



Options for increasing flexibility of the funds in the Trust Fund for Supplementary Activities¹

Background

At the forty-sixth session of the Subsidiary Body for Implementation (SBI) Parties requested the secretariat to organize a technical workshop on the margins of SBI 47 to discuss ways to increase the efficiency and transparency of the UNFCCC budget process.²

This document, one of five that the secretariat has prepared for the above-mentioned technical workshop, provides information on options for increasing flexibility of the funds in the Trust Fund for Supplementary Activities.

I. Executive Summary

1. UNFCCC mandated activities are funded from Core and Supplementary Funds and there is no hierarchical relationship between activities funded by either of the two general funds. The Trust Fund for Supplementary Activities financed from voluntary contributions supports mandated activities for which provisions are not made under the core budget
2. Over the years, the relative weight of the Trust Fund for Supplementary Activities compared to the Trust Fund for the Core Budget has increased.
3. Voluntary contributions to the Trust Fund for Supplementary Activities are made in response to fundraising activities of the secretariat, including an annual fundraising letter by the Executive Secretary which specifies requirements for activities under many projects in the different areas of the UNFCCC work programme. Usually contributions are specifically made for projects selected by the contributors, but in some cases contributors give flexibility to the Executive Secretary to determine priority projects and to use the funds per these priorities.
4. Any funding received under the Trust Fund for Supplementary Activities, whether earmarked by the contributor for specific projects or not, is used to effectively deliver mandated outputs. However, earmarking in principal limits the flexibility of the secretariat for allocating funds and this reduced flexibility can have negative impacts on the effective, efficient and balanced implementation of the UNFCCC work programme.

¹ A distinction should be drawn between the Trust Fund for Supplementary Activities and the Trust fund for Participation in the UNFCCC Process. With regard to the latter, pursuant to the financial procedures of the Conference of the Parties, its subsidiary bodies and its permanent secretariat contained in the annex to decision 15/CP.1, a special fund was established by the Secretary-General of the United Nations and managed by the head of the secretariat. The fund receives voluntary contributions to support the participation of the representatives of developing country Parties, in particular the least developed countries and small island developing States, and other Parties with economies in transition in the sessions of the Conference of the Parties and its subsidiary bodies. The secretariat cannot shift funds between the two trust funds unless specifically authorized by the contributor(s) to the relevant funds.

² FCCC/SBI/2017/7, paragraph 129

5. This document provides information in support of the planned discussion at the technical workshop on options for increasing flexibility of the funds in the Trust Fund for Supplementary Activities, including information on steps taken by the secretariat and on the potential of pooled funding in increasing the flexibility of this trust fund.

II. Introduction

6. The Trust Fund for Supplementary Activities is financed from voluntary contributions provided mostly by Parties to the Convention and to a lesser degree by non-Party contributors, including other United Nations entities, the World Bank, private foundations and companies. It supports activities for which provisions are not made in the core budget.

7. A report prepared for the United Nations Department of Economic and Social Affairs for the 2016 Quadrennial Comprehensive Policy Review³ lists other terms used by different United Nations entities for supplementary funding, including:

- (a) Non-core;
- (b) Other resources;
- (c) Directed multilateral contribution;
- (d) Project and emergency appeals;
- (e) Earmarked contributions;
- (f) Extra-budgetary contribution;
- (g) Special purpose fund;
- (h) Technical cooperation fund;
- (i) Voluntary contributions – specified.

8. The common denominator is that, to a large extent, the supplementary funding is earmarked by Parties and other contributors to a project. The degree of earmarking may differ.

III. The current UNFCCC practice of raising funds under the Trust Fund for Supplementary Activities

9. Requirements under the Trust Fund for Supplementary Activities for the next biennium are presented by the UNFCCC Executive Secretary for consideration by the Subsidiary Body for Implementation (SBI) as part of comprehensive documentation containing the biennial budget proposal and work programme. While the focus of the proposal is on the UNFCCC core budget, the documentation covers seven trust funds:

(a) The Trust Fund for the Core Budget of the UNFCCC (core budget) is financed from indicative contributions and a contribution from the Host Government of the secretariat;

(b) The Trust Fund for Supplementary Activities (supplementary fund) is financed from voluntary contributions and supports mandated activities for which provisions are not made in the core budget;

