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United Nations Environment Assembly of the United Nations Environment Programme

Annual subcommittee meeting of the Committee of Permanent Representatives
to the United Nations Environment Programme
Ninth meeting
Nairobi, 24-28 October 2022
Hybrid meeting
10.00 am – 6.00 pm (GMT+3)
Conference Room 2

Agenda Item 7: Financial outlook and funding challenges for the United Nations Environment Programme

Under agenda item 7, the Committee will be invited to consider UNEP's financial outlook and funding needs, taking into account inter alia the conclusion from the 2020 Multilateral Organization Performance Assessment Network assessment (MOPAN) that UNEP continues to be highly dependent on inflexible, earmarked funding, its recommendations that unrestricted financial resources be increased for the organization to meet the growing demands and deliver the expected results.

The Secretariat will outline the risks associated with UNEP´s current funding structure, and propose solutions for achieving a more secure, stable, adequate and increased funding from a wider base of financing partners, including through increased core funding to the Environment Fund. The Secretariat will also introduce three new Thematic Funds, which provide an opportunity for attracting more flexible funding from otherwise earmarked sources, based on experiences made by other UN organizations.

The presentation will be followed by an exchange of views with Member States and Stakeholders
In the form of an interactive panel discussion with a view to capture the emerging guidance and recommendations in a Chair´s Summary.

This note provides a concept note to guide the panel discussion and exchange of views, to facilitate preparations by Member States and Stakeholders.

Financial outlook and funding challenges for the United Nations Environment Programme

Secretariat concept note for a panel discussion with Member States and Stakeholder representatives

1. Introduction

Under this agenda item the CPR is invited to consider UNEP's financial outlook and funding needs, taking into account the 2020 assessment conducted by the Multilateral Organization Performance Assessment Network (MOPAN), which concluded that UNEP continues to be highly dependent on inflexible, earmarked funding, and its recommendation that unrestricted financial resources be increased for the organization to meet the growing demands and deliver the expected results.

The guidance for the Secretariat to organize dialogues with Member States on funding is stated as a specific activity in the "Action Plan for the Implementation of the Paragraph 88 of the outcome document of the UN Conference on Sustainable Development", which was considered at the resumed session of the United Nations Environment Assembly as document UNEP/EA.5/23. Funding dialogues between UN agencies and Member States are also an integral part of the "Funding Compact" which is seen as a critical tool to maximize the investments of Member States in the UN Development System and to improve the system's transparency and accountability for system-wide actions and results (UNGA resolution 72/279). Further, the online survey on funding of UNEP, conducted in 2020, provided guidance on importance of the funding dialogue.

The purpose of this agenda item is for the Member States to attain understanding and recognition of the funding situation and its issues, challenges and opportunities; and to agree on action to be taken to address these.

2. Programme

a. Secretariat presentation

The Secretariat will present funding trends, the current funding status, outline risks associated with UNEP's current funding structure, and present some opportunities for achieving more secure, stable adequate and increased funding from a wider base of funding partners, including through increased core funding to the Environment Fund. The Secretariat will also introduce the three new Thematic Funds that as a modality, based on experience from other UN agencies, could provide an opportunity for attracting more flexible funding from otherwise earmarked sources.

b. Q&A for fact check

After the presentation by the Secretariat, the CPR is invited to ask questions to seek clarity on the information presented.

c. Panel debate

A panel composed of Member State representatives is invited to discuss the financial outlook and funding challenges and opportunities for UNEP, guided by a moderator and topics and questions provided ahead of the discussion (see below).

