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Potential Financial Frameworks for a Sustainable UNEO

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Disclaimer : The analysis and conclusions presented in the study are those of their authors



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Abstract

A recent study¹ undertaken by COWI, a Danish consultancy, and co-financed by the French Ministry of Foreign Affairs and the Agence Française de Développement examines the potential financial frameworks for a future United Nations Environment Organisation (UNEO), according to the possible future role of this institution. The conclusions are based on three possible scenarios which have been largely defined by the French Ministry of Foreign Affairs and the AFD. The scenario 1 implies an upgrading of United Nations Environment Programme (UNEP) to a specialized agency, without any change in the functions or role of the institution. In scenario 2, UNEO is primarily a normative body with implementation largely limited to Bali Strategic Plan capacity-building activities but no implementation of projects for the Global Environment Fund (GEF). In the third scenario, UNEO's normative role is reinforced as well as its implementation of capacity building activities, including programmes and projects implemented for the GEF, bilateral donors and other sources of funding. A scenario "3 plus" elaborates on the possible changes in the relation between UNEO and GEF, including co-location (transfer of the GEF to Nairobi, UNEO representation in Washington), policy and scientific guidance from UNEO to the GEF, etc.

On the basis of the main financing sources currently available for international organisations, the study estimates that scenario 1 would be financed up to 60% by assessed

contributions, 29% by voluntary contributions, 8% by innovative financing sources and 3% by private sector contributions, whereas scenarios 2 and 3 would be financed up to 65% by assessed contributions, 24% by voluntary contributions, 8% by innovative financing and 3% by private sector contributions. Concerning scenario "3 plus", the study considers that GEF relocation to Nairobi is not realistic and would not have significant cost saving implications. Conversely, a stronger UNEO representation in Washington (headquarters remaining in Nairobi) would be very valuable to provide for strengthened scientific and policy guidance from UNEO to the GEF.

Assessed contributions are to finance the administrative budget of the organisation as well as its normative activities, whereas voluntary contributions would finance implementation programmes. Concerning the different options for innovative financing contributions (air tax, International Finance Facility, carbon tax, lottery etc), none seem to be realistic in the short term. As for private sector contributions, there is a potential for an increase, considering the present very low level for UNEP (1%).

The linkage between a UNEO and the reform of UN operational activities, according to the "One UN" principle, will be determining for the precise definition of UNEO mandates activities and thus for the necessary financing framework of the institution.

¹ Analysis of the potential financial framework for sustaining a United Nations Environment Organisation (UNEO), April 2007.

Résumé

Une récente étude menée par COWI, un cabinet de consultants danois, et cofinancée par le ministère français des Affaires étrangères et l'Agence française de développement, examine les possibilités de financement d'une Organisation des Nations unies pour l'Environnement (ONUEN) en fonction du futur mandat éventuel d'une telle institution. Les conclusions se basent sur trois hypothèses de scénarios. Le scénario 1 suppose une simple transformation du Programme des Nations unies pour l'Environnement (PNUE) en institution spécialisée, sans autre changement de fonctions ou de rôle. Dans le scénario 2, l'ONUEN serait principalement une institution normative, et perdrait la fonction d'organisme d'exécution des projets financés par le Fonds mondial pour l'Environnement (FEM). Dans un troisième scénario, l'ONUEN verrait son rôle normatif renforcé et développerait ses activités de renforcement des capacités. Un scénario « 3 plus » a essayé d'évaluer comment les relations entre l'ONUEN et le FEM pourraient évoluer, y compris colocalisation (transfert du FEM à Nairobi, représentation de l'ONUEN à Washington), définition par l'ONUEN de directives scientifiques et politiques en direction du FEM.

