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Article — Published Version

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Development Policy Review

Provided in Cooperation with:

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Suggested Citation: Baumann, Max-Otto (2021) : How earmarking has become self-perpetuating in United Nations development co-operation, Development Policy Review, ISSN 1467-7679, Wiley, Hoboken, NJ, Vol. 39, Iss. 3, pp. 343-359,
<https://doi.org/10.1111/dpr.12504>

This Version is available at:

<https://hdl.handle.net/10419/233698>

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ARTICLE

How earmarking has become self-perpetuating in United Nations development co-operation

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Funding information

This research was supported by the German Federal Ministry for Economic Cooperation and Development (BMZ).

Abstract

Motivation: The share of earmarked funding to the development pillar of the United Nations (UN) has risen to a record level of 79% (2018) of its total revenue/spending. This poses severe implications for the organizational efficiency, aid effectiveness and multilateralism of the UN. Reforms have not been able to stem the trend towards earmarked funding, raising the question of what explains the continued rise of earmarking in the United Nations Development System (UNDS).

Purpose: This article aims to add a new perspective on earmarking, specifically in the UN. It tries to explain not the root causes of earmarking, but the dynamics of the significant rise over the last decade. The argument is that earmarking has been driven by three vicious circles: by the rational factors associated with a collective action breakdown, a change in norms of appropriateness, and institutional fragmentation.

Approach and methods: The article draws on funding data from the UN, on 65 interviews with UN staff and donor representatives conducted in the context of a recent research project, and on document analysis. Special attention is given to two donors, Sweden and Germany, dedicated multilateralists that have increased their earmarked resources in recent years.

Findings: Conventional explanations of earmarking in the UN—dissatisfaction with the performance of UN organizations, the desire for more accountability, policy differences with organizations—cannot fully explain the significant rise in earmarking over the last decade. Empirical evidence supports the hypothesis that the UN system has reached a tipping point, so that earmarking has become self-perpetuating.

Policy implications: The findings put a question mark after the premises that have so far guided practical efforts by the UN and member states to reduce the share of earmarked funding. They suggest that more fundamental changes to rules and incentives are required to rebalance the UN's funding towards core contributions. Four specific recommendations are derived from the analysis.

KEYWORDS

development, earmarking, UN

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1 | INTRODUCTION

The UNDS consists of 36 sub-organizations, which include the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), the World Food Programme (WFP), and other entities that provide development services and humanitarian aid. With total funding of USD 36.4 billion in 2018, the UNDS represents, in financial terms, the largest pillar of the UN (the other pillars being security and human rights) and also surpasses other heavyweight multilaterals such as the World Bank and the European Union. As part of the "world organization" that has a universal membership, the UNDS is associated with a high degree of legitimacy and has various comparative advantages such as global reach, broad thematic coverage, accumulated expertise and norm- and standard-setting functions. Yet, all is not well with the UN's development work. There are the ever-present organizational problems and political conflicts in the UN, as well as chronic underfunding. This article concerns itself with yet another, more recent—and perhaps more fundamental—challenge to the UNDS, which is the rise of earmarked funding over the last two decades (Weinlich et al., 2020).¹

A contribution to the UN is considered as earmarked when donors provide it for a specific trust/pooled fund, programme or project, often with additional geographic, thematic or other proscriptions (rather than providing "core" or "unrestricted" resources to multilaterally agreed budgets). A total of 79% of all revenue to the UNDS was earmarked in this way in 2018. Such high levels of earmarking have a profound impact on how UN organizations—originally designed to run on core resources—operate. There exists a consensus among member states and in the expert community that earmarking creates high transaction costs for UN organizations, drives fragmentation, makes the UN less strategic and impactful, and damages the multilateralism that should carry the UN and its development work. Earmarking has direct consequences on aid effectiveness by undercutting the ownership of developing countries and through a propensity to encourage short-term projects that are focused on tangible, measurable results rather than tackling the more complex, long-term problems hindering sustainable transformations. In short, the UN's development work has, to a significant degree, become driven by earmarked resources rather than the multilateral agendas agreed in the executive boards through which member states that mandate and supervise the work of UN organizations.

Reducing the share of earmarked funding has been a prime concern in the UNDS ever since the late 1990s, when the volume of earmarked funding surpassed that of core resources in many UN organizations. Around that time, boards and agency documents identified earmarking as a threat to UN development organizations and their multilateral assets. Yet, the level of earmarking has continued to rise. The last decade even saw an accelerated increase in the share of earmarked funding, despite various efforts to keep a check on this trend. In 2017, the UN Secretary-General noted that "significant changes in funding are imperative" and took matters into his own hands. He proposed a "funding compact," which, after more than a year of negotiations, was agreed in 2019. In the funding compact, the UNDS committed to improve its accountability, efficiency and coherence, whereas member states committed to reciprocate by earmarking a smaller share of their contributions (UN, 2019, p. 3). The funding compact is a significant escalation in the attempt to rebalance the funding of the UNDS, but its success is a very open question.

The rise in earmarking funding to the UNDS since the 1990s, and in particular during the last decade, presents a riddle. UN organizations have achieved significant progress in the last two decades on the various demands that donors have set as conditions for providing core funding, such as better organizational performance, results-orientation, and transparency, as evidenced by

¹This article draws on this study, for which the author conducted 65 interviews with UN staff and donor representatives.

evaluations from, for example, the Multilateral Organization Performance Assessment Network (MOPAN). Yet, the same donors that have been sounding alarms in UN governing bodies about ever-rising levels of earmarking are among those that have been driving the trend towards greater earmarking.

