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Research Report

Germany's funding to the UNDS: Towards a better mix for stronger multilateralism

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Germany's Funding to the UNDS: Towards a Better Mix for Stronger Multilateralism

Summary

Since 2016, Germany has been the second largest contributor to the United Nations development system (UNDS) for development-related and humanitarian activities, after the United States of America. The biggest increase in Germany's funding has been in the form of earmarked contributions, that is, funding with specified geographic and thematic purposes. While humanitarian funding to agencies such as the United Nations High Commissioner for Refugees (UNHCR), the World Food Programme (WFP) and the United Nations Children's Fund (UNICEF) accounts for the bulk of Germany's contributions to the United Nations (UN), development-related funding for the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA) and UN Women also experienced a sharp rise. More recently, core contributions, which can be used by multilateral organisations with greater discretion, have also increased, most notably as part of the coronavirus (COVID-19) emergency response.

The significant increase signals that Germany places trust in the UN, including in times of crisis, and deems it to be of real importance. It is now time for Germany to more explicitly recognise its strategic interest in a strong and effective UNDS that can reinforce its foreign policies regarding stabilisation, reconstruction, refugees and the climate. Through multilateral organisations states can achieve more than they can alone. Although earmarked funding has helped the UNDS to expand its scope and scale, in the most prominent forms it has many negative repercussions in terms of efficiency, effectiveness and legitimacy.

Earmarking also comes with direct costs to German actors, who face challenges stemming from the multitude of earmarked funding arrangements and their administrative burden. In addition, the German government presents itself in a fragmented manner with regard to the UNDS, with differences across and within ministries and implementing agencies.

For Germany, being in the prominent position of second largest contributor to the UNDS, at a time when the largest contributor is withdrawing funding, comes with responsibilities and opportunities. To be an effective supporter of multilateralism, the German government needs to get its own house in order.

- It should view its allocation decisions as a means towards strengthening multilateralism and supporting UN reforms, and to that end it should work towards a better balanced funding mix with greater shares of flexible funds.
- It should more clearly communicate and justify its increased engagement in the UNDS to the German public and increase the coherence of its multilateral efforts.
- It should assess the hidden costs that arise through the use of implementing agencies and improve guidance on earmarked funding in line with commitments made in the context of the Grand Bargain (2016) and UN Funding Compact (2019).
- It should stabilise the recently raised levels of core contributions to UN development agencies, recognise the strategic importance of core contributions and also make greater use of softly earmarked forms of funding.

Introduction

Most UNDS organisations rely on voluntary contributions; mandatory membership fees cover only a small part of some organisations' activities. Voluntary contributions can be all-purpose core funds that organisations may use with discretion, in line with governing bodies' decisions; however, the great majority of voluntary funding comes with detailed donor specifications regarding thematic or geographic purposes. In 2018, nearly 80 per cent of the overall US\$ 36.4 billion contributed to the UNDS for humanitarian and development activities was earmarked in such a way.

Earmarked funding presents both opportunities and challenges for the UNDS (Weinlich, Baumann, Lundsgaarde, & Wolff, 2020). Earmarked contributions can energise multilateral organisations, both in terms of greater revenue, which allows them to expand their range, and the political support behind them. Such funding can direct targeted support to thematic areas that are contested among member states. It is also the only way to fund activities by more than one UN organisation, to foster collaboration and coordination and help the UNDS develop integrated approaches.

Yet earmarking can also have detrimental effects on UN organisations and their work. Earmarked funding tends to be short term, impeding an orientation towards complex socioeconomic challenges, in the spirit of sustainability, and nudging organisations to work with consultants instead of building and retaining multilateral expertise. Earmarking drives competition within the UNDS and hinders coordination and cooperation, thereby conflicting with the need for an integrated approach, as called for by the 2030 Agenda for Sustainable Development, and undermining current UNDS reform efforts. While earmarking may have made the UN more cost-conscious, it comes with transaction costs that are arguably a source of even larger inefficiencies.

Moreover, by bilaterally specifying the purposes for which funds can be used and thus circumventing multilateral governance, earmarking is doing damage to the ideals of the UN and its ability to act in the common public interest. Western governments contribute the majority of UNDS funding – both stagnating core resources and rising earmarked funding. This funding pattern, and the related impression that Western donors call the shots and increasingly use the system for their own particular interests, is harmful. It risks eroding the UN's multilateral assets such as impartiality, convening power, greater orders of magnitude in funding and development solutions, experience, expertise and knowledge. At a time when multilateralism and the values on which it rests are internationally contested, the ever-growing trend of earmarked funding at the UN is worrisome.

