UNITED NATIONS DEVELOPMENT GROUP

FUNDING TO FINANCING

UNDAF CAMPANION GUIDANCE

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1. INTRODUCTION

The 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) are founded on the principle of leaving no one behind. They call for transformative shifts, integrated approaches, and solutions to structural barriers to sustainable development. Quantifying the financial resources needed to implement the SDGs is complex and estimates vary widely; from US $2.5 trillion to over $5 trillion a year.[1] In comparison, official development assistance (ODA) reached $131.4 billion in 2015.[2] While ODA remains important, particularly in the least developed countries, it will not be sufficient to achieve the SDGs. Drawing on all sources of finance—public and private, domestic and international—in all countries will be essential.[3]

In line with the Addis Ababa Action Agenda, which highlights the need for "nationally owned development strategies supported by integrated financing frameworks," a key objective of the new generation of United Nations Development Assistance Frameworks (UNDAFs) should be to catalyse finance for the SDGs.

This will require the UN to shift from the funding of individual projects to the financing of transformative change. While funding is about transferring resources from a financial contributor to a recipient, financing is about structuring different financial flows to achieve a common result. The shift from funding to financing (F2F) will entail developing the UN capacity to influence different sources of public, private, domestic and international finance to achieve collective, transformative, sustainable development results.

The objective of this companion guidance is to support UN country teams in making this shift from funding to financing. It sets out a four-step approach, followed by lessons learned, good practices and country examples.

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1 For instance, annual infrastructure investments are estimated at between $5 trillion and $7 trillion globally (UNGA 2014). In developing countries alone, the United Nations Conference on Trade and Development (UNCTAD) estimates that total investment needs in SDG-related sectors range from $3.3 trillion to $4.5 trillion per year, and at current levels of investment, an average annual funding shortfall of $2.5 trillion remains over 2015–2030.

2 United Nations Development Programme (UNDP) and United Nations Research Institute for Sustainable Development (UNRISD), 2017, *Global Trends: Challenges and Opportunities in the Implementation of the SDGs.*

3 Compared to the $2.5 trillion to $5 trillion a year needed to implement the SDGs, in 2015, the UN mobilized approximately 1 percent of these required resources—$48 billion.

2. THE CONCEPT

Moving from funding to financing involves four major steps, which may be implemented at varying levels to meet the requirements and resources of specific UN Country Teams (UNCTs):

- Step 1:
  Mapping the financial landscape

- Step 2:
  Assessing the UNDAF funding gap and preparing a Common Budgetary Framework (CBF)

- Step 3:
  Developing a financing strategy to address the UNDAF funding gap

- Step 4:
  Mobilizing common resources for collective action

3. MOVING FROM THEORY TO PRACTICE

The first step should be implemented during the preparation of the Common Country Analysis (CCA) and the remaining three as part of the actual UNDAF formulation.

3.1 STEP 1: MAPPING THE FINANCIAL LANDSCAPE

The F2F shift will require the UN system to develop a sound understanding of all financing flows to a country, in addition to an understanding of the UN's own resources. There are four main reasons why this is important:

1. **THE UN MUST BE A SMART INVESTOR** to achieve the greatest impact with existing resources by allocating these wisely. This requires avoiding duplication of what others[4] are doing or could do, and identifying critical gaps that the UN should be addressing.
2. **THE UN NEEDS TO ACHIEVE GREATER IMPACT BY ACCESSING** additional resources and combining and sequencing its resources with those of its partners. Understanding the financial landscape opens up opportunities to access new sources of finance.
3. **THE UN NEEDS TO LEVERAGE LARGER FINANCING FLOWS:** Even by investing existing resources smartly or by multiplying resources by a factor of 5 or 10, the UN will not (and is not expected to) mobilize the required resources for the implementation of the SDGs. The UN is expected to use its limited resources, however, as a catalyst that influences much larger financial flows. The UN mostly leverages larger financial flows by helping governments widen the tax base, access international public finance, develop domestic capital markets and put in place appropriate policy environments that catalyse investment by reducing risks.
4. **THE UN NEEDS TO WORK TOGETHER AND PARTNER:** Smart allocation of existing resources, greater access to additional resources, and better leveraging of larger financial flows will all require stronger partnerships both among UN agencies and with external stakeholders. Money is not neutral; it can be used as a unifier or a divider. Unfortunately, present UN funding mechanisms too often divide the UN system. Jointly understanding financial flows will enable the UN system to develop a common fund mobilization strategy and narrative, avoid overlaps and identify "win-win" options.

