most chronically underfunded signature solution despite being a critical enabler for all the Sustainable Development Goals.

12. The announcement by key donors of significant cuts to their official development assistance (ODA) budgets and contributions to the United Nations system is a major concern for UNDP, especially at a time when it is developing its next Strategic Plan and is called upon to contribute substantially to COVID-19 recovery plans in many countries. UNDP urges Member States to honour their funding compact commitments and reiterates its commitment to do the same.

Accelerating results on the ground

13. UNDP continues to work closely with its country offices to ensure that the funding compact commitments are contextually translated at country level. Internal reporting has shown improved results in conducting joint activities with other United Nations entities. In 2020, joint programmes accounted for 10 per cent of UNDP programme expenditure, with an additional 14 per cent dedicated to activities conducted jointly with other United Nations entities.

14. Given the lack of an agreed common definition for “joint activities” that allows coherent and comparable data across the United Nations system, the United Nations Development Coordination Office initiated system-wide efforts to agree on a definition that captures joint activities more systematically. While there is guidance on joint programming that was put in place in 2014, an inter-agency working group is conducting a complete overhaul of the way the system approaches joint programming and how it can catalyse programming and financing to advance and accelerate progress towards the Sustainable Development Goals.

15. By adopting outcomes of United Nations Sustainable Development Cooperation Frameworks verbatim in its country programme documents, to date UNDP has fully aligned 31 new country programmes with the cooperation frameworks in substance and sequence. UNDP has contributed to strengthening the capacities of United Nations country teams for developing robust theories of change for the cooperation frameworks.

16. The 2020 UNDP partnership survey showed that 80 per cent of over 3,100 partners across 140 countries regard UNDP as a valued partner. UNDP was well engaged in the development of common country analyses and cooperation frameworks, and 75 per cent of respondents agreed that UNDP advocated a common United Nations position on development issues. Reaffirming the UNDP integrator role, 71 per cent of partners perceived UNDP to value its partnerships in providing integrated solutions to development challenges.

Commitment to transparency, visibility and accountability

17. UNDP has been recognized as the most transparent United Nations organization by the Aid Transparency Index since 2016. Building on its track record, UNDP took measures to increase the visibility of its results and impact, by introducing a COVID-19 project marker to show the link between resources received and the impact on the UNDP integrated response.

18. The UNDP [funding compendium](#) recognizes all UNDP funding partners, particularly highlighting those who contribute to regular resources and thematic and pooled funds. Contributions to regular (core) resources are recognized and appreciated via the UNDP [#PartnersAtCore](#) social media handle. Donor brochures provide visibility to all sources of contributions from funding partners. The annual report on thematic funding windows and [online portal](#) recognize contributors to thematic funds. The UNDP [transparency portal](#) publishes details on over 4,000 projects, including

those contributing directly to the COVID-19 response, with links to profile pages for every donor.

19. UNDP remains committed to transparency and has had unqualified financial statements audit reports for 16 consecutive years. All external and internal audit reports are disclosed on the UNDP public website.¹

20. UNDP leverages its independent and decentralized evaluation functions to support organizational learning, accountability and transparency. In line with the funding compact commitment, all UNDP evaluation plans, reports and management responses are available in the public domain.

Increasing efficiencies

21. To ensure the best use of valuable resources entrusted to it, UNDP continues to streamline its operations, and consolidate its business practices into a robust, viable and efficient model. With intensive efforts to enhance efficiencies and reduce costs, UNDP generated an estimated \$355 million in additional resources for development in 2018-2020 compared to 2014-2017, allowing for additional investments in programmes, maintaining support to United Nations system assets, funding independent oversight and assurance activities and doubling cost-sharing contributions to the resident coordinator system. The UNDP Global Shared Services Centre improved the management of nearly 500 country office bank accounts and 64,000 vendors and processed over 26,000 transactions on behalf of country offices.

22. UNDP is working closely with the Business Innovations Strategic Results Group to advance work on the common back office and strengthen its location-independent services offer. The clustering of global shared services is consolidating 57 country office processes in finance, human resources and procurement, which will address up to 65 per cent of country-level audit issues.

23. UNDP is on track to meet its four-year management efficiency target of 7.3 per cent, meaning that over the life of the Strategic Plan, 2018-2021, programme delivery has increased and related institutional expenditures have decreased.

Harmonized approach to structured funding dialogues and the funding compact

24. Taking note of requests by their respective Executive Boards to further improve the quality of the structured funding dialogue, UNDP, UNFPA, UNICEF and UN-Women have harmonized their structured funding dialogue reporting and agreed on methodologies for better comparability and improved analysis of resource gaps.

25. UNDP has deepened its collaboration with UNFPA, UNICEF and UN-Women and carried out joint analyses and held informal dialogues with Member States on a regular basis. Joint structured funding dialogues with the Executive Boards of the four agencies took place in 2019, 2020 and 2021. In May 2021, a joint informal session was organized to reaffirm the collective commitment to multilateralism, foster common understanding about future funding prospects and identify challenges and opportunities related to current and future strategic plans.

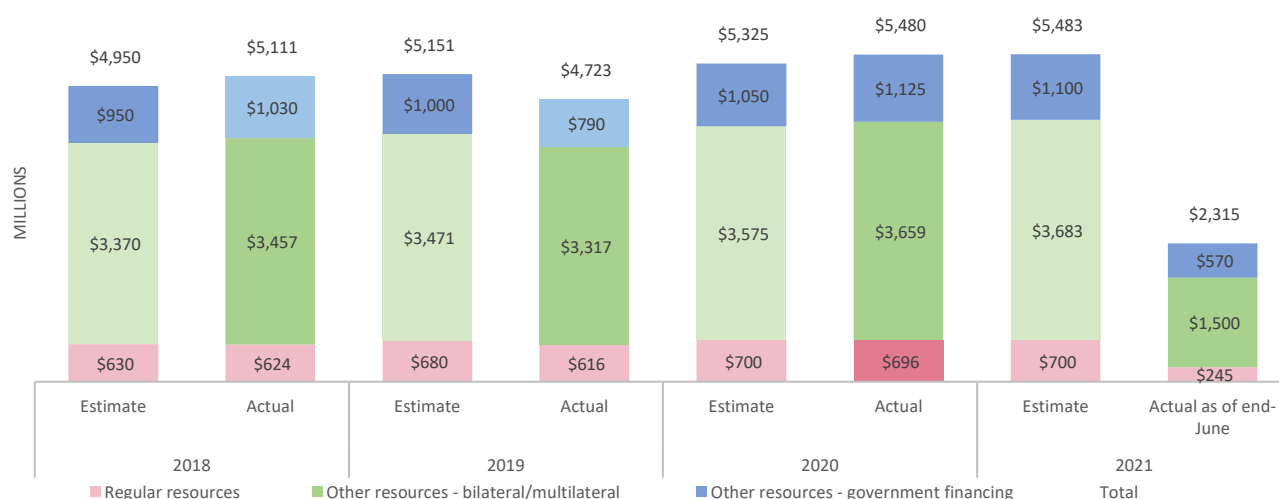
¹ <https://www.undp.org/accountability/audit/audit>

III. Resources supporting the UNDP Strategic Plan, 2018-2021

26. The integrated resources plan (DP/2017/39) set out the financial resources to deliver the Strategic Plan, 2018-2021. From 2018 to 2020, UNDP met 99 per cent of the planned contribution estimates, receiving \$15.3 billion against a target of \$15.4 billion. Against the planned contribution estimates for 2020, actual contributions reached \$5.6 billion, exceeding the planned level of \$5.3 billion.