(c) The Trust Fund for Participation in the UNFCCC Process (participation fund) is financed from voluntary contributions and supports the participation of representatives of eligible developing country Parties and Parties with economies in transition in the sessions of the Conference of the Parties and its subsidiary bodies;

³ Towards enhancing core (unrestricted) funding to the UN Development system in the post-2015 period, available at <https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/qcpr/qcpr-2016-desk-review-core-funding-paper.pdf>

(d) The Trust Fund for the Special Annual Contribution from the Government of Germany (Bonn Fund) is financed from a voluntary contribution from the Government of the country in which the UNFCCC headquarters are located;

(e) The Trust Fund for the Clean Development Mechanism is financed from fees charged for registration of projects and issuance of certificates;

(f) The Trust Fund for the International Transaction Log is financed from indicative contributions;

(g) Programme support costs.

10. The resource requirements presented in the proposed budget by the Executive Secretary represent the ‘gross’ requirements for delivering on the work programme for the biennium; that is, no adjustment is made for balances for ongoing projects. This is done to accommodate the timing difference that arises between the budget preparation process and the year-end closure when the exact balances for ongoing projects are concretely determined.

11. The Executive Secretary sends fundraising letters to Parties on an annual basis. The fundraising letters take into account existing project balances and therefore only present the ‘net’ amounts actually required as estimated at the time of the preparation of the letters⁴. Project implementation starts as soon as sufficient funding has been received from one or more contributors and in line with the relevant calendar of activities.

12. In addition to fundraising from Parties, the secretariat also undertakes resource mobilization from non-state actors, for example foundations and private companies. The secretariat further undertakes partnerships with various stakeholders, including other United Nations entities, to implement its mandated activities.

13. Upon receipt of the fundraising letters, some Parties have traditionally contacted the secretariat seeking clarification on projects included in the letter. Parties liaise with the secretariat on an amount that they wish to contribute and sometimes seek advice on the allocation to projects and to the Trust Fund for Participation in the UNFCCC Process. In addition, some Parties provide funding with allocation to specific projects and allow the secretariat to determine the priority of projects.

IV. Overview - unearmarked funds

14. Over the years, United Nations entities, in general, have witnessed an increase in the proportion of non-core resources to core resources within their budgets. Whereas the relative increase is largest within the United Nations development and humanitarian operations, United Nations entities working in other areas face the same situation. In the recent past, many United Nations entities have faced challenges with regard to fundraising of both core and non-core funds as a result of austerity measures taken by many governments, financial and economic crises and other competing demands for use of funds, to name but a few. This has resulted in an increase in the number of unfunded mandated activities, in competition between entities and in skewed allocation of available resources.

15. In the case of the UNFCCC, the percentage of requirements for funding under the Trust Fund for Supplementary Activities in the combined total of the Trust Fund for Supplementary Activities and the Trust Fund for the Core Budget of the UNFCCC, increased from 35 per cent in the biennium 2010–2011 to 48 per cent in the biennium 2018–2019 and indicated in Table 1. The increase in the requirement for supplementary funds is driven by the fact that increases in the core budget have not kept pace with the increase in mandated activities, thus necessitating other sources of funds for the full delivery of mandated activities.

⁴ Details of all projects proposed for funding in the biennium 2018–2019 are available on the UNFCCC website at: http://unfccc.int/files/secretariat/budget/funding_at_the_unfccc/application/pdf/2018.2019_supplementary_funding_requirements_based_on_proposed_core_budget.pdf, including relevant mandates.

Table 1: UNFCCC core and supplementary funding 2010-2019^a

<i>EUR '000'</i>	<i>2010/11</i>	<i>% of total</i>	<i>2012/13</i>	<i>% of total</i>	<i>2014/15</i>	<i>% of total</i>	<i>2016/17</i>	<i>% of total</i>	<i>2018/19</i>	<i>% of total</i>
Core	44 200	65	48 511	62	54 648	60	54 648	51	56 889	52
Supplementary ^b	24 154	35	29 221	38	37 032	40	51 648	49	53 484	48
Total	68 354	100	77 732	100	91 680	100	106 296	100	110 374	100

^a Figures derived from the core budget approved by the Conference of the Parties and secretariat-proposed supplementary funds.

^b The requirements stated in Add. 2, which is the proposed budget, are not updated upon approval of the core budget and thus the actual requirements tend to be even higher than the proposed amounts.