Even long-standing, multilateral-minded providers of core contributions (also referred to as “multilateral funding” in the UNDS) have in recent years resorted to earmarked funding, despite their better convictions. Sweden and Germany are examples of this. Around 2012, Sweden significantly stepped up its earmarked funding to UNICEF, WFP, the UN High Commissioner for Refugees (UNHCR) and the UN Environment Programme (UNEP), whereas its core contributions to these UN organizations stagnated (Browne et al., 2017). Overall, the share of earmarked resources to the UNDS grew from 45.6% in 2013 to 62.6% in 2018.² Swedish diplomats still proudly hold up Sweden’s policy of providing only unrestricted funding to multilateral organizations. Sweden does indeed provide a relatively larger share (42%) of its earmarked funding for pooled funds, which the UN considers only “softly earmarked”—yet, the partial turn away from core contributions is clear and significant. Germany is another large donor to the UNDS that has transformed its funding over the last years (Weinlich et al., 2020). In around 2014, it began increasing its earmarked funding, becoming the second-largest donor to the UNDS in 2017. Germany’s portion of earmarked contributions to the UN grew from 67.3% in 2013 to 89.9% in 2018. This rise in earmarked contributions is connected with a sharp increase in humanitarian funding, large amounts of which were channelled into crisis countries in the Middle East. Like Sweden, Germany remains highly committed in its official governmental communications to multilateral organizations and values.

So how can the trend towards earmarked funding in the UNDS be explained, when it so clearly contradicts the better knowledge and multilateral convictions of donors—and indeed their regularly expressed commitments to acting on these? This article tries to shed light on this question and expand our understanding of earmarking by adopting a systemic perspective. The explanation offered here follows an analogy from other areas: just as acts of corruption help to entrench a corrupt political system, which individual actors find difficult to escape, so can earmarking create a system that abets further earmarking. In other words, the practice of earmarking has effects beyond the administrations of specific UN organizations, or the design and performance of a particular pooled fund, programme or project that is supported. Earmarking affects how the UN—as a system that links UN organizations and member states—works, and it can bring that system to a certain threshold, or tipping point, where earmarking becomes self-perpetuating.

The article differentiates three separate vicious circles, in which a high level of earmarking itself becomes a driver of further earmarking via systemic change. For heuristic purposes, these vicious circles can be linked to three research paradigms in the international relations research. The first vicious circle, which concerns a breakdown of collective action, reflects a rational approach that builds on game-theoretical considerations; the second reflects a social-constructivist approach and describes how earmarking becomes a new norm, or “standard of appropriateness,” that guides actors; the third reflects an institutional view that looks at how bureaucratic structures incentivize certain forms of behaviour.

Such a hypothesis about the self-perpetuating nature of earmarking can obviously neither explain the onset and early rise of earmarking, nor claim to provide a full explanation of earmarking. The purpose of this article is more modest. It aims to explain the more recent significant rise of earmarking in the UNDS beyond levels deemed sound and sustainable by stakeholders and experts, and in doing so complement existing explanations. The relevance of the article for development practice lies in

²Own analysis based on UN statistics on contributions for operational activities by contributor (UN Secretary-General, 2020).

shedding light on the difficulties of reforming UN funding. The article questions some of the premises that have guided efforts to reform the UNDS so far.

In the remainder of the article, I first discuss three of the most common assumptions about the causes of earmarked funding in the UNDS, and show how these assumptions, or the explanations inherent in them, cannot fully account for the rise in earmarking over the last two decades. I then introduce the systemic perspective on earmarking and present my analysis on three distinct vicious circles that reflect a rational, social-constructivist and institutional approach. The article concludes by presenting practical suggestions for reforming UN funding practices with the aim of strengthening its core funding.

2 | EXPLANATIONS OF EARMARKING IN THE UNDS

In reform discussions and the expert literature on the UNDS, one finds essentially three explanations of why member states earmark contributions to the UNDS. The scholarly literature presents a broader, more nuanced discussion of causes and motives of earmarking, some of which is cited below. However, the earmarking literature has so far almost exclusively focused on the World Bank, whereas earmarking in the UN has been neglected in the academic research, with the notable exception of some qualitative studies (Bayram & Graham, 2017; Graham, 2017; Sridhar & Woods, 2013; Weinlich et al., 2020). In the orbit of the UNDS, the most common assumptions are that member states earmark because:

1. They are dissatisfied with the performance of UN organizations.
2. They need to satisfy domestic demands for accountability.
3. They do not fully subscribe to the agreed policies of the respective organization.

In the following, let us take a look at each explanation separately. My analysis looks for co-variance and is guided by the question: can these factors explain the sharp rise in earmarked contributions over the last two decades (Figure 1)? The finding is that there is a certain plausibility to all three explanations. However, the changes in the drivers of earmarked funding appear to be not nearly significant enough to explain its dramatic expansion over the last 20 years.

1) According to the first explanation, which is found more in policy circles than in the scholarly literature, earmarking is a response to unmet needs regarding the efficiency and results-orientation of UN organizations (Muttukumaru, 2015; Reinsberg et al., 2015; Sridhar & Woods, 2013; Tortora & Steensen, 2014). Unsatisfied with how organizations operate, donors earmark to “buy” better organizational performance for their grants—in recent field research, donor representatives said they feel that they need to closely monitor the progress of projects and occasionally intervene (Weinlich et al., 2020). Conversely, improvements in organizational performance should result in more funding. The UN funding compact, agreed in 2019, rests on exactly this assumption, namely that if UN organizations become more transparent, efficient and integrated, member states will be in a position to reciprocate with greater shares of core and softly earmarked contributions (UN, 2019). What is the evidence for this assumption? Member states have indeed sanctioned UN organizations by shifting to earmarked contributions when they perceive that an organization is underperforming.³ However, when looking at the broader picture, there appears to be no reverse effect,

³Staff of the Federal Ministry for Economic Cooperation and Development have indicated to the author that Germany essentially stopped funding UN-Habitat after losing trust in the organization’s management.