d. Open discussion by CPR

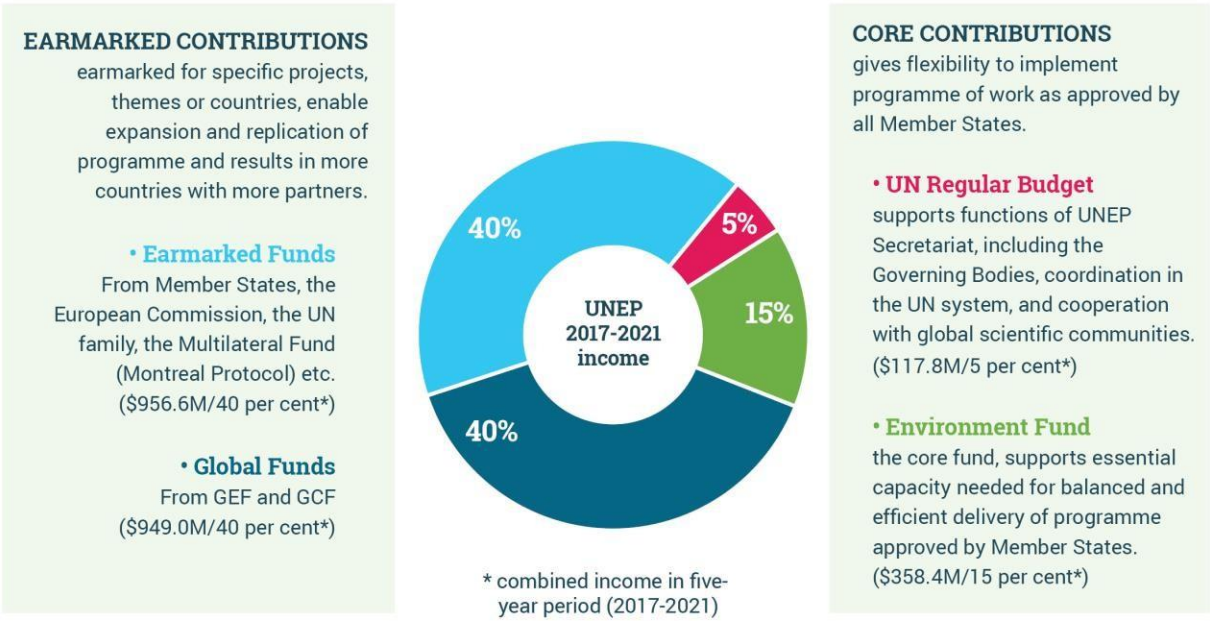
Following the panel discussion, the CPR is invited to comment and provide their views on the topics discussed in the panel debate.

3. Background: funding situation, challenges and opportunities

3.1. Funding situation

UNEP relies on voluntary contributions for 95 per cent of its funding. The chart below explains the structure of the funding.

Chart 1: Income to UNEP in five-year period (2017-2021) by type of funding



3.2. Funding challenges

3.2.1. Funding challenges for the UN System at large

Multilateral institutions, in particular those of the UN System, have seen a **decline in the share of assessed and voluntary core funding**, which not only undermines its multilateral character, but hampers its ability to rapidly address critical development needs, whether this be the impact of the pandemic or the food, fuel and finance crises emanating from the conflict in Ukraine. It also weakens the UN's leadership role in helping countries to achieve the SDGs and stimulating accelerated action on climate change. Over the past decade, **growth in UN funding has been driven by earmarked contributions**.

Over recent years, the UN and its Member States have raised ambitions on improving the quality of funding for the UN development system (UNDS). In 2018 the UN General Assembly Resolution 72/279 on the quadrennial comprehensive policy review welcomed the call by UN Secretary-General for a **Funding Compact** between the UN system and Member States to address UNDS funding patterns. In the 2019 Funding Compact itself, the Member States and UN Secretariat committed, amongst other things, to address the imbalance between core and non-core resources by increasing core resources to at least 30 percent of the total funding by 2023 and increasing softly earmarked funding at inter-agency and agency level through pooled funding and thematic funds as part of the work towards a systematic shift for more predictable, coordinated and flexible funding to achieve the SDGs.