The approaches described below can be combined in different ways depending on the requirements of specific UNCTs. As far as possible, this step should be linked to national efforts to develop an integrated national financing framework (INFF), a commitment made by United Nations Member States in the Addis Ababa Action Agenda.[5]

[4] Bilateral agencies, international financial institutions, international non-governmental organizations, the private sector, foundations, etc.

[5] The Addis Ababa Action Agenda, paragraph 9: "Cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts."

Understanding the financing landscape starts with mapping the different sources of finance: international and domestic, private and public.

These flows are outlined in Figure 1:

	PUBLIC	PRIVATE
EXTERNAL	ODA Grants and Concessional Loans Other Official Flows (OOFs) South-South and Triangular Coorperation INGO donations (on-budget) Public borring from capital markets	Private borrowing from Capital Markets Foreign Direct Investment INGO Donations (off-budget)
DOMESTIC	Tax Revenues Non Tax Revenues Mineral Related Texation Public Private Partnerships Public Domestic Borrowing Sovereign Wealth Funds	Private Borrowing Inclusive Business Finance Domestic Philanthropz and NGOs Corporate Social Responsibility

There are three different approaches to understand these financing flows, depending partly on available capacity.

1.1 BUILD ON EXISTING DATA

UNCTs can draw together existing data on financing flows that have already been collected, particularly when the process to develop an INFF is already underway. Potential sources of information include the Inter-agency Task Force supporting the intergovernmental Financing for Development process, the International Monetary Fund, the World Development Indicators, and regional development banks, which conduct public expenditure reviews and advise governments on financing sources and revenue generation. The Organisation for Economic Co-operation and Development's (OECD) work on Total Official Support for Sustainable Development (TOSSD) is also worth analysing. Data on public and private sector finance and sources from external stakeholders, such as those published as part of the International Aid Transparence Initiative (IATI), can provide further useful information.

1.2 DEVELOPMENT FINANCE ASSESSMENT

The Development Finance Assessment (DFA) is a tool that has been developed in response to the call to establish INFFs. It is a country-level, context-informed assessment that provides data and analytical information on both quantitative and qualitative aspects of development resources in a country, and can be a useful tool for governments and their partners to identify opportunities and gaps towards establishing INFFs.

The full DFA process takes approximately six months and costs between $50,000 and $100,000. Expected results (varying depending on country context) include:

- Measurement of recent trends in development finance flows and their allocation to national priorities;
- An improved understanding of the roles and responsibilities of national institutions to manage or influence the development of individual financial flows; and
- A set of recommendations for how institutions and systems might be adjusted to ensure that different sources of development finance are managed within a coherent framework, which better supports the achievement of national priorities and the SDGs.

UNCTs may choose to undertake a preliminary DFA, a three-week process involving two weeks of desk work and a one-week mission, costing approximately $15,000. This approach provides each country with an understanding of its full financing flows and would facilitate an informed conversation about how the UN can best allocate its limited resources. If the host country and UNCT desire, the preliminary DFA could be followed by a full DFA. Further details on the DFA process, including contact details of UN colleagues currently supporting the use of the tool, can be found here.

1.3 FOCUSED/THEMATIC ANALYSIS

In addition to understanding overall financing flows to a country, either through the DFA or another methodology, the UNCT may decide to focus on analysing specific sectors and/or cross-sectoral areas that have been prioritized by the UNCT for potential focus in the upcoming UNDAF. Such analysis is often done by a small cluster of agencies in a sector of common interest (e.g., health or local development) or by individual agencies in their mandated areas.

3.2 STEP 2: ASSESSING THE UNDAF FUNDING GAP AND PREPARING A COMMON BUDGETARY FRAMEWORK

Once the analysis of the financing landscape is completed, the next phase is to:

- Cost the UNDAF to estimate the overall resources required by the UN.
- Map the resources available and potentially available to the UN.
- Estimate the funding gap and translate it into a CBF.