Sur la base des sources de financement actuellement disponibles pour des organisations internationales, l'étude estime que le scénario 1 serait financé à 60 % par des contributions obligatoires, 29 % par des contributions

volontaires, 8 % par des financements innovants et 3 % par le secteur privé, tandis que les scénarios 2 et 3 seraient financés à 65 % par des contributions obligatoires, 24 % par des contributions volontaires, 8 % par des financements innovants et 3 % par le secteur privé. Sur le scénario « 3 plus », le rapport considère qu'une délocalisation du FEM à Nairobi n'est pas réaliste et n'aurait pas d'implication financière significative. En revanche, un bureau de représentation renforcé de l'ONUEN à Washington (en laissant le siège à Nairobi) serait tout à fait utile afin de renforcer les directives scientifiques et politiques de l'ONUEN sur le FEM.

Les contributions obligatoires financeraient le budget de l'organisation et ses activités normatives tandis que des contributions volontaires financeraient des programmes spécifiques. S'agissant des différentes options de financement innovants possibles (taxe carbone, taxe sur les armes, loterie...), il apparaît qu'à court terme, aucune n'est cependant réaliste. Quant aux contributions du secteur privé, il existe un potentiel important d'augmentation compte-tenu d'un niveau actuel très faible pour le PNUE (1 %).

L'articulation entre la mise en place d'une ONUEN et celle de la réforme des activités opérationnelles des Nations unies sur le terrain, dans le cadre du « One UN », sera déterminante pour affiner la définition des activités, et donc du financement nécessaire, de l'institution.

1. The current international environmental governance (IEG) system suffers from numerous weaknesses and its financing appears inappropriate

Environmental issues have influenced the work of almost all UN organisations during recent decades. As a consequence, the current IEG is mainly composed of numerous institutional structures that are fragmented and inadequate to meet the challenges. This system is not performing well and its acknowledged weaknesses can be summed up as follows:

- Fragmentation of the institutional structures and lack of political guidance
- Insufficiency in the implementation of commitments in terms of capacity-building
- Lack of an authority to mainstream environment in development strategies
- Compartmentalization and difficult access to scientific databases on environment
- Difficulties to face the numerous multilateral commitments in the field of environment
- Absence of information and mobilisation capacities at the international level
- Need for a stronger mandate in the field of prevention and reduction of risks
- Lack of coherence in the operational activities
- Duplications

In addition, the United Nations Environment Program (UNEP), the UN's main environmental institution, is also considered weak, ineffective and inappropriate for the current challenges. These weaknesses are particularly reflected in UNEP's current funding which can be characterized by:

- A lack of political guidance, priority setting and long-term strategy. This is especially true with regard to UNEP's budget, as an increasing share of UNEP's

income is being earmarked, thus limiting the Governing Council's authority and policy setting autonomy;

- Fragmented and complex financing, consisting of voluntary contributions to the Environment Fund, trust funds as well as earmarked contributions leading to non-optimal allocation of resources due to duplications, and access difficulties, especially for developing countries;
- Unstable and unpredictable financing: the Top 15 donors accounted for 92-95% of total pledged contributions to the Environment Fund (that finances half of UNEP activities) during the period 2003-2005. The difficulties encountered to mobilise funds in a timely and consistent manner hamper the implementation of UNEP programme of work.
- The current IEG is extremely costly: each MEA has its own secretariat and Conference of the Parties which often lead to the establishment of sub working groups and imply high travel costs, increase reporting burdens and the financing of experts to draft them.

Furthermore, the resources granted to UNEP to fulfil its mandate are very limited compared to the funds for environment channelled through the Global Environment Facility (GEF), development banks, bilateral development agencies and other actors in the field. In August 2006, 32 donor countries pledged \$ 3.13 billion to the fourth GEF Replenishment, which will fund operations between 2006 and 2010, whereas UNEP has a 2006-2007 biennium budget of USD 283 million.

In this context, there is an urgent need to create an organisation such as UNEO able to guide the translation of environmental problems into remedial action. This requires a solid mandate and funding base which does not exist for UNEP today.

2. The cost and financing of a UNEO is closely related to the future mandate of the new structure

Given that the international debate on UNEO is at an early stage and that UNEO activities therefore have not been precisely defined, COWI has examined different possible

scenarios which describe in relatively broad terms how UNEP could be changed into a UNEO through changes to its functional mandates and roles.