Further, the **heavy dependency** of both humanitarian assistance and UN development funding on just **a few donors** poses real risks. In the case of the former, just three donors – the United States, Germany and the United Kingdom – provided 60 per cent of all humanitarian funding in 2021 (US$ 18.8 billion out of US$ 31.3 billion). With regard to the latter, 34 per cent of all development-related

funding to the UN in 2020 came from just five countries: the United States, Germany, Sweden, the United Kingdom and Japan.[1]

3.2.2 Funding challenges for UNEP

The Funding Compact and UN General Assembly resolutions addressing the funding provide important guidance to UNEP.

More specifically for UNEP, a 2012 General Assembly resolution reaffirmed and strengthened the governance and the role of UNEP in the UN system. UNEP went from having a Governing Council of 58 Member States to an Environment Assembly (UNEA) with universal membership encompassing all 193 UN Member States. To enable the organization to deliver on its strengthened mandate, the world leaders also committed to ensure secure, stable, adequate and increased financial resources to UNEP (paragraph 88b in the *The Future We Want* outcome document).

UNEA decisions have also called on the Member States to increase their contributions to UNEP. The latest decision from UNEA (UNEA 5/2) urged Member States and others in a position to do so to increase voluntary contributions to UNEP, notably the Environment Fund, taking into account the universal membership of the Environment Assembly.

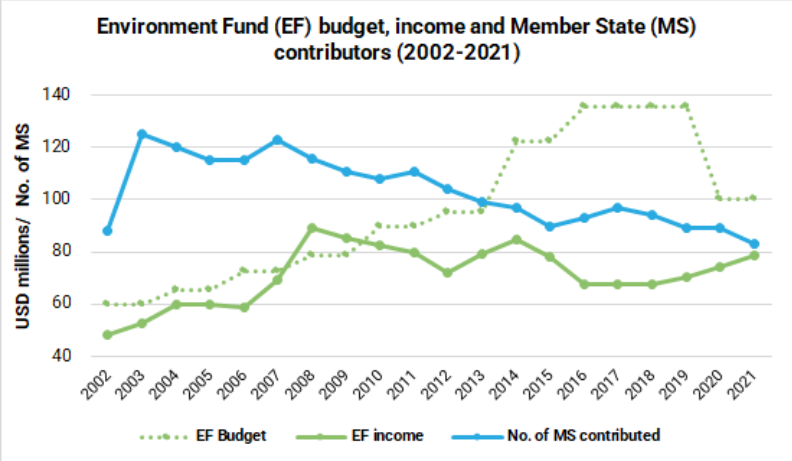
Further, the Political Declaration from the special session of UNEA to commemorate the fiftieth anniversary of the establishment of UNEP reaffirmed that all Member States should contribute financially to UNEP, urged Member States to support UNEP through core contributions to the Environment Fund with due consideration for the voluntary indicative scale of contributions (VISC) established by the Member States themselves, and stressed the need for UNEP to diversify its donor base by encouraging Member States that do not regularly contribute to the Environment Fund to do so (paragraph 11, UNEP/EA.SS.1/4).

Nevertheless, the same funding challenges that are at play in the UN system – namely the **quality of funding** (insufficient core funding and imbalanced core and non-core funding); and a **narrow funding base**– are also witnessed at UNEP as demonstrated in charts 2 to 4 below.

a. Insufficient core funding – underfunded Environment Fund

The Environment Fund budget, approved by the Member States, has rarely been fully funded.