Funding for the UN development system

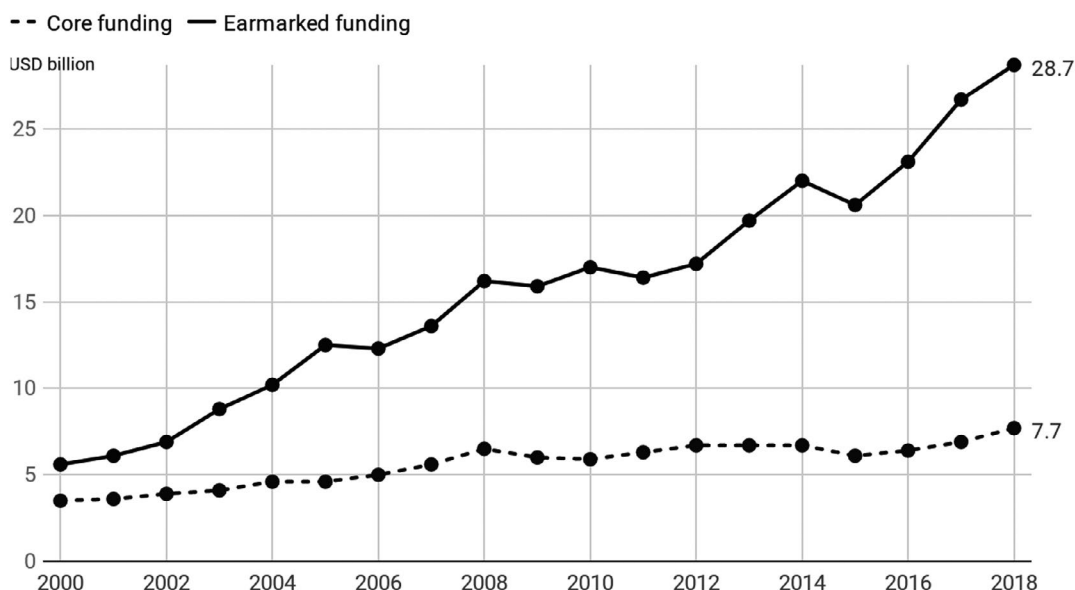


FIGURE 1 The evolution of earmarked funding in the UN Development System 2000–2017 (source: Jenks & Topping, 2019, p. 35, and UN Secretary-General, 2020)

in the sense that organizational improvements lead to more core contributions. On the contrary, member states have for more than two decades pressed UN organizations for improvements through their governing boards and initiatives, such as MOPAN, founded in 2002,⁴ as well as their own evaluations (Lall, 2017). This has had an impact on UN organizations. Institutional budgets—an indicator of efficiency—have become leaner from year to year, even as organizations' budgets have grown. Results-based management was introduced in the UNDS after the turn of the century and has improved consistently since then (Ortiz et al., 2004; Prom-Jackson, 2017). Although evaluations point to room for further improvements, it appears safe to record that the UNDS is in much better shape today than it was two decades ago. Yet, despite these substantial improvements, earmarking has gone the other way and has continued to increase seemingly unabated.

2) The explanation that refers to the accountability needs of domestic audiences holds that donors earmark because they cannot generate the levels of trust needed to provide core funding, which confers autonomy to international organizations. Rather, they need a direct line to the implementing organizations in order to satisfy assumed or bureaucratically enshrined domestic needs for accountability and visibility (Reinsberg et al., 2015, p. 530; Tortora & Steensen, 2014, p. 15). If only the UN were more accountable, the explanation goes, member states could unleash their core contributions. The UN has, in fact, become more accountable through improved transparency. Major UN funds and programmes joined the International Aid Transparency Initiative (IATI) between 2011 and 2014, set up transparency portals, and significantly improved their aid transparency index (see Figure 2). But since such transparency on disbursements might not facilitate the

⁴As the MOPAN methodology evolves, a direct comparison of evaluations is not possible. However, UNDP's last evaluation, for example, reads much more positively than the one from 2009 and notes "that it is clear that UNDP has evolved and matured in a positive direction as a multilateral organisation" (MOPAN, 2017, p. 39).

Aid Transparency Index

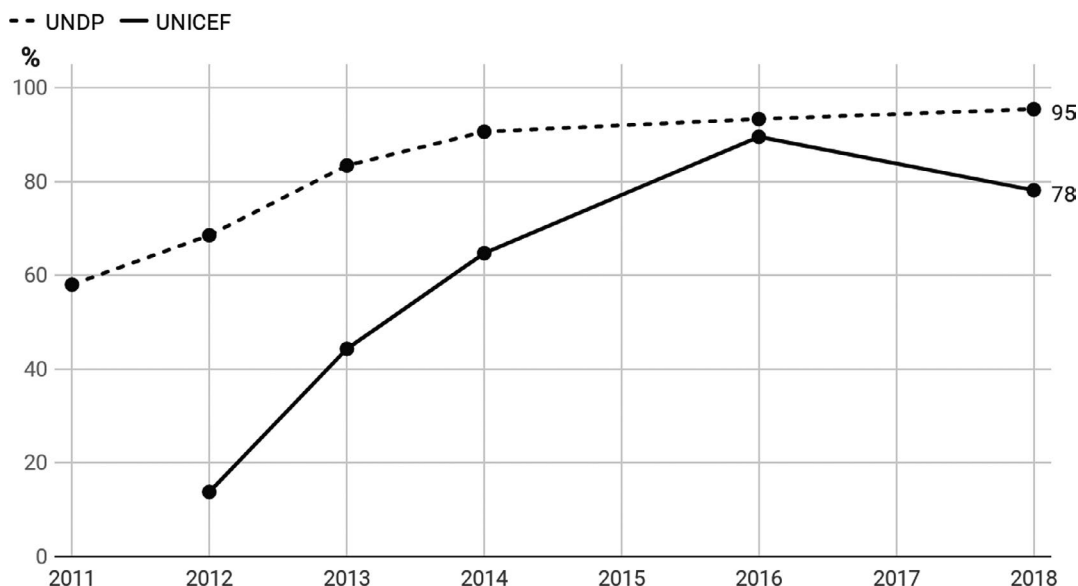


FIGURE 2 Improvements for two of the largest UN organizations, UNDP and UNICEF, in the Aid Transparency Index (no data is available for other UN funds and programmes). Own compilation based on www.publi.shwhatyoufund.org