2.1. Identifying “building blocks” to define the activities of a future UNEO

Although UNEP’s budgets are not activity or output based, a comprehensive analysis of UNEP’s programme of work allowed COWI to make an estimated breakdown of UNEP’s current activities into the following functional “building blocks”:

- (A) Coordination
- (B) Policy advice and guidance
- (C) Scientific knowledge, assessment and cooperation
- (D) Treaty compliance, while respecting the legal autonomy of the treaties
- (E) Integration of environmental activities in the broader sustainable development framework at operational level

(F) Capacity building (linking the normative work and operational activities).

(G) General management and administration

These functions are a grouping of UNEP’s current activities and areas that the UN General Assembly (UNGA) Informal Consultative Process as well as the High Level Panel have identified as focus areas for enhancing the environment pillar of the UN².

Additional activities could be added, in particular advocacy or outreach capacity as well as the normative function.

² UN High Level Panel (2006): Delivering as One. Report of the Secretary-General’s High-Level Panel. United Nations, New York; The President of the General Assembly: Co-Chairs’ Summary of the Informal Consultative Process on the Institutional Framework for the UN’s Environmental Activities, 27 June 2006; “Objectives and mandate of a UNEO” contained in Note prepared by the French Ministry of Environment for the EU informal group retreat on international environmental governance 15 - 16 October 2006 addressing “Objectives and mandate of a UNEO”; UNEP (2006): UN Reform, Implications for the Environmental Pillar. Issue Paper. UNEP, Nairobi, 4 May 2006; General Assembly: Draft resolution referred to the High-level Plenary Meeting of the General Assembly by the General Assembly at its fifty-ninth session. 2005 World Summit Outcome. Paragraph 169. 15 September 2005.

2.2. Possible scenarios for a UNEO

These building blocks have made it possible to divide UNEP's current budget into activities and to assess the costs of a future UNEO according to increases or decreases in these activity areas, as described in the following scenarios.

In scenario 1, it is considered that the functions and activities of UNEO will be similar to those of UNEP. Other agencies operating in the environment field would neither be integrated into the new agency nor disbanded. UNEO, the MEA secretariats and the Global Environment Facility (GEF) will maintain their own separate budgets as it is the case today. UNEO will undertake implementation of projects and programmes funded by the GEF, other funding agencies as well as implementation of the Bali Strategic Plan for Technology Support and Capacity Building as presently planned.

Scenario 2 describes a situation where UNEO is primarily a normative body, setting priorities for environmental actions at high level and providing guidance. UNEO in this scenario is expected to improve the facilitation and coordination of norm-building and norm-implementation processes in comparison to UNEP. Coordination with other IEG-institutions, especially MEA secretariats, to rationalise conferences, meetings and other work processes will be substantially enhanced, including through clustering. UNEO will not undertake programme or project implementation at country level. UNEO's implementation role will be limited to overall Bali Strategic Plan capacity-building activities. It will not act as an implementing agency for the GEF or implement programmes or projects based on bilateral or other similar funding but coordination with the GEF will be significantly enhanced.

The proposed UNEO structure in scenario 2 will include some consultative scientific boards and strengthened regional offices.

The Consultative Scientific Boards will be networks of national / regional and international thematic experts identified by Division heads and drawing on the work of existing bodies, mandated to undertake 'special projects', they will develop national reports, pilot programmes at country level, provide scientific evidence, evaluate UNEP's in-house environmental monitoring and assessment work, and provide recommendations on emerging environmental issues and emergencies. Thematic issues could include; biodiversity, chemicals, sustainable consumption and production, marine issues and water resource management.

In this scenario, the Regional Offices are also to be strengthened in line with the Bali Strategic Plan, in order to ensure that norms are well-known and implemented at the country level.

The third scenario is equal to Scenario 2 with the addition of more implementation activities. These include implementation of Bali Strategic Plan activities at country level as well as programmes and projects implemented for the GEF, bilateral donors and other sources of funding.

To operationalise the scenarios and make cost and financing projections, COWI worked with the functional building blocks defined in section 2.1., by combining, adding or deducting activities according to the different considered scenarios. This analysis is based on the distribution of current activities of UNEP as defined in Table 1.