27. Against the planned contribution estimate of \$5.5 billion for 2021, as of end-June 2021, \$2.3 billion has been received, composed of \$0.2 billion in regular resources, \$0.6 billion from government financing and \$1.5 billion from bilateral/multilateral contributions.

Figure II. Strategic Plan, 2018-2021, estimated and actual contributions
(In millions of United States dollars)



* The above figures do not include reimbursable support services (RSS).

28. The integrated resources plan and integrated budget estimates (DP/2021/29), which set out the financial resources to deliver the Strategic Plan, 2022-2025, will be presented to the Executive Board at the second regular session of 2021. Projected donor contributions of \$21.6 billion for 2022-2025 comprise \$3.0 billion in regular resources and \$18.6 billion in other resources.

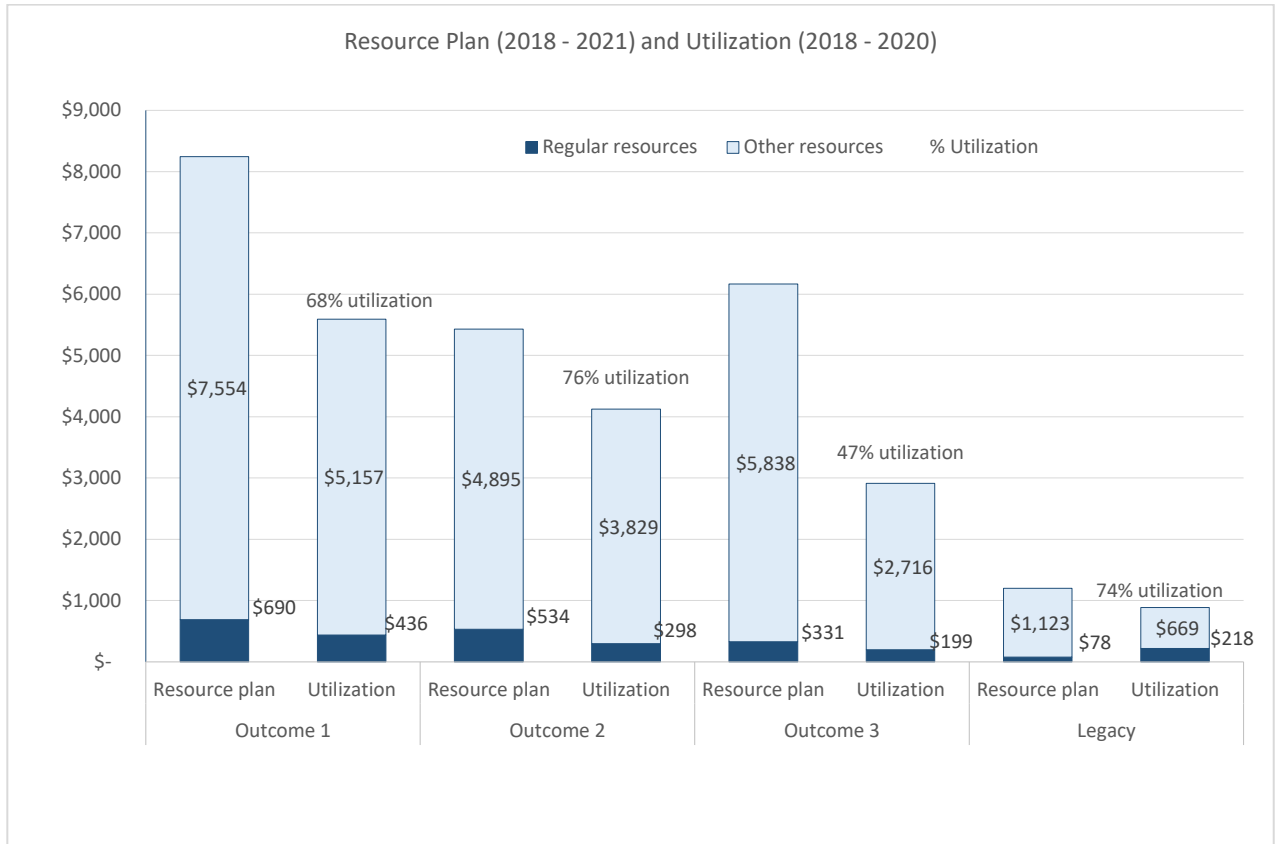
A. Results and resources by Strategic Plan outcome

29. The integrated resources plan estimated total development expenditure of \$21 billion across the three outcomes of the Strategic Plan, 2018-2021. From 2018 to 2020, development expenditure reached \$13.5 billion, or 64 per cent of the estimated total.

30. UNDP spent \$5.6 billion to advance poverty eradication in all its forms and dimensions (outcome 1), helping 35 million people access basic services they need for a dignified life; \$4.1 billion to accelerate structural transformations for sustainable development (outcome 2), enabling 16 million people to access justice; \$2.9 billion to strengthen resilience to shocks and crisis (outcome 3), supporting 34 countries on preventing violent extremism; and \$0.9 billion to support legacy interventions from the previous Strategic Plan.

31. Comparing the 2018-2020 actual expenditure of \$13.5 billion with the resource plan's estimated total of \$21 billion reveals a resource gap of \$7.5 billion as shown in figure III.

Figure III. Programme expenditure, 2018-2020 versus resource plan, 2018-2021
(In millions of United States dollars)



Criticality of regular and flexible resources

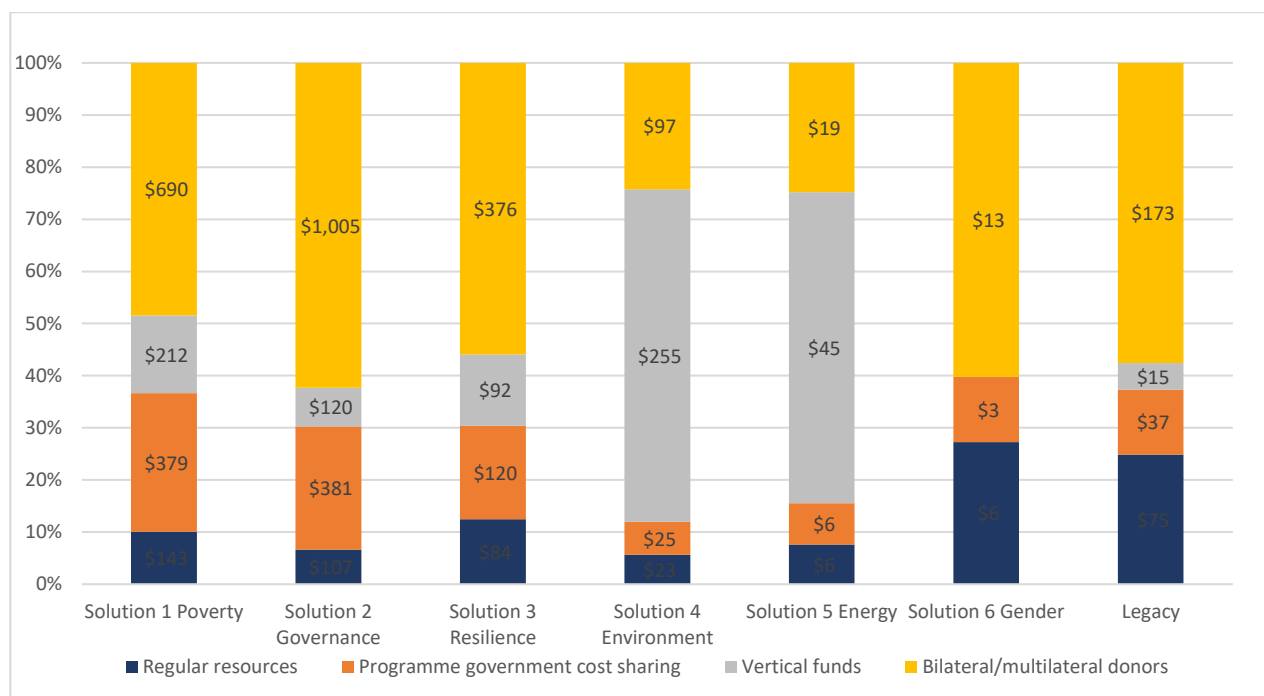
32. Regular resources underpin the operational capacity, networks and presence of UNDP at global, regional and country levels. They enable UNDP to provide on-demand and timely support to national Governments and to work with United Nations partners to maximize collective results on the ground.