Existing UN financial flows to a country can be identified in two, complementary ways:

2.1 TRIANGULATING DATA AVAILABLE AT THE GLOBAL LEVEL

At the global level, the production and consolidation of UN-wide financial data happens through at least four different channels: the Secretariat of the Chief Executives Board collects high-level financial data for the full UN system once per year through a questionnaire; the Office for the Coordination of Humanitarian Affairs (OCHA) Financial Tracking System tracks humanitarian aid flows, a growing number of UN entities publish their data under IATI, and the OECD/Development Assistance Committee (DAC) collects data, including from the UN, through its Creditor Reporting System. Further, the financial data of all UN inter-agency pooled funds are collected and consolidated jointly by the United Nations Development Operations Coordination Office (UNDOCO) and the Multi Partner Trust Fund (MPTF) Office, and published once per year through IATI:

UNDOCO and the MPTF Office are available to support UNCTs embarking on the UNDAF process by consolidating existing financial data. This ensures that UNCTs have easy access to baseline data against which to benchmark their UNDAF financing strategy and new CBF.

2.2. LOCAL MAPPING OF CURRENTLY OR POTENTIALLY AVAILABLE UN RESOURCE FLOWS

If information available at the global level is insufficient, UNCTs can also undertake a complementary mapping exercise of UN financial instruments and flows in a country, against broad thematic areas. UNDOCO and the MPTF Office[6] have developed a simple financial mapping tool to help with this undertaking. Please see Annex 1.

A review of past CBFs is a useful starting point to identify additional sources of finance that could be directly accessed by UNCT members (including vertical funds, foundations, nontraditional donors, social impact investors, crowdfunding, etc.). The review provides an historical overview of UN resource flows. Several publications listing potential sources of funds to finance the SDGs can also be consulted. Please see Annex …

2.3 DEVELOP THE CBF

The CBF is a core element of the Standard Operating Procedures (SOPs). It is a critical framework for effective planning and budgeting, transparency and reporting, and can be completed easily with the information gathered in the previous steps. In 2015, only 22 percent of UNCTs were fully implementing the CBF, however, making it the lowest performing element of the SOPs.
The total contribution required by the UN as well as the UN financing gap calculated above per outcome should be broken down by agency and input into the CBF. See an example in Table 1.

6 The MPTF Office is a UN centre of expertise on pooled funding mechanisms. It supports development effectiveness and UN coordination through the efficient, accountable and transparent design and administration of innovative pooled financing mechanisms.

TABLE 1: FRAMEWORK OF A CBF

AGENCY	PILLAR 1		PILLAR 2		PILLAR 3		PILLAR 4		TOTAL	
	Overall	Gap	Overall	Gap	Overall	Gap	Overall	Gap	Overall	Gap
Agency 1	$50M	$15M								
Agency 2	$30M	$5M								
Agency 3	$20M	$5M								
Total	$100M	$25M								

This step represents the main shift from the UN's current funding approach towards the new financing approach. As set out under Step 1, the UN needs to be a smart investor to allocate existing sources effectively. It also needs to increase its impact by accessing greater levels of resources. Finally, it needs to influence larger financial flows in order to promote transformative change and the achievement of the SDGs. See the following figure.

A financing strategy draws on the sources of finance mapped in Steps 1 and 2 to identify the sources that the UN can access and leverage to address its funding gap.

3.1. ACCESSING ADDITIONAL RESOURCES

After allocating existing resources, UNCTs should look at the unfunded strategic priorities of a new UNDAF. Is the UN best placed to deliver on these? If partnerships can deliver the same result more efficiently and effectively, then such relationships should be developed. If the UN is best placed to deliver these, then there is a need to identify areas of greatest interest to the different sources of finance available to the UN that were identified in Step 2. As indicated earlier, these could include traditional donors, emerging donors, foundations, vertical funds, social impact investors, South-South funders and innovative financing instruments. It will be key to accurately match sources of finance and underfunded activities as a number of the former, such as the global vertical funds, have extremely strict eligibility criteria.

Most sources of finance will also require co-financing from UN agencies.