2. The cost and financing of a UNEO is closely related to the future mandate of the new structure

Table 1. Distribution of activities in the 2005-2006 work program according to roles/functions by percentage (%)

| Category | DEWA | DPDL | DEPI | DTIE | DRC | DEC | DCPI | Prog. support functions | Mngt and adm. |
|---|------------|------------|------------|------------|------------|------------|------------|-------------------------|---------------|
| (A) Coordination | 10 | 10 | 10 | 5 | 30 | 10 | 10 | 0 | 0 |
| (B) Policy advice and guidance | 10 | 10 | 20 | 25 | 20 | 20 | 0 | 0 | 0 |
| (C) Scientific knowledge etc. | 55 | 10 | 0 | 15 | 10 | 10 | 30 | 0 | 0 |
| (D) Treaty compliance | 0 | 30 | 10 | 10 | 5 | 30 | 20 | 0 | 0 |
| (E) Integration of environment | 15 | 0 | 0 | 10 | 20 | 5 | 35 | 0 | 0 |
| (F) Capacity building | 10 | 40 | 60 | 35 | 15 | 25 | 5 | 0 | 0 |
| (G) General management and administration | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 100 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

DEWA, DPDL, DEPI, DTIE, DRC, DEC, DCPI are the current functional divisions of UNEP :

- . Division of Early Warning and Assessment (DEWA)
- . Division of Policy Development and Law (DPDL)
- . Division of Environmental Policy Implementation (DEPI)
- . Division of Technology, Industry and Economics (DTIE)
- . Division of Regional Coordination (DRC)
- . Division of Environmental Conventions (DEC)
- . Division of Communications & Public Information (DCPI)

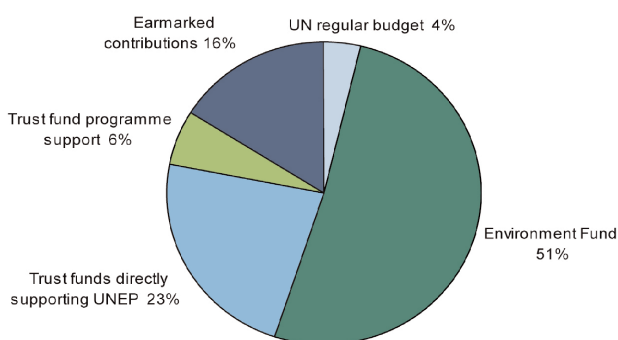
3. Costing and financing UNEO

3.1. Costing the UNEO scenarios

In order to establish the running costs and the potential financing resources of a future UNEO, the current costs of UNEP serve as a starting point. UNEP has a 2006-2007 biennium budget of USD 283 million or USD 141.5 million per year. The Environment Fund is the main financing source (51%) and contributions are voluntary in nature. The only financing source of UNEP that is predictable is the funding from the UN regular budget of approximately USD 10.5 million (corresponding to 4% of the total funding). In order to compensate for this instability, UNEP has since 2003 embarked on an alternative funding model by introducing a

Voluntary Indicative Scale of Contributions (VISIC) which aims at broadening the donor base and making their contributions more adequate and predictable. The UN scale of assessment³ has been used as a guiding principle for the VISIC. The main difference between the Indicative Scale of Contributions for UNEP and the scales used in the selected United Nations specialised agencies and UNEP conventions is that contributions to the Environment Fund of UNEP remain voluntary, whereas the payments to specialised agencies are assessed.

Figure 1: UNEP funding in the biennium 2006-7



Notes *: Includes programme reserve of USD 6 million. **: Includes Reimbursement for services of USD 11.9 million of Trust Funds related to MEAs (incl. Multilateral fund) and GEF

³ The contributions of member states to the regular United Nations budget are set under the United Nations scales of assessments. The scale is based broadly on "capacity to pay" as measured by member states' shares of the combined world national income and other factors. It includes discounts for countries with low per capita income.