33. Being the most flexible funding modality, regular resources were leveraged to enable UNDP to respond immediately to the needs of programme countries early in the pandemic and to assume the technical lead role for the United Nations socioeconomic response to COVID-19 as requested by the Secretary-General. Of the \$1 billion UNDP mobilized or reallocated for COVID-19 response, over \$100 million came from regular resources. In an uncertain funding environment, with some partners deciding to cut their contributions to regular resources, increased or new investments by other partners, including programme country partners, are critical for UNDP to meet the outcomes of its Strategic Plan.

34. Regular resources are distributed across all signature solutions and are critical in filling funding gaps in underfunded areas of the Strategic Plan.

Figure IV. Programme expenditure by signature solution and funding channel, 2020

(In millions of United States dollars)



35. Signature solution 1 on poverty benefited from the largest volume of regular resources in 2020 at \$143 million, enabling UNDP, as technical lead of the socioeconomic response, to help prepare socioeconomic analysis and response plans and step up its analysis, research and advocacy on the fight against poverty and inequality.

36. Signature solution 2 on governance had the largest share of UNDP development investment (\$1.6 billion) in 2020, with \$107 million funded from regular resources, which allowed UNDP to respond rapidly to the need for national and local e-governance systems to ensure the continuity of essential public services during the pandemic.

37. The UNDP investment of \$84 million from regular resources in signature solution 3, on resilience, helped 3 million people across 27 crisis-affected countries to get a job or improve their livelihoods.

38. Vertical funds mostly supported UNDP work in nature, climate and energy; however, given the cross-cutting nature of the signature solutions, vertical funds also contributed to UNDP work on poverty, governance and resilience programmes. Earmarked funding, however, is non-fungible and cannot be transferred to underfunded areas.

39. Signature solution 6 on gender remains underfunded and regular resources are critical in filling the funding gap.

B. The UNDP financial situation, 2020

40. Financial stability remained a top priority for UNDP in 2020. Total revenue, including voluntary contributions, was \$6.6 billion, an increase of \$1.8 billion (37 per cent) from 2019. Voluntary contributions were \$6.3 billion, an increase of \$1.8 billion (40 per cent) from 2019. This increase was driven by new multi-year agreements signed during the year with several key donors, including the Global Fund to Fight AIDS,

Tuberculosis and Malaria (\$1.0 billion increase), the European Union (\$0.4 billion increase) and the Governments of Germany and Sweden (\$0.1 billion increase each).

41. Total expenses, including programme delivery, were \$5.1 billion, an increase of \$127 million (3 per cent) from 2019. Despite the pandemic, programme expenses (i.e., delivery) were \$4.4 billion, an increase of \$66 million (2 per cent) from 2019. This is the second-highest UNDP delivery rate in six years.

42. Net revenue in 2020 increased the accumulated resource balance² by \$1.6 billion, which will be utilized to support future years' programme delivery. The 2020 institutional budget was fully balanced for a fourth consecutive year.

43. The proportion of regular (core) resources allocated to development programmes increased to 69 per cent from 66 per cent in 2019, while the proportion of regular resources used for institutional budget activities decreased from 34 per cent to 31 per cent. The allocation of regular resources to institutional activities is below the planned 33 per cent in the approved integrated budget. In 2020, 91 cents of every United States dollar spent went to programmes and services to achieve development results, unchanged from 2019.

Table 1. UNDP financial situation, 2019-2020

(In millions of United States dollars)

	2020	2019	Increase/ (decrease)	Percentage change
Revenue^a	6 618	4 829	1 789	37%
Expenses^a	5 051	4 924	127	3%
Net revenue	1 567	(95)	1 662	-
Assets	14 299	12 485	1 814	15%
Liabilities	3 029	2 790	239	9%
Net assets	11 270	9 695	1 575	16%
Composed of:				
Accumulated balance	10 968	9 409	1 559	17%
Reserves^b	302	286	16	6%
	11 270	9 695	1 575	16%

^a Revenue and expense amounts are after elimination of \$256 million in 2020 and \$256 million in 2019.

^b On calculating the operational reserves for 2020, a net transfer of \$16 million was made from accumulated surpluses. The operational reserve was established in 1979 by the Governing Council (now the Executive Board) of UNDP to ensure adequate liquidity of UNDP by funding such reserve through a defined formula that is calculated yearly.

Before elimination: Total revenue: \$6,874 million in 2020; \$5,085 million in 2019
Total expense: \$5,307 million in 2020; \$5,180 million in 2019

Annual contributions³

44. UNDP saw growth in funding in 2020, reflecting the increasing confidence of partners in the ability of UNDP to deliver results. Annual contributions increased by 16 per cent to \$5.6 billion in 2020, from \$4.8 billion in 2019.

² UNDP receives programmatic resources for multi-year programmes linked to individual programmes or projects. Hence, in any given year, there is an excess of resources over expenditure referred to as the accumulated surplus, which consists mainly of resources committed for future programme delivery.

³ In 2019, UNDP refined its accounting policy on International Public Sector Accounting Standard (IPSAS) 23 (non-exchange) revenues. Following the policy, UNDP records the full value of funding agreements when signed, even when cash has not been received for the majority of the contribution agreements. Any uncollected cash associated with funding agreements is held as a receivable. Under the UNDP financial regulations and rules, UNDP is permitted to spend only up to the amount of cash received; hence, "annual contributions" are presented to align with the past revenue recognition policies for contributions (i.e., cash received in a reporting year, plus receivables due in a reporting year) where applicable in this document.

45. Annual contributions to regular resources increased by 13 per cent to \$696 million, up from \$616 million in 2019, a positive direction that should continue with the support of Member States until the targets of the funding compact have been met.

46. Multi-year commitments amounted to \$346 million, or 50 per cent of total annual contributions to regular resources. However, the proportion of regular resources remains at 13 per cent of total UNDP resources, driven by the increasing growth of earmarked other resources.

47. Annual contributions to other resources increased by 16 per cent to \$4.9 billion from \$4.2 billion in 2019. Table 2 and figure V below illustrate the breakdown of revenue and the trend of annual contributions, respectively.

