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## Studies

# Earmarking in the Multilateral Development System

Many Shades of Grey

*Silke Weinlich  
Max-Otto Baumann  
Erik Lundsgaarde  
Peter Wolff*

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**The German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)** is a multidisciplinary research, policy advice and training institute for Germany's bilateral and multilateral development cooperation. On the basis of independent research, it acts as consultant to public institutions in Germany and abroad on current issues of cooperation between developed and developing countries. Through its nine-month training course, the DIE prepares German and European university graduates for careers in the field of development policy.

**Dr. Silke Weinlich** and **Dr. Max-Otto Baumann** are Senior Researchers with the research programme "Inter- and Transnational Cooperation" at the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE).

**Dr. Peter Wolff** is an Associate Researcher at the German Development Institute and former head of the research programme "Transformation of Economic and Social Systems". **Dr. Erik Lundsgaarde** is a development policy expert based in Copenhagen, Denmark.

Email contacts: [silke.weinlich@die-gdi.de](mailto:silke.weinlich@die-gdi.de), [max.baumann@die-gdi.de](mailto:max.baumann@die-gdi.de)

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Tulpenfeld 6, 53113 Bonn  
 +49 (0)228 94927-0  
 +49 (0)228 94927-130  
Email: [die@die-gdi.de](mailto:die@die-gdi.de)  
<http://www.die-gdi.de>



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Bonn, January 2020

Silke Weinlich  
Max-Otto Baumann  
Erik Lundsgaarde  
Peter Wolff



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## Abbreviations

AA	German Federal Foreign Office/Auswärtiges Amt
ACLIFF	Asia-Pacific Climate Finance Fund
ADB	Asian Development Bank
ADF	Asian Development Fund
AFD	Agence Francaise de Developpement
AfDB	African Development Bank
AfDF	African Development Fund
AIIB	Asian Infrastructure Investment Bank
ALSF	African Legal Support Facility
AREI	African Renewable Energy Initiative
ARTF	Afghanistan Reconstruction Trust Fund
BETF	bank-executed trust fund
BMEL	Federal Ministry of Food and Agriculture/Bundesministerium für Ernährung und Landwirtschaft
BMF	Federal Ministry of Finance/Bundesministerium der Finanzen
BMG	Federal Ministry for Health/Bundesministerium für Gesundheit
BMU	Federal Ministry for the Environment, Conservation and Nuclear Safety/Bundesministerium für Umwelt, Naturschutz und nukleare Sicherheit
BMZ	Federal Ministry for Economic Cooperation and Development/ Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
CBPF	country-based pooled fund
CDIA	Cities Development Initiative in Asia
CERF	Central Emergency Response Fund
CG	Council of Governors
CGAP	Consultative Group to Assist the Poorest
CIF	Climate Investment Fund
DAC	Development Assistance Committee

DEVCO	European Commission's Directorate-General for International Cooperation and Development
DFID	Department for International Development
DG	Directorate-General
DOCO	Development Operations Coordination Office
ECA	European Court of Auditors
ECHO	European Civil Protection and Humanitarian Aid Operations
ECOSOC	United Nations Economic and Social Council
EU	European Union
ExCom	Executive Committee
FAO	Food and Agriculture Organization of the United Nations
FIF	financial intermediary fund
FPF	financing partnership facility
FY	fiscal year
GCF	Green Climate Fund
GCFE	Global Concessional Financing Facility
GEF	Global Environment Facility
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GFF	Global Financing Facility
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GNI	gross national income
GPG	global public good
HQ	headquarters
IBRD	International Bank for Reconstruction and Development
ICAI	Independent Commission on Aid Impact
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Financial Corporation