kind of accountability for results that donors want, and since, furthermore, any direct accountability to donors has its limits in international organizations, the accountability hypothesis should perhaps be more about changes in donors' need for accountability. A suitable indicator of that can be the political left–right orientation of societies, assuming that leftist parties are more inclined towards international co-operation—and thus prefer fewer restrictions on multilateral funding—than right-leaning conservative parties; a case in point is the Trump administration's efforts to impose greater restrictions on US funding to the UN (Gramer & Lynch, 2018). In Sweden, the rise in earmarking does, in fact, coincide with the period between 2006 and 2014, in which the Social Democrats were in opposition (furthermore, Social Democrats have been steadily declining in the polls since the 1990s). In Germany, the situation is less conclusive: the rise in earmarking happened under a grand coalition between the centre-right party and the Social Democrats, with the latter being in charge of the Federal Foreign Office, which handles humanitarian aid (accounting for the significant increase in German earmarked funding to the UN). This goes against the assumption that Social Democrats are more inclined to delegate. However, looking at the broader societal context, leftist parties have also declined significantly in the polls in Germany since the late 1990s. Yet, the overall evidence is not such that it can explain the significant rise in earmarking. In all major donor countries, centrist parties have maintained solid majorities at the polls in the last two decades (Aisch et al., 2017). Furthermore, when considering an indicator that is more directly linked to the UN, the UN enjoys positive views in the countries of the Organisation for Economic Co-operation and Development (OECD), including the large donor countries, in particular. There has been no significant change in that regard over the last two decades (see Figure 3), suggesting that governments have not felt pressure to adjust their UN policies. Last but not least, even if there was a growing need for accountability, then earmarking might have been the wrong response:

Positive views on the UN

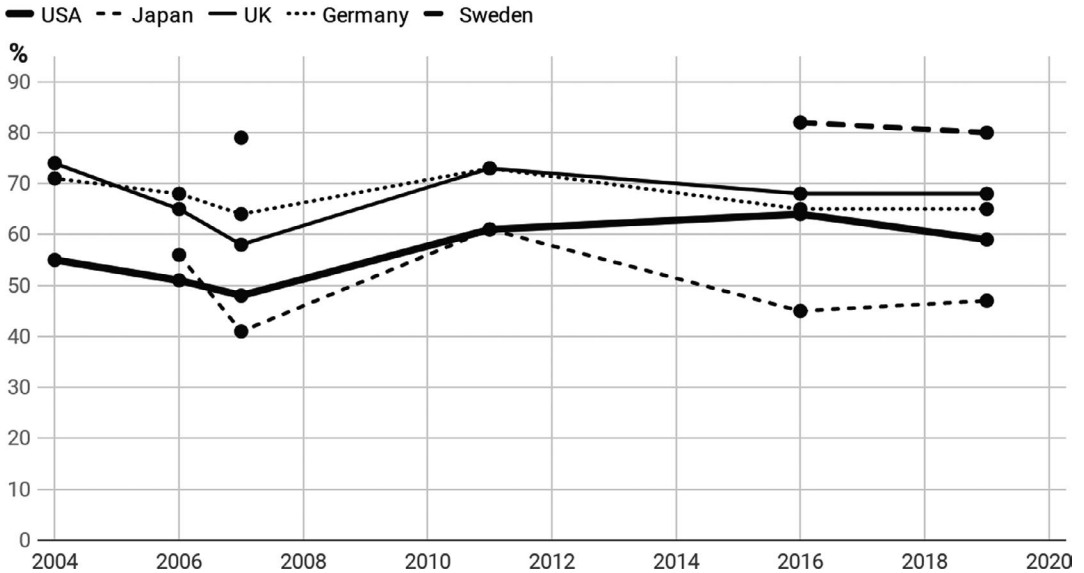


FIGURE 3 The public image of the UN in selected countries. Source: Own compilation based on data from the Pew Research Center (Fagan & Huang, 2019)

Germany's Foreign Office has come under fire from the Federal Court of Auditors for doling out earmarked funds in an unguarded manner (Bundesrechnungshof, 2018). This suggests that, at least in the case of Germany, the need for accountability has not been driving the rise in earmarking—a point that is reinforced by the fact that Germany does not provide public information on specific earmarked contributions on ministry websites or elsewhere, as is also the case with almost all other donors.

3) The third explanation maintains that earmarking is a function of the policy gap between donor and organization. This explanation is more common in academia (again, regarding the World Bank) than in UN circles, where diplomatic code prevents blunt discussions about national interests (Bayram & Graham, 2017; Reinsberg, 2017a; Reinsberg et al., 2017; Tortora & Steensen, 2014, pp. 10, 15). A somewhat benign version of the argument emphasizes that earmarking can be a strategy for “states with favourable views of the UN” to expand mandates and activities (Graham, 2017), whereas the more power-based version holds that earmarking is an attempt by unilaterally minded states to circumvent multilateral governance and force their bilateral interests onto multilateral organizations (Alger, 1973; Sridhar & Woods, 2013). Recent events provide some support for this hypothesis, which is essentially about control. Western donors had an interest in directing humanitarian aid by way of earmarking to nearby crises in the Middle East and northern Africa, ensuring that their resources would not go to more distant crises (Patz & Thorvaldsdottir, 2020). Regarding the development sector, the economic rise of the Global South in recent decades might have hardened North–South conflicts in boards around sensitive normative issues. Yet, in the historical context, there is more permanence than change. Unlike the situation from the 1950s to the 1970s, membership of the UN and board compositions have not changed much in the last three decades. Though they are numerically in the minority, OECD donors can still wield the power of their purses, whereas G77 representatives continue to feel disempowered in UN governance (Baumann, 2017). China and other emerging powers continue to keep a low profile in UN governing boards (Weinlich, 2014). It was only in 2016 that China, for

the first time, pledged to massively step up support to the UN; yet, Chinese funding is still modest when compared to the contributions of Western donors (Ruipeng, 2020). The funding imbalance—an indicator of the distribution of informal power in the UNDS—has not significantly changed (UN Secretary-General, 2019): the 10 biggest donors (all from the OECD) still provide approximately 70% of all core contributions, and they can thus exert informal influence over the policies of organizations, which eliminates the need to switch to earmarking as a means of “last resort” for political influence. Thus, despite some plausibility, the evidence for the policy-gap explanation lacks the analytical force required to explain the steep rise in earmarking over the last two decades.