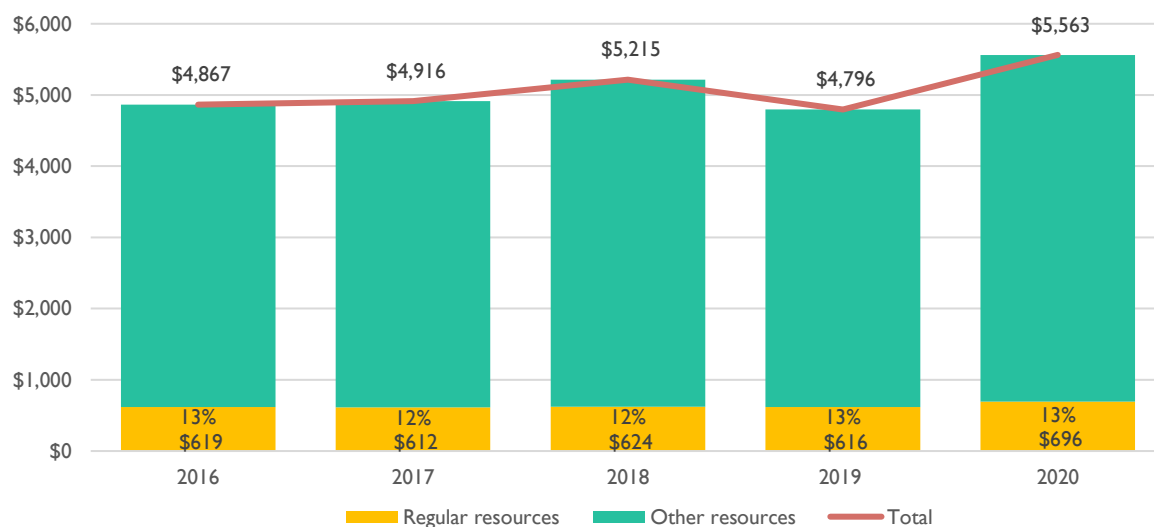
Table 2. UNDP revenue, 2020

(In millions of United States dollars)

Resources	2020	2019	Increase/ (decrease)	Percentage change
REVENUE				
Voluntary contributions				
Annual contributions	5 563	4 796	767	16%
Net movement of future due contributions	725	(304)	1 029	-
Subtotal: voluntary contributions	6 288	4 492	1 796	40%
Government contributions to local office costs	19	18	1	6%
Net contributor country contributions	7	8	(1)	(13%)
Upper-middle-income-country contributions	9	9	-	-
Contributions in kind	15	15	-	-
Transfer of funds and refunds to donors	(65)	(69)	4	6%
Voluntary contributions, net	6 273	4 473	1 800	40%
Investment revenue	118	167	(49)	(29%)
Other revenue	483	445	38	9%
Total revenue before elimination	6 874	5 085	1 789	35%
Elimination – internal UNDP cost recovery	(256)	(256)	-	-
Total revenue after elimination	6 618	4 829	1 789	37%

Figure V. Annual contributions to UNDP, 2016-2020

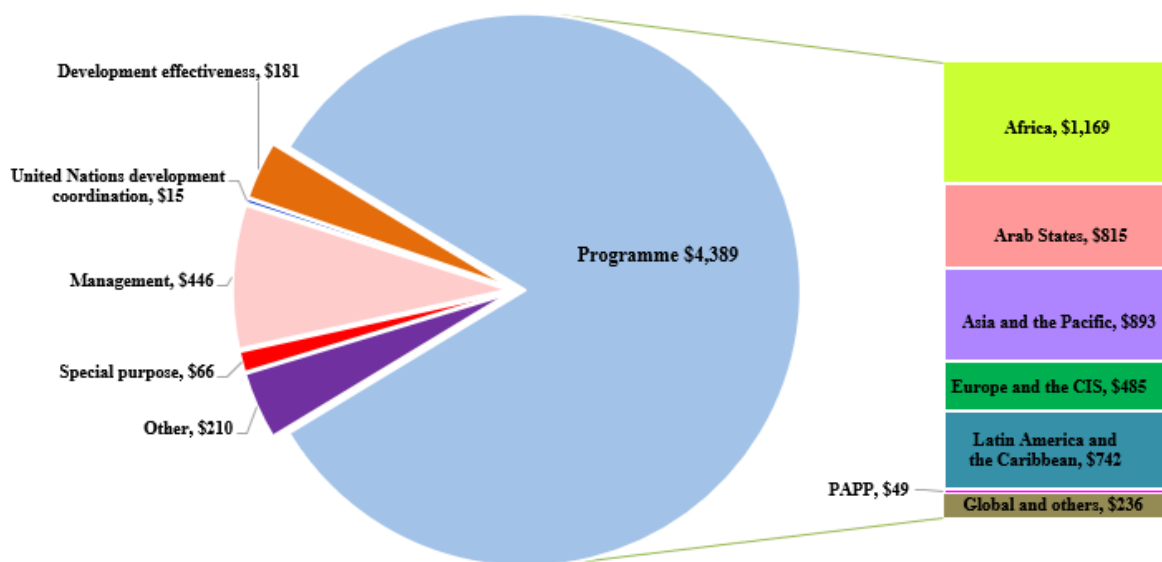
(In millions of United States dollars)



Expenses

48. Of the \$5.1 billion in total expense in 2020, \$4.4 billion or 87 per cent was spent on programme activities. Of the 10 largest UNDP programmes, seven⁴ are in fragile or crisis settings, accounting for 36 per cent of total programme delivery. Figure VI breaks down total expenditure by cost classification and region.

Figure VI. Total expenses by cost classification and programme expenses by UNDP region, 2020
(In millions of United States dollars)



CIS = Commonwealth of Independent States; PAPP = Programme of assistance to the Palestinian people

Financial position

49. Total assets registered of \$14.3 billion represent an increase of 15 per cent from 2019. UNDP assets consist mainly of investments to fund known liabilities and contributions receivable. Full details are set out in annex I, figure VI.

50. Contributions receivable of \$4.8 billion include \$4.7 billion committed by partners for future years, as set out in the payment schedule of signed agreements. This amount is programmed for delivery in future years and consists of \$193 million receivable for regular resources and \$4.5 billion for other resources.

51. Total liabilities amounted to \$3.0 billion, an increase of \$239 million, or 9 per cent over the 2019 amount of \$2.8 billion. The change is mainly attributable to payables for the Multi-Partner Trust Fund Office and employee benefits, which increased by \$157 million and \$149 million, respectively. Full details are set out in annex I, figure VII.

Accumulated surplus

52. At 31 December 2020, the accumulated balance, excluding reserves, increased by 17 per cent, to \$11.0 billion (2019: \$9.4 billion). As a result of the change in the revenue recognition policy, the accumulated surplus includes \$4.9 billion of receivables and investments of \$0.9 billion for after-service health insurance liability. Under the UNDP financial regulations and rules, the organization is not permitted to spend the \$5.8 billion stated above.

⁴ Classified based on “States of Fragility 2020” published by the Organisation for Economic Co-operation and Development.

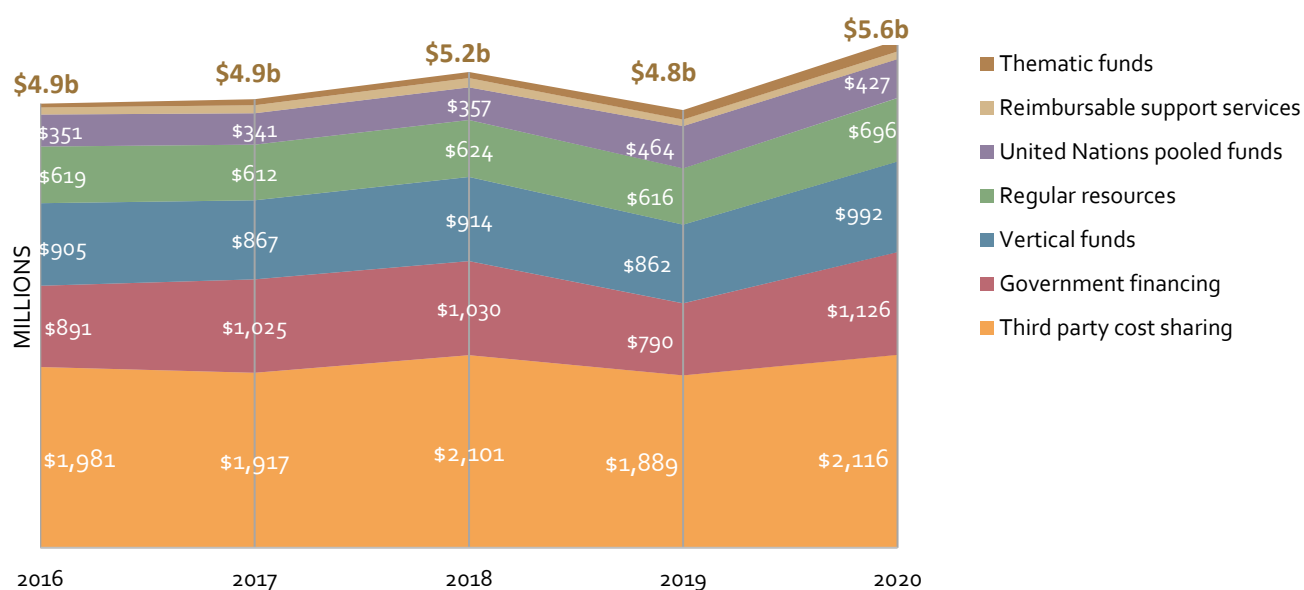
53. In line with Executive Board decision 1999/9, a prudent level of liquidity for regular resources is equivalent to three to six months' expenditures. UNDP maintained the year-end liquidity position at 7.21 months of working capital (2019: 6.61 months).