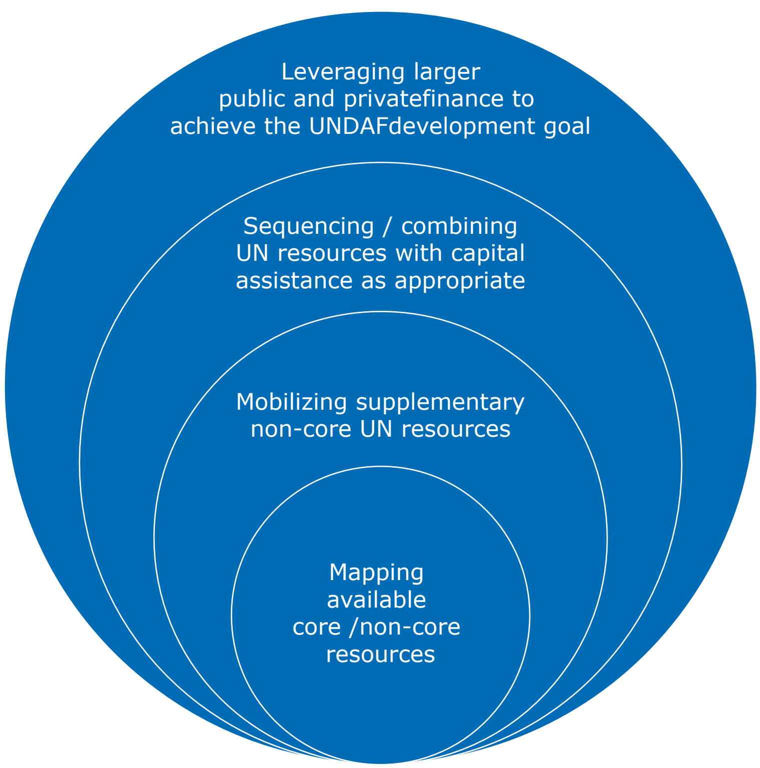
3.2 BLENDING FINANCE

In the Addis Ababa Action Agenda, countries encouraged exploring innovative mechanisms that combine public and private resources. Green bonds and diaspora bonds are examples that have the potential to raise important resources for sustainable development. ODA can be sequenced/combined with such bonds to accelerate their adoption and maximize their development impact (see Box 1 on the Tropical Forest Financing Facility). ODA can also be sequenced/combined with international/national concessional/non-concessional public finance to leverage private financing.

3.3. LEVERAGING LARGE R FLOWS OF RESOURCES FOR LONG-TERM IMPACT

Leveraging resources for the UN should not focus on bringing resources into the UN or blending them with UN resources, but on trying to positively influence the policy environment to facilitate greater resource flows to SDG priority areas. The UN mostly leverages larger financial flows by helping governments to widen the tax base, access international public finance, develop domestic capital markets and put in place appropriate policy environments that catalyse investment by reducing risks.

THE F2F CHALLENGE



BOX 1

Box 1: The Tropical Landscape Financing Facility in Indonesia[1]

In October 2016, the Government of Indonesia, in partnership with the UN, the private sector and a leading research institute, launched the Tropical Landscape Financing Facility (TLFF). The TLFF is an innovative financing mechanism that blends ODA with large private capital flows in order to bring long-term finance to projects in Indonesia that stimulate green growth, improve rural livelihoods and reduce the country's carbon emissions.

The TLFF consists of two parts: a Tropical Landscapes Loan Fund and a Tropical Landscapes Grant Fund. Long-term loans issued by the TLFF will be bought and securitized through a medium-term note programme (Tropical Landscapes Bonds or TLB) by BNP Paribas, issued for an initial $1 billion. Over five years, this amount could rise to $5 billion. The TLFF will also offer a grant fund of $100 million to provide technical assistance and co-fund early stage development costs (e.g., for rural smallholders to transition to higher yielding palm oil plants or to promote entrepreneurship for decentralized renewable energy development). This creates an opportunity to combine ODA and philanthropic contributions from corporations and private foundations with private finance to bring about transformative change.

Domestic public resources (the tax and revenue mobilized by developing country governments) are by far the largest source of financing in developing countries and were estimated at $5.3 trillion in 2014 (Development Initiatives 2015). Although it is not aligned with sustainable development objectives,[7] there is no shortage of capital in the global economy. For instance, global annual public and private savings are estimated at around $22 trillion, and the total stock of global financial assets reached an estimated $256 trillion at the end of 2014 (UN DESA 2016d). Governments and central banks have a key role to play to develop national capital markets to better align savings and investment with the SDGs.