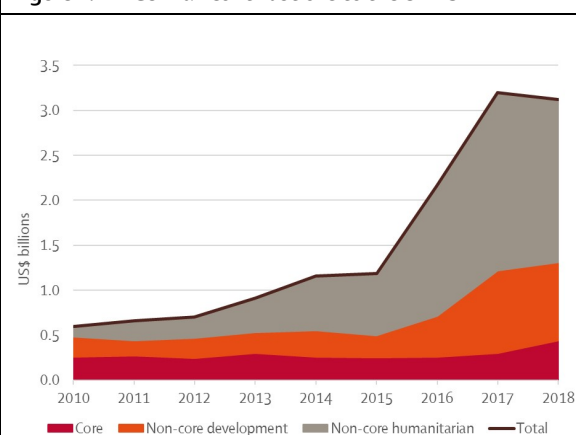
The rise of German earmarked contributions

Germany has been the second largest contributor to the UNDS, after the United States, since 2016. In 2018 (the last year with available UNDS data), its contributions amounted to about 8.5 per cent of overall contributions that fund the

development-related and humanitarian work of agencies as diverse as UNDP, UNICEF, UN Women and the WFP. The recent uptick in German multilateral support reflects a departure from a long-term trend. From the early 1990s onwards, Germany's overall contributions to the UNDS stagnated at a rather low level for a donor with a strong multilateral commitment.

The significant increase in German funding to the UNDS can be attributed especially to a strong rise in earmarked funding (see Figure 1). Compared with other donors, Germany was a latecomer to earmarking, which has developed into an increasingly dominant source of funding for the UNDS since the late 1990s. The rise in earmarked contributions took place for both humanitarian and development activities. For humanitarian activities, funding more than quintupled between 2013 and 2017. Increases in development-related funding began later and were slightly more modest. They were also predominantly driven by earmarked funds. Germany's largest UN recipients have been the WFP, UNHCR, UNICEF and UNDP. For more than 80 per cent of its overall UNDS funding, the German government specified the condition of usage, with a slightly smaller share (76 per cent) if only development-related funds are counted.

Figure 1: German contributions to the UNDS

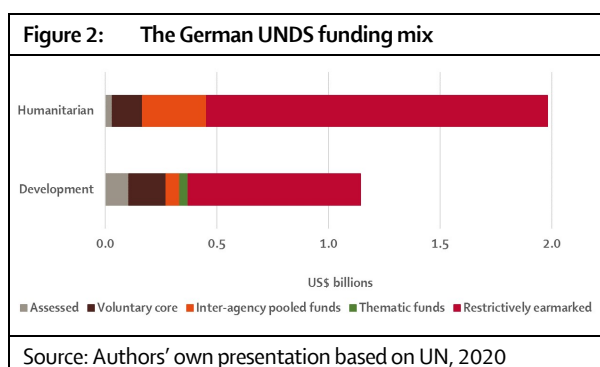


Source: Authors' own presentation based on UN DESA, mimeo

The German funding mix

German funding to the UNDS comprises both mandatory and voluntary contributions; however, mandatory contributions make up only a small fraction (2018: 4 per cent) (Figure 2). The bulk of contributions are voluntary and can be divided into less restrictively or softly earmarked forms (voluntary core, thematic funds and interagency trust funds) and restrictively earmarked forms (project and programme funding).

In 2018, 78 per cent of German development and humanitarian funding for the UNDS was restrictively earmarked (Sweden's share was 42 per cent, Norway's 50 per cent and the United Kingdom's 60 per cent).



Ten per cent of German funding to the UNDS comprises voluntary core contributions, which is the most valuable form of funding for multilaterals because of its flexibility. Since 2017, German core funding to UN organisations within the purview of the Federal Ministry for Economic Cooperation and Development (BMZ) has gone up substantially.

Annual core contributions to UNICEF rose sharply from €10 million in 2016 to €60 million in 2019. Over the same period, they also doubled for UNDP (from €25 million to €50 million) and for UN Women (from €4 million to €8 million) and also markedly increased for UNHCR (from €10 million to €25 million) and UNFPA (from €22 million to €33 million). In 2020, core contributions will reach an all-time high with additional funds provided by Germany's second supplementary budget for dealing with the COVID-19 pandemic. To support the UN response, annual contributions are budgeted that amount to €110 million for UNDP, €90 million for UNICEF, €14 million for UN Women and €70 million for UNFPA. Overall, this is a generous sign of support to the multilateral system in times of crises. It is not yet clear, however, whether this rise will bring the German funding mix into better balance. In 2018, only 12 per cent of German contributions went into softly earmarked pooled funds.

Drivers of earmarking in Germany

Several factors help explain the strong rise in earmarked funding, including the emerging focus on refugees and their host countries, the availability of new thematic budget lines and the fragmented German development landscape. Altogether, 13 government entities provided official development assistance to the UN in 2017. The German Federal Foreign Office (AA) is the most important in financial terms. It presided over a dramatic increase in funds for humanitarian and stabilisation purposes, which come with thematic earmarking requirements. BMZ is the second most important source of German funding for the UNDS. In 2014, BMZ operationalised sizeable new funding sources that provide funding for thematic issues (the special initiatives, or *Sonderinitiativen*). Three of them focus on reducing the reasons for flight and migration, the stabilisation of regions that host large refugee populations, and providing support to refugees. In contrast to other budget lines, which specify particular funding channels, the *Sonderinitiativen* can make use of all instruments of development cooperation. The Federal Ministry for the Environment, Conservation and Nuclear Safety (BMU) is the

third most important source of German earmarked funding to the UNDS, in particular through its international climate initiative. The Federal Ministry of Health has only recently begun to increase its earmarked contributions to the World Health Organization in earnest.