54. Annex I provides a full and detailed review of the UNDP 2020 financial situation.

IV. Resources by funding source

55. In 2020, total annual contributions and other resources contributions to UNDP increased by 16 per cent, and regular resources and government financing contributions increased by 13 and 43 per cent, respectively. While thematic funding increased by 21 per cent, its share remains at 2 per cent with earmarked resources continuing to make up 85 per cent of total contributions, and regular resources remaining at 13 per cent.

Figure VII. Contributions by funding channel, 2016-2020
(In millions of United States dollars)



A. Regular resources

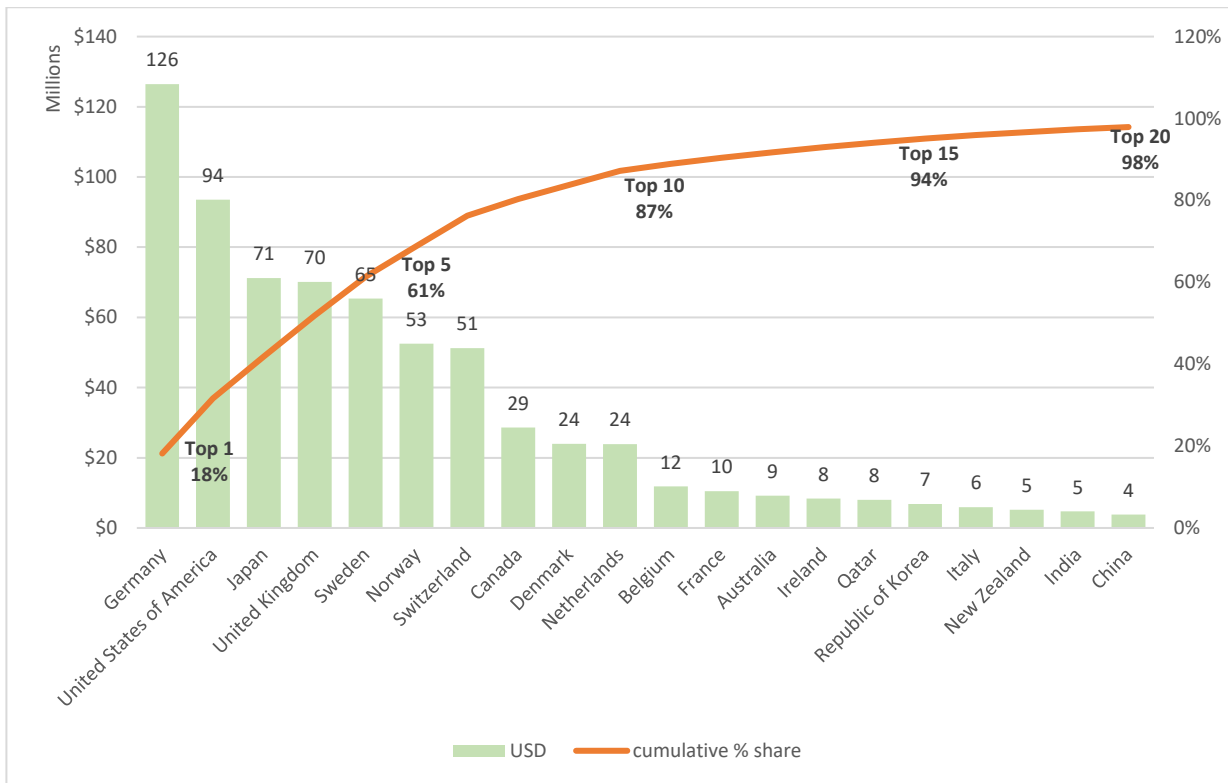
56. In 2020, UNDP received annual regular resources contributions amounting to \$696 million, a 13 per cent increase over \$616 million received in 2019, indicating continued strong support from its funding partners. UNDP appreciates the increased contributions to regular resources in 2020 from the Governments of Czech Republic, Denmark, Finland, Germany, Israel, Japan and the United States.

57. Eleven Member States (Australia, Belgium, Canada, Denmark, Netherlands, Norway, Qatar, Sweden, Switzerland, Turkey and the United Kingdom) had multi-year agreements for regular resources in place in 2020, up from six in 2018, making up 50 per cent of total regular resources contributions.

58. Regular resource contributions from countries that are not members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) remained at \$24 million in 2020, with the largest contributions coming from the Governments of Qatar (\$8 million), India (\$4.7 million), China (\$3.8 million), Saudi Arabia (\$2 million), Turkey (\$1.8 million) and the Russian Federation (\$1.1 million). UNDP encourages more non-DAC and programme countries to contribute to regular resources to broaden the funding base and move closer to meeting the funding compact commitments. The

top 20 contributors to UNDP continue to account for 98 per cent of total contributions to regular resources.

Figure VIII. Top 20 contributors to regular resources, 2020



59. Early payments facilitate effective planning and reduce the risks associated with currency fluctuations. As of end-June 2021, UNDP has received \$245 million in regular resources, 30 per cent less than the amount received as of end-May 2020. UNDP continues to encourage partners to disburse their payments early or at the start of a multi-year planning period whenever possible.

60. UNDP welcomes the multi-year commitments in effect for 2021 from the Governments of Australia, Belgium, Denmark, the Netherlands, Norway, Sweden and Turkey.