The costing of the UNEO scenarios has been based on some key conditions. First, upgrading UNEP to UNEO should not create significant new financial obligations for low income countries. Secondly, the legal and financial autonomy of the MEAs should be maintained. It has further been assumed that UNEP's budgeted costs for the biennium 2006-2007 apply to the future UNEO.

COWI has developed a model to assess the costs implications of changing the functional roles of the present UNEP. With this model it is possible to reduce or increase the activity levels of the various functional areas as grouped according to the above building blocks with different factors. Factor 1.15 means an increase of 15% of the activity level and resources allocated to the activities grouped under a particular building block, a factor of 0.80 means a decrease of 20%, etc. This rests on the assumption of a linear relation between activities and associated costs.

The costing of the scenarios has the following cost elements:

- the functional programmes/divisions of UNEO (including the 7 sub-programmes and divisions);
- programme support of UNEO (includes the programme coordination, evaluation and other administrative organs);

- management and administration of UNEO (including servicing the governing and executive bodies, and executive management and outsourcing administration to UNON, UNOG, other UN offices).

In addition to the costing of the four UNEO scenarios, the potential gain from clustering the MEA secretariats has been analysed. The analysis is based on the analysis performed by UNEP for the secretariats for the chemicals and waste conventions (Basel, Rotterdam and Stockholm). There are no such detailed analyses available for nature or other conventions; therefore the savings potential of the chemicals cluster has been applied to these other conventions.

In scenario 1, as described in section 2.2., the functions and activities of UNEO remain the same as those of UNEP. In this scenario, the management structure is very much comparable to the current management organisation. Therefore it is assumed that the new organisational structure will not have any cost implications compared to the current budget. In other words, the cost of servicing the governing and subsidiary bodies of UNEO, administrating the organisation (reimbursement to UNON, UNOG and others) will be similar to that of UNEP today. The estimated costs of the UNEO scenario 1 are presented in Table 2.

Table 2. Scenario 1 costing (excl. UNEP administered MEA secretariats)

| Category | Functional divisions | Management and administration functions | Total cost in the biennium | Total Annual costs |
|--|----------------------|---|----------------------------|--------------------|
| (A) coordination | 29,461 | - | 29,461 | 14,731 |
| (B) Policy advice and guidance | 43,548 | - | 43,548 | 21,774 |
| (C) Strengthening scientific knowledge, assessment and cooperation | 25,827 | - | 25,827 | 12,914 |
| (D) Treaty compliance, while respecting the legal autonomy of the treaties | 28,554 | - | 28,554 | 14,277 |
| (E) Integration of environmental activities in the broader development framework at operational level | 26,179 | - | 26,179 | 13,090 |
| (F) Capacity building and technology support: linkages between the normative work and operational activities | 85,732 | - | 85,732 | 42,866 |
| (G) General management and administration | - | 26,114 | 26,114 | 13,057 |
| Total | 239,301 | 26,114 | 265,416 | 132,708 |

In scenario 2, UNEO is primarily a normative body, setting priorities for environmental actions at high level and providing guidance. For scenario 2, three options have been explored:

- Option a: no increase in the total budget;
- Option b: a total budget increase by 7%;
- Option c: a total budget increase by 17%.

The setting of the factors are 'best guess' options, based on key documents on the IEG reform and establishment of UNEO e.g. the High Level Panel's report "Delivering as One", the UNGA informal consultative process on IEG and the papers provided by the French Ministry of Foreign Affairs as their input to EU discussions on IEG and UNEO.

Table 3. Scenario 2 UNEO costing (excl MEA clustering gains)