Governments are also critical in establishing a policy environment conducive to greater long-term private investment in sustainable development. For example, in the past, the UN has directly financed small capital infrastructure. These types of investments are increasingly being driven by the private sector, however. The UN's roles should increasingly be to ensure that data are available to make investment decisions, to strengthen the capacity of various stakeholders to develop a "bankable" set of projects and to encourage the most appropriate policy environment.

3.4 STEP 4: MOBILIZING COMMON RESOURCES FOR COLLECTIVE ACTION

The 2017 UNDAF Guidance requires the implementation of joint work plans through Results Groups. Within each Results Group, UNCTs should identify opportunities for joint resource mobilization to support collective action. The development of a common financing strategy in Step 3 should facilitate both individual and collective fund mobilization efforts.

4.1 DEVELOPING A COMMON FUND MOBILIZATION NARRATIVE, EFFORTS AND INSTRUMENTS

In order to successfully mobilize resources at the UN or Results Group level, three things are necessary: a common narrative, a common effort and common instruments.

The UN has greater credibility if a **common narrative** is in place and agencies complement rather than compete with each other. According to the 2016 Quadrennial Comprehensive Policy Review (QCPR), competition risks "increased transaction costs and fragmentation."[8] The preparation of a common fund mobilization strategy will enable UNCTs to agree on priority areas for resource mobilization and how to approach partners.

This can lead to a **common effort**, where the UN works collectively to find resources to cover the funding gap. For example, innovative financing mechanisms are notoriously complex and expensive to implement. They often require pooling various forms of expertise. Through the preparation of the financing strategy in Step 3, opportunities to jointly develop innovative financing instruments and/or sequence/blend resources can be identified and acted upon in Step 4.

The indivisible and interconnected nature of the SDGs reinforces the need to complement agency-specific instruments with **common instruments,** such as trust funds or joint programmes, which can drive integrated approaches, encourage cross-sectoral responses and

[7] UNEP (2013-2017): Aligning the financial system with sustainable development.

[8] General Assembly resolution 71/243, paragraph 27.

break sectoral silos. The need to further rely on these common instruments to enhance UN policy coherence and coordination is highlighted in the 2017-2020 QCPR resolution: "*Urges the entities of the United Nations development system to … continue developing well-designed pooled funds, as a complement to agency-specific funds, that reflect and support common objectives and cross-cutting issues for United Nations funds, programmes and specialized agencies, and urges the entities of the United Nations development system to enhance their participation, where appropriate, in such funding mechanisms.*"[9]

4.2 POOLED FINANCING MECHANISMS

Pooled funds offer several comparative advantages, which were summarized in the 2016 UNDG) paper, "The Role of UN Pooled Financing Mechanisms to Deliver the 2030 Sustainable Development Agenda." These advantages include:

- Improving aid coordination and coherence;
- Promoting better risk management;
- Broadening the donor base for the UN system;
- Facilitating transformative change; and
- Bridging the silos of humanitarian, peace and security, and development assistance.