B. Thematic funds

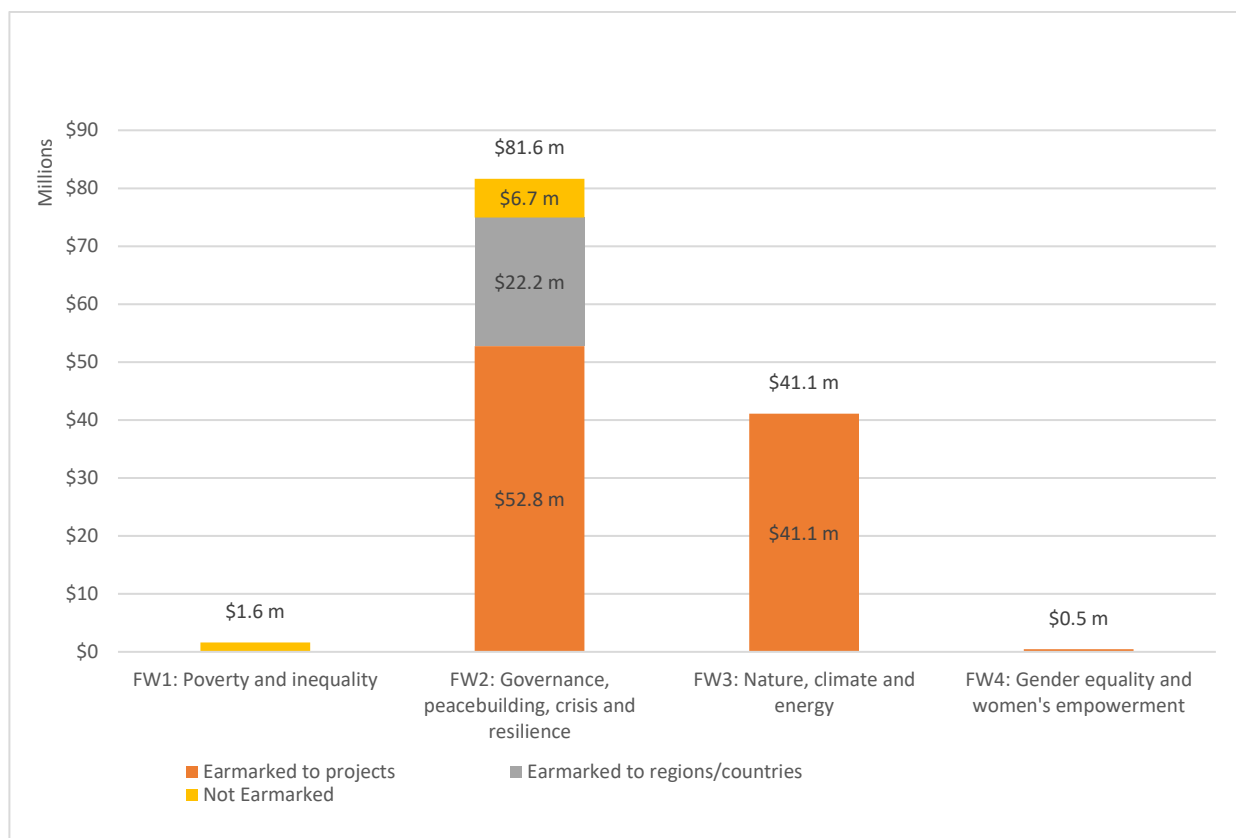
61. The UNDP funding windows are a pooled funding mechanism for partners to provide thematic support for the Sustainable Development Goals over four themes: poverty and inequality; governance, peacebuilding, crisis and resilience; nature, climate and energy; and gender. They enable partners and UNDP to jointly meet the funding compact commitments on entity-specific pooled funding, while contributing to the achievement of the Goals.

62. Thanks to the Governments of Germany, Denmark, Sweden, Netherlands, Switzerland, Luxembourg, United Kingdom and Republic of Korea,⁵ contributions to the funding windows in 2020 increased by 21 per cent to \$125 million, from \$103 million in 2019, indicating continued growing support for this funding channel. Of the total, 65 per cent was channelled to governance, peacebuilding, crisis and resilience; and 33 per cent was intended for nature, climate and energy.

⁵ Listed in order of the amount of their contributions.

63. However, 75 per cent of the total received was earmarked to global projects and 18 per cent to regions/countries, leaving only 7 per cent providing the flexibility needed to invest in priority activities. UNDP will deepen engagement with funding window contributors and Advisory Group members to encourage a shift in thematic funding from earmarked towards more flexible funding as called for by the funding compact.

Figure IX. Contributions to funding windows, 2020
(In millions of United States dollars)



C. United Nations pooled funds

64. In 2020, UNDP, as a participating United Nations organization, increased its engagement in and income from inter-agency pooled funds by 77 per cent. In previous years, a significant portion of pooled funding came through UNDP as a management agent for humanitarian funds. This function shifted to OCHA in 2020, resulting in a dip in the amount of pooled funding received in 2020 to \$438 million, from \$477 million in 2019. The Afghanistan Law and Order Trust Fund, Peacebuilding Fund and Spotlight Initiative were the top multi-partner trust funds implemented by UNDP in 2020.

65. UNDP expects to see a continuing increase in pooled funds in 2021 and beyond, given the positive policy environment for pooled funding and demand for multi-stakeholder partnerships, policy areas in which UNDP plays a leadership role such as in the socioeconomic response to COVID-19, and its long-standing expertise on pooled funds as host to the Multi-Partner Trust Fund Office.

D. Government financing

66. Government financing remains vital to UNDP efforts to support national priorities. It is a voluntary funding mechanism by which programme country Governments entrust their

domestic resources, or loans extended by international financial institution (IFIs), to UNDP to assist in the implementation of development initiatives in their respective countries.

67. In 2020, programme country Governments contributed \$1.1 billion in government financing, a 43 per cent increase from 2019, surpassing the \$1 billion mark for the third time in the last four years. This means that over one fifth of the UNDP resource base was invested by programme countries, led by the top 10 contributors, the Governments of Dominican Republic, Argentina, Ukraine, Egypt, Honduras, Colombia, Cameroon, Saudi Arabia, Brazil and Dominica. Programme countries in the Latin America and Caribbean region contributed 62 per cent of total government financing, followed by the Arab States region (13 per cent), Europe and the Commonwealth of Independent States (CIS) (12 per cent), Africa (8 per cent) and Asia and the Pacific (5 per cent).

68. Within the framework of local cost-sharing agreements, government contributions financed by IFI loans in 2020 amounted to \$105 million, a 226 per cent increase from \$32 million in 2019, including \$41 million from the World Bank and \$23 million from the Central American Bank for Economic Integration.

E. Vertical funds

69. UNDP continues to partner with vertical funds to design and implement programmes addressing complex nature, climate, energy and health issues. UNDP leveraged its partnership with the Global Fund to Fight AIDS, Tuberculosis and Malaria to deliver \$200 million in protective and medical equipment and diagnostics to 107 countries, and trained nearly 280,000 health-care workers in rapid pandemic response. In 2020, UNDP signed 21 new grants totalling \$940 million with the Global Fund as principal recipient.

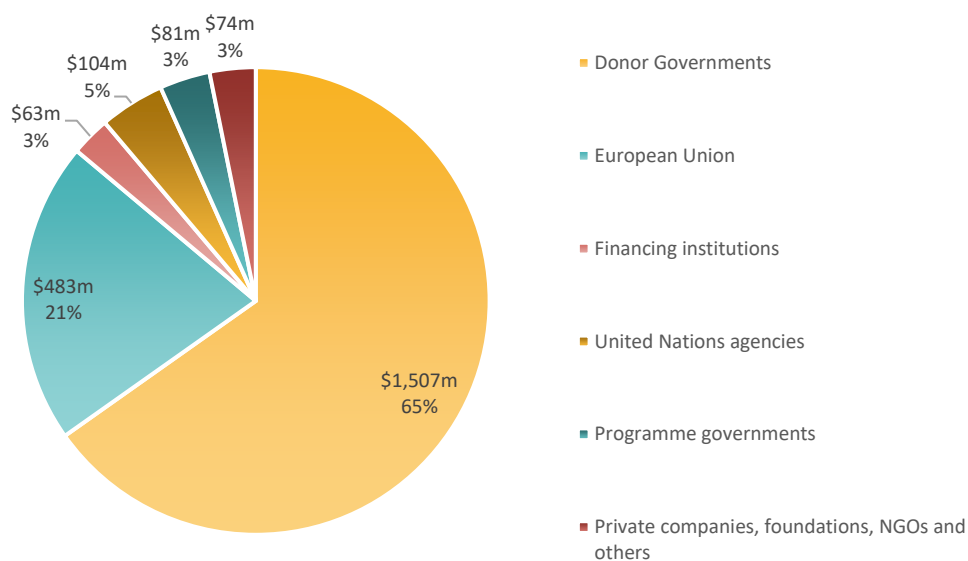
70. In 2020, UNDP received \$988 million from vertical funds, a 15 per cent increase from \$859 million in 2019, with the largest contributions coming from the Global Environment Facility (\$370 million), the Global Fund (\$323 million) and the Green Climate Fund (\$236 million). With climate change emerging as a global emergency, UNDP is in a strong position to continue working with vertical funds to support countries in achieving their climate-related Sustainable Development Goal targets through the UNDP Climate Promise.