3 | A SYSTEMIC PERSPECTIVE ON EARMARKING IN THE UNDS

How then can we account for the continued rise of earmarking in the UNDS? The analysis presented above does not refute conventional explanations about the drivers of earmarking, but it shows that explanatory gaps remain. One limitation of the conventional approach is its linearity, in the sense of “the more X, the more Y.” A novel perspective might consist of a systemic approach that goes beyond the dyadic donor–organization relationship as the unit of analysis and takes into account the broader political and institutional contexts of multilateral co-operation.

For the purpose of this article, the term “system” shall refer to social systems that shape the behaviour of its stakeholders, which in turn can have an effect on the system (Wendt, 1999). Systems provide stability, but they can also change. Whether social or physical, a system can go through tipping points where self-reinforcing mechanisms—in everyday language, virtuous or vicious circles—kick in. An important assumption of any systemic analysis is that the characteristics of a system need not be rooted in the beliefs, motives or rationales of the actors that sustain the system through their behaviour. From the perspective of individual actors, there is always an element of helplessness in the face of systemic forces, which constrain their liberty to act. On this basis, we can explain how a system of earmarked funding emerges in unintended ways that do not reflect the interests of the actors involved.

The central argument presented here is that, once a certain level of earmarking has been reached, the system tips and a vicious circle starts, whereby earmarking leads to further earmarking. In other words, earmarking becomes a driver of earmarking via unintended systemic effects. More specifically, three specific vicious circles are discussed in the remainder of this article. They can be linked to three research paradigms in the international relations research: the first reflects a rational approach that builds on game theory considerations; the second reflects a social-constructivist approach which assumes that norms guide actors as “standards of appropriateness”; the third reflects an institutional view that looks at how bureaucratic structures incentivize certain forms of behaviour. The emphasis is more on describing the mechanism of these vicious circles than defining the point at which the system tips.

By nature, the concept of a vicious circle is ill-suited as an explanation of the historical origin of earmarking in the UNDS. But this is not the intention of this article. The three conventional explanations discussed above provide an account of why member states began earmarking in the first place. The systemic analysis presented here serves to explain the continued rise of earmarking in the UNDS since roughly the turn of the millennium, when the average share of earmarking in the system reached 50% of UNDS funding. At that time, UN organizations and diplomats began sounding alarms about the perceived detrimental consequences of earmarking; yet, earmarking in the UNDS continued to rise, far beyond the levels in the development banks. On a practical note, the term “vicious” circle

refers exclusively to systemic developments. Earmarking has often been connoted negatively as an active, nefarious “bilateralization” of the UNDS; in light of the analysis presented here, this might be an unfair attribution of intentions, obscuring a more detached analysis.

3.1 | Vicious circle 1: “Defensive earmarking”

The essence of the first vicious circle to be described here is that earmarking by one donor can be a direct and rational response to earmarking by another donor. This follows directly from the basic proposition of multilateral co-operation, according to which the pooling of resources goes hand in hand with the delegation of responsibilities to an international organization (Abbott & Snidal, 1998). In cases where one donor defects from this form of collective co-operation by earmarking its resources, it can affect the autonomy, neutrality and burden-sharing principles of an organization. This means that other members would then have an incentive to earmark for themselves—not out of any desire to impose bilateral priorities, but quite simply to shield themselves from the distortions introduced by other donors, and possibly even to support the agreed mandates of an organization. To denote this kind of earmarking that has nothing to do with the assertion of bilateral interests, I refer to it as “defensive earmarking.”

Such defensive earmarking can take place in the micro-setting of a specific pooled fund or the four-year country programme of a UN field office. It can also manifest itself at the level of the organizational budget when donors lose trust that a UN organization remains sufficiently wedded to its mission and mandates, given the bilateral influences of other donors.

Consider a pooled fund such as the “thematic funds” operated by UNDP, UNICEF and the UN Population Fund (UNFPA). These funds were created around 2016 to collect resources for specific thematic areas. They are based on the idea that if the pooled fund is sufficiently focused on a specific theme, then donors can entrust their contributions to these funds without further earmarking. Soon after thematic funds were established, donors pressed UN organizations to allow them to earmark to more sub-themes and/or lower organizational levels (regions, countries). Today, such earmarking appears to be the norm in thematic funds.⁵

Game theory can illustrate how the practice of earmarking spreads across participating donors in the case of these thematic funds. Imagine there are two donors. If donor A earmarks its contributions to sub-theme X, then the unearmarked resources of donor B would be allocated to sub-theme Y in an effort to achieve balanced funding. If B is fine with filling gaps, no damage is done. But if B does not want to support Y only, but also X, then B needs to earmark its resources accordingly to both Y and X in order to achieve such a balanced allocation. The earmarking of one donor can thus, in principle, trigger the earmarking of another donor. In the case described here, the motive for B’s earmarking is neither the wish to close a policy gap nor to have greater accountability, but simply to fend off distortions introduced by other donors.