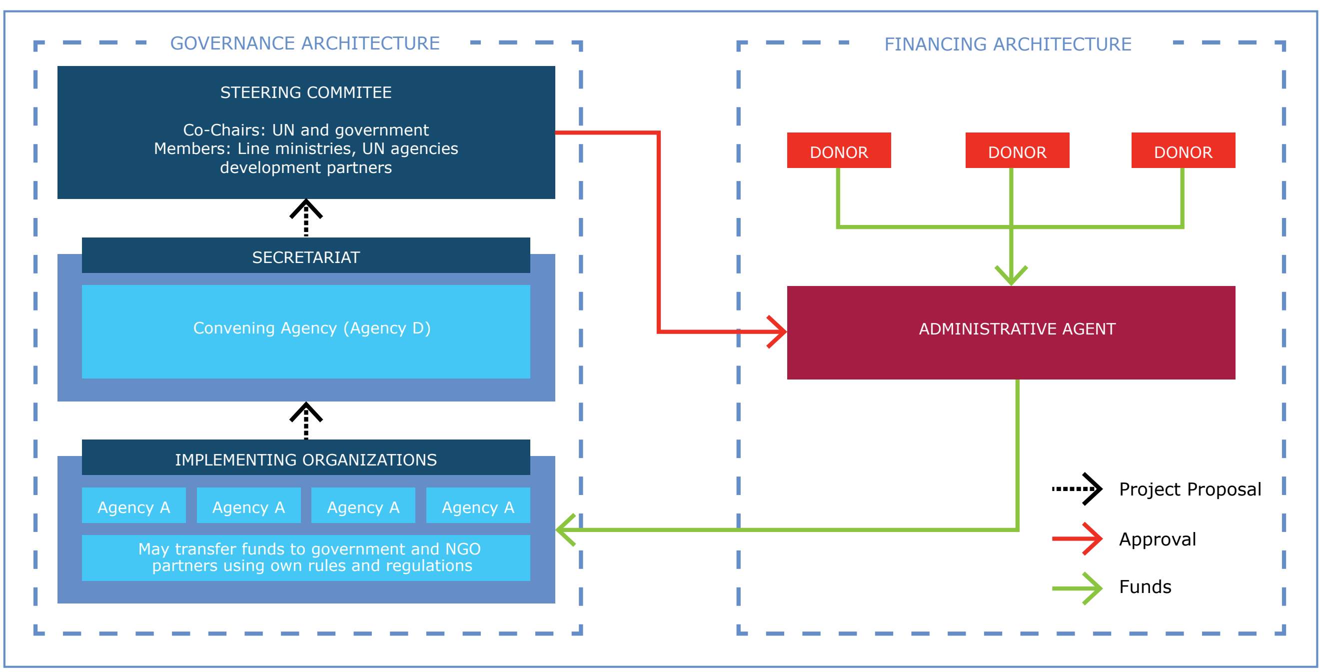
[9] General Assembly resolution 71/243, paragraph 33.

The UNDG estimates that for UN pooled funds to function as centres of gravity and deliver on their coherence function, they should roughly channel 15 percent of non-core resources.[10] In 2015, the UN non-core expenditures through pooled funds only met this threshold in 20 programme countries, leaving substantial scope for UNCTs to make greater use of this financing instrument to plan for more coherent and integrated UN support to deliver the 2030 Agenda.

UN pooled funds, whether joint programme funds or multi donor trust funds (MDTF), are built around a **pass-through mechanism** for which standard UNDG policies and procedures have been developed.[11] Contributions from multiple donors are received by an Administrative Agent and co-mingled. A Steering Committee makes collective decisions on allocations to participating UN organizations. Financial and narrative reports are consolidated to present donors and partners with a comprehensive UN view of programme implementation. See Figure 2 for an example of a pass-through joint programme.

[10] See the 2016 UNDG paper, "The Role of UN Pooled Financing Mechanisms to deliver the 2030 Sustainable Development Agenda."

[11] Some joint programmes may use parallel funding.



4. LESSONS LEARNED, TIPS AND GOOD PRACTICE FROM REAL COUNTRY EXAMPLES

MDTFs are standard UNDG pass-through mechanisms that are large in scale (with a threshold of $5 million per year) and designed to support a broad but clearly defined programmatic purpose and results framework based on a shared theory of change. The MDTF purpose is achieved through a number of high-level outcomes and a larger set of outputs (or projects). At country level, One Funds are an example of MDTFs built around an UNDAF as its underlying programmatic framework.

In many countries affected by conflict, the UN has successfully established MDTFs for programmatic purposes directly linked to the specific country context, such as humanitarian response plans or plans for sustaining peace. As outlined in the 2016 UNDG paper, [12] bridging the silos of humanitarian, peace and security, and development assistance is a key comparative advantage of establishing pooled funding mechanisms because they foster a collective analysis of priorities beyond individual agency mandates and programmatic silos.

In this context, major progress has been achieved in strengthening the partnership with multilateral institutions. In particular, agreements have been reached with the World Bank, the European Commission, the African Development Bank, the Inter-American Development Bank and the European Investment Bank on how to channel their contributions through UN pass-through arrangements. In a number of countries, such as Somalia and Ukraine, UN and World Bank financing instruments (and those of the African Development Bank and Caribbean Development Bank) have been established side by side and integrated in a common platform/financing architecture. A good example is the adoption of a common methodology and the joint undertaking of recovery and peacebuilding assessments with the European Union and the World Bank, which have led to a greater integration of European Union, World Bank and UN financing mechanisms to support national recovery and peacebuilding strategies.