71. To maintain its high performance, UNDP continues to strengthen its internal oversight control systems and segregation of functions; refine its policies and quality assurance procedures; and build a risk management system that encourages innovation while proactively managing risks.

F. Third-party cost sharing

72. Third-party cost sharing continues to make up the largest share of earmarked resources to UNDP. In 2020, UNDP received \$2.3 billion in third-party cost sharing, a 13 per cent increase from 2019, making up 42 per cent of total contributions.

Figure X. Third-party cost sharing by partner type, 2020
(In millions of United States dollars)



73. As a testament to the strength of their partnership, in 2020 the European Union was the second largest contributor to UNDP, contributing a total of \$483 million, including \$154 million in new funding for COVID-19 response. The largest recipients of these funds in 2020 were countries in Europe and CIS, the Arab States region and Africa. In 2020, UNDP also signed a record-high 72 new agreements with the European Union worth 641million euros.

74. The majority of new funding for the UNDP COVID response was received as third-party cost sharing. The Government of Japan was one of the first and largest donors to support the UNDP COVID-19 response, contributing \$64 million benefiting 20 country offices and the UNDP Digital Strategy.

75. UNDP continues to strengthen its collaboration with IFIs. In 2020, IFIs contributed \$294 million to UNDP, a 1 per cent increase from 2019, composed of \$63 million in direct grants; \$126 million from KfW, the German development bank, reflected in the contributions of the German Government to UNDP; and \$105 million in indirect contributions to support government loan implementation. UNDP worked closely with IFIs in the preparation of socioeconomic impact assessments and response plans.

G. Transforming finance for the Sustainable Development Goals

76. UNDP recognizes that financing the Sustainable Development Goals requires significant transformations within the global financial system and changes in the ways public and private actors interact across economic, social and environmental spheres. Through its SDG Finance Sector Hub, UNDP is scaling up its ambition, through new and innovative financing mechanisms, to support accelerated implementation of the Goals at the country level. Sustainable and expanded Sustainable Development Goal financing is critical in this regard.

77. The UNDP Sustainable Development Goal financing offer is underpinned by thought leadership in several key areas that promote a systemic change to countries' public and private finances. The integrated national financing frameworks are one such service line designed to help policymakers map the landscape for financing sustainable development, and lay out a strategy to make the most effective use of investments to achieve national development priorities. Seventy countries have already committed to implementing their respective financing frameworks.

78. UNDP contributed to influence investments towards the Sustainable Development Goals. For instance, the New Development Bank BRICS in China is the first issuer to use the UNDP SDG Impact Standards and the Sustainable Development Goal finance taxonomy in the debt capital market, and successfully priced a new three-year, fixed-rate 5 billion yuan bond in the China Interbank Bond Market.⁶ In 2020, Tax Inspectors Without Borders – a joint initiative of the OECD and UNDP – passed a milestone helping developing countries raise more than \$1 billion in additional tax revenues. The SDG Investor Maps, a tool developed by UNDP, identified over 200 investment opportunities in 15 countries. UNDP will accelerate advancing the Sustainable Development Goal financing agenda by deepening its partnership with United Nations agencies, IFIs, the private sector and other development partners.

V. Strategic considerations

The impact of COVID-19 on development finance

79. As a result of the COVID-19 pandemic, the world has experienced the first reversal in human development since 1990. The pandemic has exacerbated inequalities, particularly affecting the most vulnerable income and demographic groups. UNDP estimates that an additional 207 million people could be pushed into extreme poverty by 2030 due to the severe long-term impact of the pandemic.⁷

80. While the international community responded by injecting necessary stimulus into their economies, only 1 per cent of total global spending has been in developing countries. Despite the 3.5 per cent increase in ODA from 2019, reaching an all-time high of \$161 billion,⁸ the future of development financing is increasingly uncertain.

81. Donors' financial contributions are increasingly on a bilateral basis and provided in the form of loans; between 2010 and 2019, loans increased from 20 to 26 per cent of total ODA while grants fell from 72 to 61 per cent. Bilateral lending from DAC donors grew by 50 per cent during the same period, peaking at \$19.5 billion in 2019.⁹ Between 2010 and 2019, the growth in funding for humanitarian assistance outpaced the growth in funding for development assistance.¹⁰

82. The economic slowdown and mounting debt stress in emerging and developing markets have also impacted other sources of financing for development, i.e., domestic resource mobilization, foreign direct investment, remittances, etc. This could significantly diminish the availability of funding through government financing, which represents a significant source of funding for UNDP.

Rethinking development cooperation after COVID-19

83. The pandemic has exposed the fragile state of global cooperation, with Governments failing to coordinate an effective international alliance for a global plan against the virus. However, it also offered an opportunity for the international community to reaffirm its commitment to and recognize the importance of multilateralism. To this end, UNDP is working on fundamental shifts to uplift its relevance and leadership, amidst a crowded development space, through innovative financing and partnership strategies.

84. Soon after the pandemic hit, UNDP reached out to key funding partners to negotiate the repurposing and reprogramming of their funds and arrange for early payment of contributions to stabilize the situation. Drawing from prior experience responding to Ebola, HIV and severe acute respiratory syndrome epidemics with the use of flexible resources, UNDP was able to jump-start its COVID-19 response on the ground and catalyse additional resources.

⁶ https://www.ndb.int/press_release/ndb-issues-rmb-5-billion-sustainable-development-goals-bond/

⁷ <https://sdgintegration.undp.org/accelerating-development-progressduring-covid-19>

^{8,9,10} <https://www.oecd.org/development/covid-19-spending-helped-to-lift-foreign-aid-to-an-all-time-high-in-2020-but-more-effort-needed.htm>

85. The UNDP COVID-19 response demonstrated the critical role of adequate regular resources in quickly deploying life-saving goods and services to countries in need, and supporting Governments to develop socioeconomic assessments and response plans. In line with the funding compact, UNDP, together with other United Nations agencies, will continue to make a strong case for regular resources, showcase the indispensable role they play in responding to crisis situations and enhance the visibility of partners that provide regular and flexible resources. Considering the uncertain and volatile global economic outlook and the prevailing difficult funding reality, the need to explore a new and sustainable funding mechanism for the United Nations development system cannot be overemphasized.

Balancing ambition and realism for the Strategic Plan, 2022-2025

86. UNDP is carefully assessing the impact of COVID-19 on its current and future funding, particularly in light of cuts announced by major donors. While the 2020 funding picture was better than expected, the prospect for 2021 and beyond remains uncertain. The Strategic Plan, 2022-2025 and the integrated resources plan and integrated budget will be influenced by an uncertain funding landscape. Against this backdrop, UNDP will adopt an ambitious yet prudent, intelligence-based and risk-informed budget scenario, while pursuing further efficiency and impact-maximizing measures. Building on the advances in United Nations reform, UNDP will collaborate with United Nations agencies to advance joint approaches and generate more resources and economies of scale.