| Category | Scenario 2-a | | Scenario 2-b | | Scenario 2-c | |
|---|--------------|---------------------------|--------------|---------------------------|--------------|---------------------------|
| | Factor | Total annual costs in USD | Factor | Total annual costs in USD | Factor | Total annual costs in USD |
| | | 1,000 | | 1,000 | | 1,000 |
| (A) coordination | 1.15 | 15,854 | 1.25 | 17,233 | 1.40 | 19,301 |
| (B) Policy advice and guidance | 1.15 | 23,954 | 1.25 | 26,037 | 1.40 | 29,162 |
| (C) Strengthening scientific knowledge, assessment and cooperation | 1.15 | 24,324 | 1.25 | 26,439 | 1.40 | 29,612 |
| (D) Treaty compliance, while respecting the legal autonomy of the treaties | 1.00 | 14,277 | 1.00 | 14,277 | 1.10 | 15,704 |
| (E) Integration of environmental activities in the broader development framework at operational level | 1.00 | 12,145 | 1.00 | 12,145 | 1.00 | 12,145 |
| (F) Capacity building and technology support : linkages between the normative work and operational activities | 0.80 | 29,969 | 0.90 | 33,715 | 1.00 | 37,461 |
| (G) General management and administration | 1.00 | 13,057 | 1.00 | 13,057 | 1.00 | 13,057 |
| Budget increase and total annual costs | 0% | 133,581 | 7% | 142,904 | 17% | 156,443 |

Scenario 3 is equal to Scenario 2 with the addition of more implementation activities. These include implementation of Bali Strategic Plan activities at country level as well as programmes and projects implemented for the GEF, bilateral donors and other sources of funding. In this respect, UNEO should participate in United Nations country teams through the resident coordinator system.

As for scenario 2, three options have been considered:

- Option a: identical to option a of scenario 2 but an increase of capacity building of 20% compared to the level currently undertaken by UNEP today.

Option b: identical to option b of scenario 2 but with a further increase in the capacity building activities, corresponding to a 30% higher level than today.

Option c: identical to option c of scenario 2 but with a further increase of the capacity building activities, corresponding to a 40% higher level than today.

As regards scenario 3 plus the GEF-related scenario, there are no significant cost implications of this scenario.

The estimated total costs of the options under the UNEO scenario 3 are presented in table 4. The potential rationalisation gains from MEA clustering have not been included in the cost figures.

Table 4. Scenario 3 UNEO costing (excl MEA clustering gains)

| Category | Scenario 3-a | | Scenario 3-b | | Scenario 3-c | |
|--|--------------|---------------------------------|--------------|---------------------------------|--------------|---------------------------------|
| | Factor | Total annual costs in USD 1,000 | Factor | Total annual costs in USD 1,000 | Factor | Total annual costs in USD 1,000 |
| (A) coordination | 1.15 | 15,854 | 1.25 | 17,233 | 1.40 | 19,301 |
| (B) Policy advice and guidance | 1.15 | 23,954 | 1.25 | 26,037 | 1.40 | 29,162 |
| (C) Strengthening scientific knowledge, assessment and cooperation | 1.15 | 24,324 | 1.25 | 26,439 | 1.40 | 29,612 |
| (D) Treaty compliance, while respecting the legal autonomy of the treaties | 1.00 | 14,277 | 1.00 | 14,277 | 1.10 | 15,704 |
| (E) Integration of environmental activities in the broader development framework at operational level | 1.00 | 12,145 | 1.00 | 12,145 | 1.00 | 12,145 |
| (F) Capacity building and technology support: linkages between the normative work and operational activities | 1.20 | 29,969 | 1.30 | 33,715 | 1.40 | 52,445 |
| (G) General management and administration | 1.00 | 13,057 | 1.00 | 13,057 | 1.00 | 13,057 |
| Budget increase and total annual costs | 9% | 133,581 | 16% | 142,904 | 17% | 156,443 |

3.2. Potential financial frameworks for a UNEO

The key funding sources of UN organisations, secretariats, etc. may be summarised as shown in Table 5.