Chart 2: Environment Fund budget/income, and no. of contributing Member States of 193 (2002-2021)

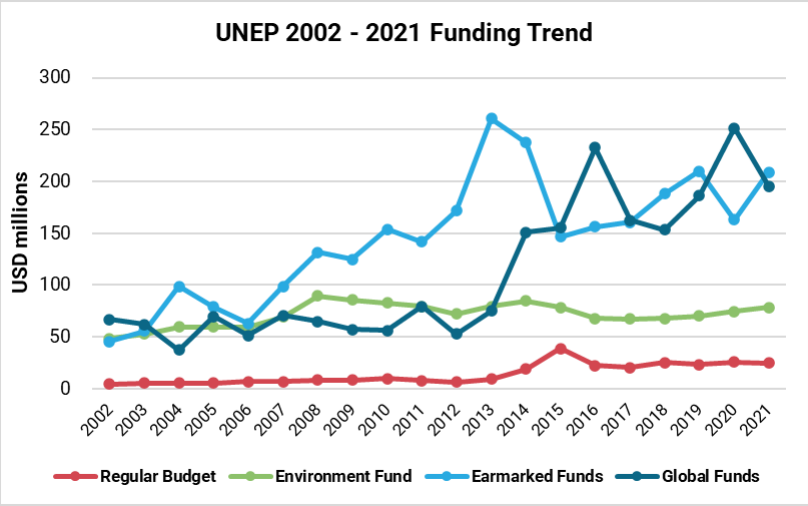


b. Imbalance between core/flexible funds and tightly earmarked funds

[1] https://www.daghammarskjold.se/wp-content/uploads/2022/09/dhf-financing-the-un-development-system-2022.pdf (p.26)

Growth in earmarked funding continues to outpace that in core funding at UNEP. In 2021, the ratio of core funding vs. earmarked funding was 20/80. The total and relative increase in earmarked resources, largely for specific projects, risks to cause a situation where UNEP has reduced overall ability to direct resources towards the priorities mandated by the Member States in the Programme of Work.

Chart 3: Funding trends by type of funding (2002-2021)



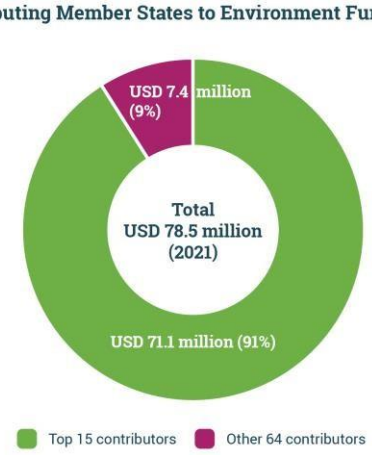
c. Narrow funding base despite universal responsibility – dependency on few funding partners

At UNEP, two important challenges related to the funding base stand out:

(i) Less than half of the 193 Member States provide funding to UNEP in any given year since 2012 (see also Chart 2)

- In 2021, 79 Member States contributed to the Environment Fund
- 39 of the 79 contributed their full share as per the VISC.

Chart 4: Member State Contributors to the Environment Fund (in 2021) by level of contribution

(ii) 15 Member States, or less than 10 percent of Member States, provide over 90 percent of the total income to UNEP, including to the Environment Fund budget which is approved by all the Member States. While UNEP is grateful for the support of all Member States, the heavy reliance on 15 Member States creates a vulnerability in funding, as political and economic developments in only a few Member States can have serious negative consequences for the funding of UNEP.	***Chart 5: Funding of the Environment Fund (2021) by top 15 contributors and others*** 

3.3. UNEP response to the funding challenges

UNEP's resource mobilization strategy and its implementation
In 2021, UNEP updated its resource mobilization strategy to ensure that funding is available for the implementation of the Medium-Term Strategy (MTS) 2022-2025 and related Programmes of Work, and for the associated costs of the work of the governing bodies. It should also ensure that funding is available to cover support activities such as management, administration and oversight. The strategy identifies several opportunities for increasing funds to the organization, addressing core funding to the Environment Fund, shifting tightly earmarked funding to (and an overall increase in) softly earmarked funding, strengthened collaboration with multilateral partners, as well as widening of the funding base – also to non-traditional funding sources. The strategy also outlines related actions by the Secretariat, one of the main ones being communication.