Joint programmes are a second major type of pooled financing mechanism. A joint programme is a set of activities contained in a joint work plan and budget, involving two or more UN organizations, which are intended to achieve results aligned with national priorities as reflected in UNDAFs. The roles and responsibilities of coordinating and managing the joint activities are outlined and agreed upon in the joint programme document. The most common joint programme modality also follows the pass-through modality. This approach differs from the MDTFs, however, by being more limited in nature, involving only two to five UN organizations. All activities under a joint programme are already fully designed and budgeted from the onset.

The UN inter-agency financing tool box includes other useful tools such as agreements for UN-to-UN transfers (add link) or for one UN agency to manage resources provided by sister agencies to lead the work with a specific partner (Managing Agent in a pooled fund management joint programme). Over the years, the UNDG has adopted many harmonized (but flexible) templates and legal documents to facilitate UN cooperation at the country level. Today, a coherent and comprehensive legal package is in place that greatly reduces the difficulties of establishing joint funding mechanisms.

[12] See the 2016 UNDG paper, "The Role of UN Pooled Financing Mechanisms to deliver the 2030 Sustainable Development Agenda." (To be updated)

5. TOOLS AND RESOURCES

STEP 1: MAPPING THE FINANCIAL LANDSCAPE

Build on existing data

Inter-agency Task Force (UN Department of Economic and Social Affairs)

World Development Indicators

The OECD's work on Total Official Support for Sustainable Development (TOSSD)

Development Initiatives

Development finance assessment

Achieving the SDGs in the Asia and Pacific region in the era of the Addis Ababa Action Agenda

Strengthening Finance for the 7th Five Year Plan and SDGs in Bangladesh

Development Finance and Aid in the Philippines

Development Finance for Sustainable Development Goals in middle income Vietnam

STEP 2: ASSESSING THE UN FUNDING GAP AND PREPARING A COMMON BUDGETARY FRAMEWORK

TBC

STEP 3: DEVELOPING A FINANCING STRATEGY TO ADDRESS THE UN FUNDING GAP

Accessing foundations

Foundation Center

World Bank/UNDP Climate Finance Platform

Biodiversity finance

Innovative finance

Blending finance

World Economic Forum, Blended Finance Toolkit

UNDP, Financing Solutions for Sustainable Development

The Malawi Innovation Challenge Fund

Tropical Landscapes Finance Facility

Leveraging finance

Catalysing Ocean Finance

Current resource mobilization strategies
These can be found through the UNDG website:

- Albania Joint Resource Mobilization Strategy
- Armenia Joint Resource Mobilization Strategy
- Belize Joint Resource Mobilization Strategy
- Botswana Joint Resource Mobilization Strategy
- Burundi Joint Resource Mobilization Strategy
- Cape Verde Joint Resource Mobilization Strategy
- Comoros Joint Resource Mobilization Strategy
- Dijibouti Joint Resource Mobilization Strategy
- Eritrea Joint Resource Mobilization Strategy
- Ethiopia Joint Resource Mobilization Strategy
- Guinea Bissau Joint Resource Mobilization
- Liberia Joint Resource Mobilization Strategy
- Moldova Joint Resource Mobilization Strategy
- Pakistan Flagship Programmes Under One UN Programme
- Rwanda Joint Resource Mobilization Strategy
- Zimbabwe Joint Resource Mobilization Strategy

STEP 4: MOBILIZING COMMON RESOURCES FOR COLLECTIVE ACTION

Further information on pooled funding can be found through the MPTF Office.

For further questions and ideas, please join the Yammer site Funding to Financing.

UNITED
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GROUP

The United Nations Development Group (UNDG) unites the 31 UN funds, programmes, specialized agencies, departments, and offices that play a role in development. Since 2008, the UNDG has been one of the three pillars of the UN System Chief Executives Board for Coordination, the highest-level coordination forum of the United Nations system.

At the regional level, six Regional UNDG Teams play a critical role in driving UNDG priorities by supporting UN Country Teams with strategic priority setting, analysis and advice.

At the country level, 131 UN Country Teams serving 165 countries and territories work together to increase the synergies and joint impact of the UN system.

The Development Operations Coordination Office (DOCO) is the secretariat of the UNDG, bringing together the UN development system to promote change and innovation to deliver together on sustainable development.

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