Table 5. Funding sources for UN organisations

| Funding sources for the UN | Relevant to funds and programs | Relevant to secretariats, specialised agencies and peace keeping operations |
|---------------------------------------|---|--|
| Assessed contribution or subscription | | Resources supplied in line with the scale of contributions of the UN to the UN secretariat, the UN specialised agencies and peacekeeping operations. Member States of the UN and the specialised agencies are obliged to pay this contribution. |
| Voluntary funding | All core funding provided to the funds and Programmes is known as voluntary funding | Resources supplied to organisations that are receiving assessed funds in addition to these funds are commonly referred to as voluntary. They can be either earmarked or not. |
| Core resources | Resources that can be used as core budget resources by the UN funds and programmes. In the case of funds and programmes they are voluntary. They are not earmarked for any particular purpose, and can be used by the organisation in line with the objectives set out in their Medium term Plan. | Sometimes used to refer to the assessed contribution to specialised agencies. |
| Extra-budgetary contributions | | A term sometimes used to describe the funds provided to specialised agencies over and above their income from assessed contributions. They are sometimes earmarked for particular purposes or themes, or, occasionally, provided without being tied to a particular purpose. These funds are voluntary in nature, i.e. Member States are not obliged to provide them. They have largely been used to support the development work of the specialised agencies. |
| Earmarked funding | Earmarked funding is the term used for funding to funds and programmes that has earmarking on a thematic, regional or project basis. It can be provided at Headquarters or at the country level. | Sometimes used to refer to voluntary funding for specialised agencies that is earmarked. |

Source: Secretary-General's High level Panel on UN system-wide Coherence in the Areas of Development, Humanitarian Assistance, and the Environment. Funding for results: funding the UN system on Development, Environment and Humanitarian Relief.

In this context, UNEO, as a specialised agency, could benefit from different sources of financing, as presented in Table 6.

Table 6. Use of potential financing sources for a future UNEO – Scenarios 1-3

| Financing source | Assumed use of resources on UNEO functions |
|---|--|
| Core funding (assessed contributions) | Assessed contributions are going to finance the bulk (approx. 85%) of the costs related to UNEO's normative, scientific and coordination functions as well as core management and administration costs. |
| Voluntary funding (including trust funds and earmarked contributions) | Voluntary funding would be the main source of financing UNEO's development/implementation activities but could also finance other parts of UNEO's budget to the extent that paid-up assessed contributions as well as contributions from innovative financing sources and the private sector are inadequate to finance the total budget. |
| Innovative financing (short term) | Given the uncertainty associated with realisation of innovative financing sources it is assumed that these sources will only account for approx. 8% of the total financing requirements of UNEO in each scenario. |
| Private sector contributions | Private sector contributions have accounted for 1% of UNEP's budget on average in recent years. It is assumed that this share can be tripled to about 3% in a future UNEO. |

(i) Contributions of governments

The system of assessed contributions was designed to support activities of the UN in which all member states have an interest, principally the setting of global norms and standards and ensuring the provision of global public goods, while voluntary funding should primarily be used for development expenditures, i.e. implementation of projects and programmes. Based on the very rationale for creating a UNEO it is very conceivable that assessed contributions should provide the bulk of funding for a future UNEO.

COWI has assumed that assessed contributions are going to finance the greater part (approximately 85%) of the costs related to UNEO's normative, scientific and coordination functions as well as core management and administration costs. Table 7 below shows the estimated share of resources accounted for by these functions in the three scenarios. On this basis it is assumed that core funding in the form of assessed contributions will finance

60%, 65% and 60-65% of the UNEO budgets in the Scenarios 1, 2 and 3 respectively (cf. Table 8).

The principle that has prevailed until now in the UN system is that voluntary funding should be the main source for financing development activities. In the case of UNEO, such development activities primarily include capacity building with the addition of some other implementation activities. In addition to financing development expenditure, voluntary funding is assumed also to finance part of UNEO's core, management

and administrative functions to the extent that paid-up assessed contributions as well as contributions from innovative financing sources and the private sector are inadequate to finance the budget. It is assumed that voluntary funding will finance 29%, 24% and 24-29% of the UNEO budgets in the Scenarios 1, 2 and 3 respectively (cf. Table 8).

(ii) Private sector contributions

So far it has been difficult to attract private sector contributions to finance UNEP's budget. It is believed, however, that a UNEO could gain from the concepts and experience of particularly the GEF and thereby maybe triple (from a relatively low base) the share that private sector financing accounts for.