16. The Organisation for Economic Co-operation and Development (OECD)⁵ outlined some of the advantages and disadvantages of earmarked funds:

(a) Advantages:

(i) Earmarked funds have greatly enabled expansion of activities in organizations, including within the United Nations, beyond what would be possible with core funding alone;

(ii) Earmarked funds accord Parties and donors increased accountability, transparency and visibility in relation to the use of their resources, which enables them to better account to their citizens and stakeholders, respectively;

(b) Disadvantages:

(i) Earmarking significantly limits flexibility in the use of funds within an organization. Organizations require flexibility as it allows for the distribution of resources evenly across all priorities;

(ii) Earmarking invariably increases transactional costs for both Parties and the receiving organization. Such transaction costs stem from the need to negotiate separate funding agreements, including the need to produce separate reports;

(iii) Earmarked funds are inherently unpredictable, thus affecting planning and likelihood of delivery. Unpredictable funding also leads to short-term programming focus and start-stop operations with suboptimal execution, more so when such funding is not multi-year.

V. Steps taken by the secretariat to increase funding flexibility

17. The fundraising letter sent by the UNFCCC Executive Secretary to Parties in 2017 in support of supplementary activities includes the following sentence previously used in 2013: “The Government of X may wish to fund specific projects or to make a general contribution towards the Trust Fund for Supplementary Activities”. This line encourages Parties to provide funds to the UNFCCC in the manner most suited to them and in line with their funding channels.

18. Most funding agreements specify the treatment of unspent balances upon completion of activities and the issuance of the final financial report. In the cases where the use of unspent balances is not indicated, the UNFCCC reverts to the Party or contributor requesting approval to apply the unspent balance to existing programme priorities.

VI. Increasing flexibility within the Trust Fund for Supplementary Activities

19. Recalling that contributions to the Trust Fund for Supplementary Activities are voluntary and contributors can decide whether to contribute to specific projects or activities, Parties may wish to consider pooled funding⁶

⁵ OECD. 2014. Making earmarked funding more effective: Current practices and way forward. Report number 1. Available at https://www.oecd.org/dac/aid-architecture/Multilateral%20Report%20N%201_2014.pdf

⁶ A pooled fund is generally described as a mechanism used to receive contributions from multiple financial

20. The United Nations has used pooled funding as a means to increase resource flexibility. Pooled funding arrangements range from those managed by a United Nations entity (e.g. the Multi-Donor Trust Fund administered by the United Nations Development Programme) to those managed by the United Nations Secretariat (e.g. the Central Emergency Response Fund of the United Nations Office for the Coordination of Humanitarian Affairs) and Joint Programming arrangements at the Country Level such as the One UN initiative
21. In the UNFCCC context, the Parties could, for example, identify several key broad thematic areas of work that cut across all programmes and set up pooled funds accordingly. An example of such a thematic area is the transparency regime.
22. A key advantage to such an arrangement is that all the work within the thematic area, irrespective of the programme in which it is located within the secretariat structure i.e. Adaptation, Mitigation etc. would be considered in one project.
23. Pooled funding would also enhance internal coherence of programme implementation as thematic work would be viewed holistically rather than pieced out to different programmes.
24. Such an arrangement also allows strategic prioritization by the COP and efficient management of resources by the secretariat.
25. While pooled funding does not eliminate earmarking, it provides increased flexibility on use of resources within a predefined pool.
26. Parties may also wish to consider making general contributions to the Trust Fund for Supplementary Activities to give the secretariat flexibility to assign resources to mandated activities.

VII. Conclusion

27. The information in this document is not exhaustive, but is meant to provide a basis for discussion at the technical workshop to be held on the margins of SBI 47. In considering the options provided, or others discussed at the workshop, a cost-benefit analysis would need to be undertaken including a review of internal processes to support any option proposed.
28. Like other United Nations entities, the UNFCCC requires funding that is predictable, sustainable and flexible in order to effectively deliver mandated work. Over the years, however, increased funding has come mainly through an increase in earmarked funding. The secretariat welcomes the discussion by Parties on exploring ways and means to ensure that mandated activities are appropriately funded and mandated outputs effectively delivered.
29. The secretariat continues to develop and seek input from Parties on approaches to increasing and demonstrating accountability and transparency as this is an important element for Parties in providing funds.