German ministries have different motivations for providing earmarked funding to the UNDS. While the AA also works with other implementing organisations, UN organisations are, as for other donors, the most important partners for delivering humanitarian aid. For development cooperation, the German government has large implementing agencies (KfW Development Bank, the German Corporation for International Cooperation (GIZ)) at its disposal, which often represent the partners/agencies of choice. Yet in crisis situations, in fragile countries or with regard to vulnerable groups such as refugees or displaced people, UN organisations are perceived to be better positioned to reliably channel a large volume of resources quickly and effectively.

Many motives expressed by German officials for earmarked funding are remarkably similar to the more generally perceived advantages of multilateral organisations, such as impartiality, convening power, reach and perception of usefulness by partner countries. Exceptions notwithstanding, the explicit wish to strengthen multilateral organisations and their unique role in implementing the 2030 Agenda and in stabilising the international order has not been among the primary motives for earmarked allocations. More commonly, UN entities are treated as additional instruments and implementers for German humanitarian aid and international cooperation objectives.

Although German ministries use a variety of modalities, the majority of earmarked contributions seem to apply rather restrictive conditions, with thematic and geographic specifications and a tight monitoring scheme. Budgetary rules and their narrow interpretation by the Federal Court of Auditors dispose staff in ministries towards tight earmarking, the inflexibility of which has been identified as harmful in the area of humanitarian affairs (e.g. the Grand Bargain) and in UN development (e.g. the Funding Compact).

Why earmarking is problematic for Germany

Agreeing on earmarking arrangements, managing them, and monitoring their financial performance and development effectiveness binds capacities of already stretched bureaucracies. Just like other donor bureaucracies, German ministries seem to struggle with fulfilling their part of the promise of greater accountability, which allegedly comes with earmarking. There is little evidence of systemic assessment and learning within bureaucracies to inform future allocations. The BMZ and BMU already resort to implementing agencies to cope with the administrative burdens, also benefiting from the expertise that implementers such as the KfW Development Bank can make available. The AA plans to establish a new agency for similar purposes. Delegating the management and implementation of earmarked funding frees up capacities for political decision-making within ministries; yet the delegation comes with

financial costs (additional overheads, duplication of structures), and may result in a loss of political control. It also fragments Germany's presence with regard to the UN even further. This is problematic both in terms of differing administrative demands, and in relation to overarching political messages on the course of individual UN agencies and the overall UNDS.

Apart from the Federal Budget Code (Bundeshaushaltsordnung), which in essence requires the application of the same standards to all forms of multilateral funding as to funding in the German domestic context, there are no government-wide guidelines to inform ministries in their approach to earmarked funding. There is also a lack of strategic guidance. Several government-wide thematic strategies (e.g. on crisis prevention or global health, among others) touch on multilateral issues but do not lay out the case for strategically engaging multilateral organisations.

In the absence of overall strategic and technical guidance and strong coordination, uneven funding practices exist across ministries which might fund the same organisation. Given the absence of a central funding portal, and the constitutionally predetermined authority of individual ministries, the government itself struggles to maintain a detailed overview of its engagement with the UN.

Arguably, the current fragmented decision-making also has advantages. It allows various ministerial and other actors with different competencies to shape the substance of cooperation and may add flexibility in programming. However, by taking a piecemeal approach to multilateral organisations in general, and allocation questions in particular, Germany significantly punches below its weight with regard to the UNDS and individual organisations. It also fails to use its significant earmarked funding as a lever for helping the ongoing UNDS reforms succeed. Moreover, given the negative effects of earmarking on the UNDS, Germany risks jeopardising its long-term interests in an

effective and strong multilateral system that can achieve goals which other actors cannot.

Conclusion

The world is facing a pandemic, deep economic recession, devastating climate change and growing inequalities – all of which call for more and effective multilateral cooperation and strong multilateral institutions. As the cofounder of the Alliance for Multilateralism, the German government clearly positions itself in favour of a strong multilateral system, not least in the face of those who withdraw their support. It generously contributes to the UNDS for its humanitarian and development work. Yet to be an effective supporter of multilateralism, the German government needs to get its own house in order.

- It should view its allocation decisions as a means towards strengthening multilateralism and supporting UN reforms, and work towards a better balanced funding mix with greater shares of flexible funds, accompanied by a substantive partnership with UN agencies.
- It should more clearly communicate and justify its increased engagement in the UNDS, including to the German public, and increase the coherence of its multilateral efforts. The ongoing process to write a German white paper on multilateralism should be used in this regard.
- It should assess the hidden costs that arise through the use of implementing agencies, improve strategic and technical guidance on earmarked funding, and fulfil commitments made in the context of the Grand Bargain and UN Funding Compact.
- It should stabilise the recently raised levels of core contributions to UN development agencies, recognise the strategic importance of core contributions, and also make greater use of softly earmarked forms of funding (e.g. the COVID-19 Response and Recovery Multi-Partner Trust Fund and the Joint SDG Fund).

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