87. In order to attract better quality funding and double contributions channelled through thematic and pooled funding, UNDP will work with partners to begin shifting from a project to a portfolio-driven approach to programme implementation and resource mobilization. UNDP will elevate its thought leadership and advocacy and co-create “strategic thematic portfolios” with partners who share common priorities, to attract flexible thematic contributions.

88. Growing interest from the private sector, significant growth in Sustainable Development Goal-oriented financial investments and the expansion of digital platforms and innovative financial mechanisms present new partnership opportunities for UNDP. Accelerated by the COVID-19 crisis, digital and technological advancements are reshaping the way people and Governments interact in virtual platforms. Notwithstanding the need to further strengthen transparency and accountability in the digital space, digitalization can bring together individuals, businesses and Governments to enable system-level change. Accordingly, UNDP has identified development financing and digitalization as key enablers of transformative change, and will invest in key capabilities and systems in these areas to scale up development impact.

VI. Working with United Nations system assets

89. The following section details specific areas of UNDP work with the broader United Nations system entities as supported through the UNDP operational policy and systems infrastructure at country, regional and global levels.

90. UNDP expenses in relation to these areas are embedded in multiple areas of the UNDP financial statement, including in the following cost classification categories: development coordination activities (\$15 million); special-purpose activities (\$66 million); and other activities (\$210 million). UNDP also supports financial activities of other agencies, including UNDP common services to and service clearing accounts with United Nations entities. Details are set out in annex I.

United Nations Volunteers

91. In 2020, the total financial volume amounted to \$237.4 million, a \$16.1 million increase from \$221.3 million in 2019.

92. In 2020, Member States contributed regular resources to the United Nations Volunteers programme (UNV) through UNDP amounting to \$8.6 million, which is consistent with the annual average in the UNV Strategic Framework, 2018-2021.

93. UNV continues to rely on the Special Voluntary Fund for volunteerism research and promotion, rapid response and innovative solutions. In 2020, contributions to the fund came from 11 donor Governments: Bangladesh, China, the Czech Republic, France, Germany, India, Ireland, Sweden, Switzerland, Thailand and Turkey. The total amount of contributions was \$6.2 million, inclusive of interest. Over 90 per cent came from the top four donors – Germany, Sweden, Switzerland and France – suggesting the need to further diversify the Special Voluntary Fund donor base.

94. Contributions to the UNV full funding programme amounted to \$19.9 million in 2020.

United Nations Office for South-South Cooperation

95. The United Nations Office for South-South Cooperation implemented its strategic framework through an allocation of \$2.3 million (2019: \$2.3 million) from the UNDP institutional budget and \$3.7 million (2019: \$3.4 million) in regular resources.

96. In addition, the office received \$30.9 million in contributions from partners through its four trust funds: \$22.4 million from the India-UN Development Partnership Fund; \$4.2 million from the United Nations Fund for South-South Cooperation; \$4 million from the India, Brazil and South Africa Facility for Poverty and Hunger Alleviation; and \$0.3 million from the Pérez-Guerrero Trust Fund for South-South Cooperation.

97. Despite the challenging global financial situation caused by the pandemic, other resources contributions to the office were at a record high, driven partly by efforts by the United Nations Fund for South-South Cooperation and the India-UN Development Partnership Fund to respond to requests from partner countries for COVID-19 response support.

UNDP administrative agent function

98. UNDP supports joint programming through its role in fund design and administration of joint programmes and multi-partner trust funds on behalf of the United Nations system, and through its programme implementation role as a participating United Nations organization. In 2020, contributions received for multi-partner trust funds on behalf of the system increased by 21 per cent, to \$1.5 billion (2019: \$1.3 billion). This growth can be attributed to the positive policy environment for United Nations pooled funding and the strong performance of a broad range of global and country-level funds, including the Peacebuilding Fund, the Law and Order Trust Fund for Afghanistan, the Multi-Partner Trust Fund for Somalia, the Spotlight Initiative, the Joint SDG Fund, the COVID 19 Response and Recovery Fund, the Central African Forest Initiative and the ongoing humanitarian portfolio. The net value of funds transferred by the Multi-Partner Trust Fund Office in its role as administrative agent for all participating organizations was \$1.4 billion (2019: \$1.2 billion).

Support to United Nations organizations

99. UNDP continued to be the operational backbone of the United Nations system in 2020, supporting \$2.51 billion in financial transactions for approximately 118 United Nations and other agencies in over 170 countries. UNDP provided common premises for other agencies in at least 126 countries, where they could avail of common services, including travel management.

United Nations development coordination activities

100. UNDP continued to support the repositioning of the United Nations development system, in line with General Assembly resolution 72/279. In 2020, UNDP provided an annual contribution of \$10.3 million (2019: \$10.3 million) to the United Nations Sustainable Development Group through the cost-sharing arrangement among United Nations development system entities. UNDP collected and transferred \$4.6 million to the United

Nations Secretariat as part of the 1 per cent levy on tightly earmarked other resources contributions.

United Nations-mandated security costs

101. In 2020, UNDP spent \$27.6 million (2019: \$30.2 million) for security costs, of which \$18.0 million (2019: \$21.2 million) was associated with its share of the United Nations field security coordination programme; and \$9.6 million (2019: \$9.0 million) with security advisory services and investments to ensure compliance with minimum operating security standards, as well as staff safety and duty-of-care measures in response to the COVID-19 pandemic.

VII. Conclusion

102. UNDP extends its appreciation to all funding partners that entrusted their resources to UNDP, allowing it to deliver on its commitments. While UNDP values all types of funding, regular resources remain most essential to respond with agility in crisis situations and deliver results on the ground, as exemplified by the UNDP response to the COVID-19 pandemic.

103. As countries continue to battle the pandemic, the path to recovery is uncertain with inequities in vaccine distribution and the spread of new variants. As real and potential cuts in funding from partners emerge, UNDP calls on its partners to: refrain from cutting and avoid redirecting ODA away from global human development; prioritize regular resources; enter into multi-year commitments and make early and timely disbursements to enable UNDP to continue responding rapidly to countries' demands; and offer integrated development solutions to realize the 2030 Agenda for Sustainable Development.

104. A reduction in regular resources will negatively impact the ability of UNDP to: achieve the outcomes of its Strategic Plan; align resources to emerging priorities; develop integrated responses; minimize the imbalance across programmatic areas; maintain standards of quality assurance and transparency; and support independent oversight, United Nations system-wide assets and the United Nations development system.

105. UNDP continues to monitor the impact of COVID-19 on current and future funding, update its sensitivity and scenario planning instruments and maintain an ambitious yet realistic financial outlook for the next Strategic Plan.

106. UNDP will continue to engage with the Executive Board, through the structured funding dialogue, to make progress in shifting from highly-earmarked to regular resources or flexible other resources, on discussing progress made towards the mutual commitments of the funding compact, and to further shape the approach to the structured dialogue, along with sister agencies, in support of the Secretary-General's reform efforts.

107. Recalling the commitments of the funding compact, UNDP urges Member States to: (a) increase or provide voluntary contributions in a manner consistent with their capacities; (b) contribute on a multi-year basis in a sustained and predictable manner; (c) shift contributions from highly-earmarked to less earmarked flexible resources; and (d) advocate among Member States to prioritize contributing to UNDP regular resources, in a timely and predictable manner, to enable UNDP to deliver the intended results of its Strategic Plan and lead a coherent United Nations development system in implementing the 2030 Agenda. For its part, UNDP will invest in meeting its entity-specific funding compact commitments, regularly monitor progress at all levels and communicate progress with Member States through the structured funding dialogue.