In practice, this mechanism is unlikely to be driven by detailed analyses of a pooled fund’s allocations; such information is typically only available in retrospect, if at all. But simply knowing that earmarking takes place in a pooled fund—and a broad understanding of allocation patterns in the fund—can suffice to spur donors to earmark as a precautionary measure in the face of uncertainties over how resources are spent.

⁵The UNICEF pooled fund on health, for example, experiences a decline in unearmarked/global contributions, from 20% in 2015 to 9% in 2017 (UNICEF, 2018, p. 88). UNDP does not provide a breakdown of how its thematic funds are supported.

The same mechanism of defensive earmarking can apply to any pooled fund that allows—for formally or, in some cases, informally in violation of existing policies⁶—for earmarking. It may also be present at the country level, where it could explain why donors rely so much on project funding in contrast to funding overarching programmes.⁷ The starting point here is that UN organizations co-mingle core and non-core resources, in the sense that core resources are spent on projects that are predominantly funded by one or several donors. Such practices are confirmed for UNDP, which, for example in Uganda, co-finance projects up to approximately 50%, but less in middle-income countries (Weinlich et al., 2020, p. 125, 202–203). Core is used to start projects, develop them conceptually, fill gaps and provide for evaluation costs. As long as non-core resources support agreed mandates and frameworks, no donor of core resources needs to be worried (on the contrary: non-core resources would, in that case, reinforce core resources). But it is quite likely that an alternative element is at play, in the sense of core money being used to develop projects that are likely to attract resources from donors. All UNDS organizations are engaged in donor intelligence and the scanning of donors' policies for resource mobilization opportunities. According to interviews, it is very common for programming to be done with an eye towards the policy interests of large donors. In the words of a UN veteran, “where it has become clear that donors are willing to fund a particular initiative [...], a suitable proposal is sure to follow” (Browne, 2011, p. 119). In such a setting, any donor that wants to support the overall mandate of an organization will feel an incentive to check, and perhaps counterbalance, the influence of other donors by earmarking directly to projects that are seen as being in line with these mandates. The level of distortion is difficult to measure. Surveys show that partner governments see an issue with the alignment of UN activities—not an abiding concern, yet clearly present (UN DESA, 2018, pp. 7–9).

The volume of these sorts of potential cross-subsidies by far exceeds the volume of cross-subsidies that result from inadequate overhead rates—a sensitive issue in current reform debates in the UNDS. If, for example, an organization charges donors 8% overhead for the implementation of earmarked contributions, but the real costs are 10%, then the gap needs to be filled by core resources. In UNDP, which receives 86% of its contributions in earmarked form (USD 4.2 billion in absolute numbers), this would amount to a cross-subsidy of USD 84 million annually. But if half of UNDP's core resources were to go into leveraging and co-financing non-core funded projects, this would amount to a potential cross-subsidy of USD 328 million (on the basis of the 2017 budget). Considering these numbers, it is rational for a donor to earmark in order to be on the “receiving side” of these cross-subsidies, rather than funding core budgets.

A side-effect of co-financing is that it negatively impacts transparency. Non-core resources are not accounted for in organizations' financial reporting, apart from broad overviews of geographic and thematic allocations. Information about what a project specifically tries to achieve, and how successful it is, is generally not available to the general public (in contrast to the World Bank, which offers detailed project data, including on project performance; in the UNDS, only UNDP provides some transparency at the project level). The lack of transparency of non-core funding therefore affects core funding, so that donors will have difficulty seeing what exactly an organization does, and if defensive earmarking is warranted or not. In the ideal case, an ongoing co-ordination process and dialogue at the country level would ensure that information is being shared among donors in the country, but in the absence of that, donors might just want to make sure by earmarking.

⁶Some UN pooled funds have policies that do not allow for further earmarking resources. However, according to interviews, in practice donors do informally convey their wishes regarding the use of their grants in concomitant letters.

⁷The UN does to this date (2020) not distinguish between contributions for programmes and projects in its financial reports, both count as “tightly earmarked funding”. According to interviews, project funding accounts for the bulk of tightly earmarked contributions. Sweden is known for emphasizing programme funding.

3.2 | Vicious circle 2: Earmarking as the new standard of appropriateness

The second vicious circle can be captured by the concept of “tipping points” which has gained prominence in the area of climate research in recent years. The concept describes a situation where a system continues to change even though the causal drivers of the initial change are removed. A “tipped” system generates its own new sorts of drivers, and such feedback loops can make change irreversible. A tipped system, and the mechanisms that sustain it, has thus become self-perpetuating. Tipping points are also a common concept in political norm theory, where they explain how new norms become entrenched (Finnemore & Sikkink, 1998). Once a new norm crosses a tipping point, it is assumed to “cascade,” and the burden of justification then shifts. In our case, that could mean that the norm “earmarking to the UN is appropriate” becomes the default option, while providing core contributions—the old standard of appropriateness—requires extra justification.

Research has found no conclusive evidence so far as to where exactly tipping points lie. According to social research on that matter, it requires 25% of a group to change, whereas theories from the field of economics point to 51%, when majorities can change rules (Centola et al., 2018). In international relations research, thresholds are assumed to be at around one-third of member states, though not all states carry equal weight (Finnemore & Sikkink, 1998). Donors that provide a comparatively large share of an organization’s earmarked funding should matter more than donors that provide only marginal resources. With both Sweden and Germany stepping up earmarking during the last decade, all top 10 donors to the UNDS provide the majority of their funding (75% in 2018 on average) in earmarked form (author’s calculation based on Dag Hammarskjöld Foundation & United Nations MPTF Office, 2020, p. 45).⁸

A norm is a standard of appropriateness that is not to be confused with a moral value. Although some scholars see norms as driven by, and rooted in, “persuasion,” “arguments,” and other deliberate attempts at social construction through language and reason, others follow a more pragmatic approach (see Deitelhoff & Zimmerman, 2019). In a parsimonious concept of what works and what does not, the essence of a norm is simply that “norm-breaking behaviour generates disapproval or stigma” (Finnemore & Sikkink, 1998, p. 892; Glennon, 2005). But even such disapproval might only be an echo of older norms that are losing traction and might not translate into reputational or other damage for the norm violator. In other words, a donor can practice earmarking and get away with it, while still holding on to the belief that earmarking contradicts the value of multilateralism (and telling itself that, in an allegedly underfunded UNDS, an earmarked contribution is still better than no contribution).