The intensified communication and outreach to Member States about UNEP's strengths and value added; the funding situation and its challenges; the importance of core funding and the Environment Fund; the sustained efforts to explain the VISC and its rationale; etc. have led to an increased dialogue between the Secretariat and Member States on the financing of UNEP, with noted interest from the Member States to discuss the same. Coupled with the outspoken support from Member States for UNEP's global role, and for the MTS and its programme of work, the dialogue in the Annual Sub-Committee meeting is intended to take the funding dialogue to the next level, possibly with a rise in additional funding opportunities.

Move to softly earmarked funding – the launch of three Thematic Funds
Across the UN, the shifting balance between core and earmarked resources has given rise to a variety of efforts to improve the quality of non-core funding by favouring less-tightly earmarked resources, such as earmarking at the outcome or thematic level.

In the past years, a few UNEP Member States (Finland, Norway and Sweden) have championed the move towards flexible funding and provided "corporate funds" that are softly earmarked to sub-programmes or larger programmes under them.

The purpose of the recently launched three **Thematic Funds** is to encourage funding partners to lessen the earmarking of contributions by providing funds to UNEP at the level of the three objectives of the Medium-Term Strategy (2022-2025) – Climate Stability; Living in Harmony with Nature; and Towards a Pollution Free Planet. Based on experience from other UN agencies, these Thematic Funds could provide an opportunity for attracting more flexible funding from otherwise earmarked sources. Almost all respondents (96%) to the online survey on funding believed that creating thematic funds would be an important approach in order to increase softly earmarked funds rather than tightly earmarked funds, as would providing more information on the benefits of softly earmarked funding vis-a-vis tightly earmarked funding.

4. Panel Discussion

4.1. Rationale

The funding of UNEP is a critical discussion at a time that the world is facing a triple planetary crisis and demands on UNEP's delivery on its mandate have increased – while at the same time the organization continues to be dependent on voluntary contributions for 95 per cent of its income.

Member States have acknowledged, most recently at the UNEP@50 Special Session of UNEA, the contributions of UNEP over the decades as the leading global authority on the environment that sets the global environmental agenda, achieving important results in the area of environmental science-policy, environmental governance, capacity building, technology transfer and supporting Member States to achieve their environmental commitments etc.

It is important to the organization, and to those Member States that already provide funding to UNEP, to understand why the recognition of the global environmental challenges and UNEP's role in addressing them has not yet resulted in more (core and flexible) funding, from a wider donor base.

4.2. Objective and focus

The objective of the panel discussion is to agree on joint action that can be taken by both Member States and the Secretariat to address the funding challenges.

In consultation with moderator and panel members, the topics and questions will be honed and specified to ensure a rich and fruitful debate. **The following proposed questions are to be seen as guidance.**

Core funding
The importance and necessity for core funding (Environment Fund in case of UNEP) is well recognized. It is also reflected in the approved budgets.

- *Why do the funding patterns not follow?*
- *What is needed for the Member States to increase core funding to the Environment Fund?*

Earmarked funding
Tightly earmarked funding continues to increase and outpace any growth in core funding. In the online survey on UNEP's funding, Member State respondents gave the following reasons for earmarking funds: possibility to demonstrate that a Government has supported a specific environmental cause (91% said it was important); and the possibility to fund programmes that were directly aligned with Government priorities (90% said important). 84% of respondents said that the possibility to influence UNEP's project and programme direction was important (27% very important).

Based on this:

- *Is there real scope for softening the earmarking?*
- *Are their restrictions that cannot be overcome?*
- *Do the Thematic Funds provide a solution?*

Funding base & engagement
Universal membership is well recognised, yet many Member States contribute less than their full share, or not at all (any "voluntary funds").

- *How can this be addressed?*
- *What tools could help? Is the VISC a well understood tool?*
- *How can the CPR work efficiently and strategically to support the joint efforts and widen the uptake and can UNEA address these issues?*
- *Can the discussion be brought to Regional and Political groups? To UNHQ in New York?*
- *Is there scope and interest for a dedicated "Friends of UNEP" group that will drive this agenda?*