Activities undertaken by the GEF are generally targeted at assisting member states in meeting their obligations under the environmental conventions, for which the GEF acts as a financial mechanism. Such implementation activities often involve investments in new processes and technologies aimed at changing production paradigms, disposal of waste etc. These types of activities are well suited for the involvement of the private sector. This is less the case for the kind of implementation activities that UNEP has undertaken in the past and that a UNEO is likely to be involved in once created. The assumed increase in contributions from the private sector is therefore relatively modest.

The approach that UNEO, once established, could use to mobilise additional private financing contributions could include:

- mapping of its normative as well as implementation activities against possible private funding sources, possibly embedded in public-private partnerships;
- review the experiences gained under the UNEP FI as well as the strategies followed by the GEF, other UN organisations and bilateral agencies to attract private sector finance;
- develop a strategy for attracting private finance for each type of function (A) to (F) described in Section 2.1.

(iii) Innovative financing

With a few exceptions, most of the innovative financing pos-

sibilities that have been discussed in recent years have faced difficulties in gathering sufficient support to allow their implementation. In the case of UNEO, the most promising proposals in the short term would seem to be some form of International Finance Facility (IFF) in line with the pilot IFF for Immunisation (IFFIm), the use of Special Drawing Rights (SDRs) for development purposes, and with a lower likelihood donations and global lottery funds. In the longer term some type of carbon emission tax may be adopted to supplement the current mechanism of the Kyoto Protocol. Below it is assumed that around 8% of UNEO's financing requirements may come from such sources – depending on when UNEO would become a reality.

Table 7. Estimated distribution of expenditures by function in UNEO scenarios

| | Scenario 1 | Scenario 2 | | | Scenario 3 | | |
|---|--------------|------------|---------|---------|------------|---------|---------|
| | (% of total) | 2.a | 2.b | 2.c | 3.a | 3.b | 3.c |
| Normative, scientific and coordination functions (A,B, C, D, and E) | 62 | 67 | 67 | 68 | 67 | 67 | 62 |
| Capacity building (F) | 28 | 23 | 24 | 24 | 23 | 24 | 31 |
| Gen. management and adm. (G) | 10 | 10 | 9 | 8 | 10 | 9 | 8 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Total budget increase compared to present level | 0 | 0 | 7 | 17 | 9 | 16 | 29 |
| Annual budget (USD 1,000) | 132,708 | 132,708 | 142,904 | 156,443 | 133,581 | 142,904 | 171,427 |

Table 8. Possible financing of a future UNEO – Scenarios 1-3

| Financing source | Share of total budget (%) | | | | | | |
|---------------------------------------|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Scenario 1 | Scenario 2.a | Scenario 2.b | Scenario 2.c | Scenario 3.a | Scenario 3.b | Scenario 3.c |
| Core funding (assessed contributions) | 60 | 65 | 65 | 65 | 65 | 65 | 60 |
| Voluntary funding | 29 | 24 | 24 | 24 | 24 | 24 | 29 |
| Innovative financing | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Private sector contributions | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Conclusion

The international community acknowledges the need for a renewed international environmental governance. The flaws and weaknesses of the current system are very apparent. Nonetheless, consensus on the structure and mandate of a future UNEO is still to be found. In this context, assessing costs and financing of the future institution remains challenging.

The implementation of the “One UN” principle in the context of the reform of UN operational activities will also be of great importance for the functioning of UNEO. According to the UN High Level Panel and its report “Delivering as One”, the UN needs to overcome its fragmentation and deliver as one through a stronger commitment to working together on the implementation of one strategy, in the pursuit of one set of goals.

Therefore, the Panel recommends the establishment of One UN at country level, with one leader, one programme, one budget and, where appropriate, one office. The implementation of this proposal will particularly have an impact on the environmental activities and the link with UNEO will be determining for the success of such an initiative.

The regional level will be particularly crucial since it will be the pertinent level for linking normative and operational activities. UNEO will need strengthened regional offices in order to give sufficient inputs and guidance to the UN team at country level. The efficiency of the One UN team and the success of the One UN principle at the country level will have a deep impact on the resources and financing needed for UNEO.