In fact, although the decibel of the voices in UN circles condemning earmarking has risen over the last decade, there have been no tangible repercussions for states engaged in earmarking. Both the UN system and the wider public appear to be cheering the volume of aid more than they are expressing concerns with quality (evidence for that is, for example, that donor rankings on organization websites typically rank donors according to total contributions, including core and non-core). With virtually all donors, and in particular the top 10 donors, severely implicated in earmarking, it is not possible to single out violators of the older norm of core funding. The defence of the norm of core funding is also weakened by the fact that the critique of earmarking has no legal basis, as governing boards early on adopted rules that allow for earmarking (Graham, 2017). It is thus hard to draw a red line on earmarking.

The norm of earmarked funding, once widely adhered to, starts to cement itself. The gap between the older norm of core support and new earmarking practices necessitates a justification of

⁸And of the 193 member states, only 22 (all of them very insignificant donors) provided a majority of their funding as core resources in 2018 (UN Secretary-General, 2020).

new practices, and these justifications inadvertently become the building blocks of the new norm. From interviews with German policy-makers, such justifications include: the need for accountability, for political influence, and the idea that earmarking supports international organizations (“better than no funding at all”), rather than weakening them (Weinlich et al., 2020, pp. 57–72). It is revealing that, in practice, earmarking tends to have the opposite effect, as it is often not possible to exercise accountability, fragmented funding reduces political impact, and organizations suffer from high shares of earmarked funding. Such justifications are therefore more *ex post* rationalizations rather than motives, but nevertheless they solidify the norm by creating legitimacy. An OECD study from 2014 is titled “Making earmarked funding more effective” (Tortora & Steensen, 2014), suggesting that earmarking has acquired a certain legitimacy, and negative implications can be dealt with.

As a norm evolves, it triggers further adjustments that lock in change. First, greater volumes of earmarked resources create their own reality. Although the formal policies of donors regarding core and non-core funding might remain the same, earmarked resources can tacitly evolve into a tempting option. Just as the introduction of the seatbelt in cars changed risk attitudes, so the earmarking option has affected how donors balance multilateral and bilateral funding. The availability of more direct accountability—the ability for donors to control the transparency of one’s grants—provides a strong pull towards earmarking and a political convenience worth safeguarding. Donor systems also adjust to the new reality. A recent evaluation by the Federal Court of Auditors notes the “increasing requirements for the economical and correct granting of funding.” (Bundesrechnungshof, 2018, p. 1, author’s translation). The Court of Auditors applies the standards for domestic public awards to international grants and has tightened its monitoring, thus putting greater pressure on the executive branch to ensure that strict accountability standards are met.

The result—and the best indication of this change—is that today, core resources have to be justified as being the better option (than non-core), rather than the other way around. This applies to donor bureaucracies, where decision-makers gain little from returning to greater levels of core funding, whereas non-core funding has become a rather risk-free option for donors (risks are transferred to implementing organizations). The UN funding compact itself is an example of the complete reversal of the direction of justification. It makes a rebalancing towards core resources dependent on improvements in the UNDS—as if core resources were inherently problematic—so that donors need to be given a justification for providing core, rather than requiring donors to bring justifications for violating the norm of core funding.

3.3 | Vicious circle 3: Institutional fragmentation and the activation of self-interest

Both the literature and documents of UN organizations have drawn a vivid picture of the institutional fragmentation of these organizations caused by earmarking (Weinlich et al., 2020, pp. 190–196). A seasoned UN insider laments the “furious competition among agencies and organizations for a portion of the bounty” (Browne, 2011, p. 120), while others point out that there is even “in-house competition” between departments and managers working within the same organization (Achamkulangare, 2014, p. 6). Although such competition is rightly observed to be the result of earmarked funding, it can be hypothesized that causality also runs in the other direction and that fragmentation can turn into a driver of earmarking. The more fragmented a system is, the more it elicits the relatively small portions of earmarked contributions from multiple sources, while central resource mobilization recedes into the background.

Research has established that entrepreneurial staff from international organizations strive to maximize their budgets and independence, shaping the evolution and policies of an organization (Dreher & Lang, 2016; Reinsberg, 2017b). Earmarked funding acts like a fire accelerant to this development at the expense of central management responsibility (Weinlich et al., 2020, pp. 200–202). A fragmented approach to fundraising, where donor contacts and contracts are handled by working-level staff, elevates their roles and creates a degree of self-interest at the expense of strategic programming. Today, every UN staffer at country level is seen as having fundraising responsibilities. When individual managers go out and negotiate with donors, this logically results in funding that is earmarked to their own projects, rather than to the broader programmes or the budget of an organization.

These changes on the side of organizations interlock with similar changes in donor bureaucracies. Here, too, earmarking means that working-level staff are empowered at the expense of senior-level strategic engagement with aid organizations on the basis of core funding (Gulrajani, 2014). Working-level staff can be entrepreneurial. In one interview, earmarking was linked—perhaps not entirely seriously—with the opportunity to travel in the field (“aid tourism”). Once the operational level is involved in earmarking decisions, the motive to keep and expand prestigious responsibilities emerges. It can also affect the degree to which contributions are restricted. Working-level staff are more constrained in taking risks and have narrower portfolios and comparatively fewer available resources, which translates into more nitty-gritty projects. Also, once bureaucrats are in charge of funding lines, disbursement pressures that are non-existent for core can give rise to erratic funding decisions, the most extreme manifestation of which are year-end disbursements (it is probably no coincidence that disbursement rates are a criterion in MOPAN organizational performance evaluations).

Fragmentation in the UN is greatly exacerbated by decentralization, which is the increasing tendency to shift staff members and responsibilities to the field. UN organizations have actively used decentralization as a strategy to access donor resources (Weinlich et al., 2020). It appears that earlier motives such as being closer to host governments and fostering local expertise have been tacitly replaced by the motive to access resources, as suggested with increasing frankness by excerpts from organizational documents. Today, the UN has around 1,500 country offices, up from approximately 1,100 in 1995 (Othman & Quijano, 1997, p. 77). Resource mobilization has mostly been delegated to field offices, with headquarters maintaining responsibility for core resources, thematic funds and (rarely) global programmes. It almost goes without saying that every dollar raised at country level is an earmarked dollar, so that decentralization structurally disposes the UNDS towards earmarked funding.

What drives the vicious circle is the fact that UN field offices become dependent on earmarking. Typically, only the salaries of the country director and his/her deputy, as well as some institutional expenses, are covered by core allocations, whereas the rest of the staff depend on earmarked resources. Mobilizing earmarked resources thus becomes an existential necessity. UN offices often surpass fundraising goals—suggesting that fundraising is driven not only by the need to get the job done, but also by the desire to keep one’s job (and the jobs of the staff for whom a manager is responsible).⁹ Co-ordination mechanisms around the UN’s resident co-ordinators have so far not been able to overcome the centrifugal forces of earmarked funding, as any reform to that effect goes against the resource autonomy of UN organizations and individual staff members.

The flipside of decentralization is the loss of the ability to provide services built around the UN’s multilateral functions, thus losing the case for core resources. With more country-level earmarked resources, UN organizations have difficulties maintaining proper headquarters-based, multilateral

⁹UNICEF, for example, surpassed its budget for the last strategic plan by around 30%.

functions that do not generate immediate returns. As organizations shift staff and responsibilities to the regional and country levels, they also reduce their capacities for normative work and global solutions. Even at the country level, earmarking tends to shift resources to operational activities, to an extent that field offices find it difficult to provide the “core functions,” such as normative work, convening, advocacy and innovation, which are also seen as the UN’s “comparative advantages.” In the end, organizations become less strategic and their work and business models become more transactional, to the extent that a donor who wishes to provide core funding might end up bolstering an arsenal of projects rather than a distinct organizational profile.

4 | CONCLUSION: NEW PRACTICAL APPROACHES ARE NEEDED

The analysis presented in this article has practical implications for reform efforts that aim at reducing the share of earmarked funding in the UNDS. Such change is possible; no social system is cast in stone. But breaking and reversing the trend towards ever-growing levels of earmarking requires political will and a comprehensive effort that must involve the three areas described above (collective action breakdown, attitudes about the appropriateness of earmarking, and institutional fragmentation). The organizational improvements regarding the UN’s efficiency, accountability and integration that were agreed last year in the UN’s funding compact (UN, 2019) will themselves probably not lead member states to adjust their funding practices in favour of more core contributions. The more important aspect of the funding compact is the mobilization of political will, since, at the heart of the matter, the trend towards earmarking reflects a failure of collective action by both UN organizations and their donors, and the disintegration of the UN as a common good. A political failure of this kind requires a political solution.

Four policy recommendations for rebalancing UN funding back to sustainable levels of core funding follow from this diagnosis:

1. Member states should reflect on how the UN is supposed to work and what multilateral functions they expect from it in order to clearly see the implications of earmarking. Past reforms focused on organizational aspects such as “coherence,” “co-ordination,” and “efficiency.” In recent times, there has not been adequate discourse on the UN’s multilateral added value or on new ways of working (exhortations based on the UN’s “comparative advantages” in the early stages of the current reform process subsided when reform decisions were made). Individual organizations are taking steps in this direction. But without a clear notion of a new way of working that is derived from the 2030 Agenda, it will be difficult to make the case for changing funding patterns.
2. Member states need to address the incentives that come with earmarked funding. The UNDS is currently flooded with earmarked resources and is operating in a resource-driven way. Ultimately, all intended organizational and political adjustments are up against the brute force of earmarked resources that affect the incentives of everybody involved in UN development co-operation. In that context, it might be worthwhile to revisit the idea that a “critical mass” of core funding is needed for UN organizations to function properly. However, based on the analysis presented here, a slight alteration to the concept of critical mass might be warranted. Rather than ensuring a minimum level of core, it might be more important to avoid a toxic level of non-core that triggers systemic change.
3. The problems around earmarked funding could be much better addressed if earmarking was brought fully under multilateral governance. As earmarking now accounts for approximately 80%

of total UNDS revenue, it can no longer be treated as an add-on to the UN's multilateral structures. In practice, this would have to mean the full alignment of earmarked resources behind multilateral mandates and frameworks, which in turn requires more robust institutions. A critical indicator in that regard would be demonstrating UN organizations' ability to turn down funding offers. There has been practical progress in recent years, as the UN's country-level programming procedures have been tightened. Yet, the possibility for distortion still seems to exist.

4. Transparency of funding to the UNDS should be improved to allow for a meaningful discussion of problems around earmarked funding. The full scope of how earmarking affects the UN's administrations, its development effectiveness and, at the end of the day, its functionality as a multilateral organization is not currently known. Member states and UN organizations can thus easily avoid confronting inconvenient truths. There need to be indicators that capture the negative consequences of earmarked funding. Incidentally, greater transparency on development effectiveness, including longer-term sustainability, might also bring to light the UN's invaluable contributions in that regard.

ACKNOWLEDGEMENT

I would like to thank my colleagues Silke Weinlich, Niels Keijzer and Aline Burni for very helpful comments on an earlier draft.

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How to cite this article: Baumann M-O. How earmarking has become self-perpetuating in United Nations development co-operation. *Dev Policy Rev.* 2021;39:343–359. <https://doi.org/10.1111/dpr.12504>