ILO	International Labour Organization
IOM	International Organization for Migration
IPPF	Infrastructure Project Preparation Facility
IsDB	Islamic Development Bank
JICA	Japan International Cooperation Agency
JIU	Joint Inspection Unit
KfW	KfW Development Bank/Kreditanstalt für Wiederaufbau
LAC	Latin America and the Caribbean
MDB	multilateral development bank
MDG	Millennium Development Goal
MDTF	multi-donor trust fund
MIC	middle-income country
MPTFO	Multi-Partner Trust Fund Office (UN)
NEAR	Neighbourhood Policy and Enlargement Negotiations
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PBF	Peacebuilding Fund
PPP	public–private partnership
QCPR	Quadrennial Comprehensive Policy Review
RC	Resident Coordinator
RDB	regional development bank
RETF	recipient-executed trust fund
SDG	Sustainable Development Goal
SDTF	single-donor trust fund
SECCI	Sustainable Energy and Climate Change Initiative
Sida	Swedish International Development Cooperation Agency
TA	technical assistance
TF	trust fund



UK	United Kingdom of Great Britain and Northern Ireland
UN	United Nations
UN DESA	United Nations Department of Economic and Social Affairs
UN-Habitat	United Nations Human Settlements Programme
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
UNCT	United Nations country team
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDEF	United Nations Democracy Fund
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNDS	United Nations Development System
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
UNIDO	United Nations Industrial Development Organization
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
UNPRPD	United Nations Partnership on the Rights of Persons with Disabilities
UNRWA	United Nations Agency for Relief and Work for Palestine Refugees in the Near East
US	United States
WB	World Bank
WBG	World Bank Group
WFP	World Food Programme
WHO	World Health Organization

## Executive summary

With the 2030 Agenda for Sustainable Development, the member states of the United Nations (UN) have agreed on a global framework that is significantly more ambitious than previous global development agendas. Implementing the 2030 Agenda stipulates a universal, transformative and integrated approach towards sustainable development. This requires a well-functioning multilateral system that can realise the benefits from multilateral cooperation and act as a reliable, trusted and effective partner for governments at the global, regional and country levels. Adequate funding to multilateral development organisations is essential to make them guardians and catalysts for the implementation of the 2030 Agenda.

The practice of earmarking financial contributions for specific purposes is problematic in this context, because it is often regarded as being less efficient and effective than the core funding of multilateral organisations. Nevertheless, earmarking has in recent decades emerged as an important modality in funding multilateral development organisations. Today, according to figures of the Organisation for Economic Co-operation and Development (OECD), approximately one-third of all multilateral funding is earmarked. The United Nations Development System (UNDS) is particularly affected. In 2017 earmarked funding accounted for 79.4 per cent of all of its revenue. Earmarked funds come in many varieties but share three features: a) they are always voluntary in nature, that is, the donor is not obliged to provide the resources, and the multilateral organisation is under no obligation to accept them; b) contributors specify a purpose for which they are used; and c) the regular multilateral governance bodies have limited responsibility and say over how the funds are used.

Member states and multilateral organisations have begun to grapple with the implications of increased earmarking for the multilateral development system. Although member states seem happy to seize the perceived advantages of earmarking – such as greater control, visibility, goal-orientation – there is also a growing awareness among practitioners and decision-makers that earmarking comes with trade-offs, both direct and systemic, which are not yet sufficiently well understood. More fundamentally, earmarking raises questions about member states' readiness and organisations' ability to support the kind of collective action that is required to advance the 2030 Agenda.

It is against this background that the German Federal Ministry for Economic Cooperation and Development (BMZ) requested a study on the practices and consequences of earmarking in multilateral development cooperation. The study covers the arch of funding, from donor capitals via headquarters (HQ) of multilateral organisations to the field, bringing together the perspectives and experiences of the different stakeholders along this path. It focusses on selected donors (Germany, the United Kingdom, Sweden, European Union) and describes the key characteristics and trade-offs of specific types of earmarked funding. The study covers both the UNDS and the multilateral development banks (MDBs), namely the World Bank and the major regional development banks (RDBs). The two clusters of organisations are affected differently by earmarking and also differ in the types and relative amounts of earmarked finance received. Whereas for the UNDS the basic question is how to rebalance towards a greater share of core or softly earmarked funding, within the banks the question is more how moderate levels of earmarking can enhance their lending practices while avoiding the problematic aspects of earmarking.

## Main findings

### *Knowledge gaps around earmarking are significant*

Since earmarked contributions are essentially a bilateral affair between donors and organisations, the documentation around them (contracts, reporting, evaluations) is typically not publicly accessible, exceptions notwithstanding. Although there have been improvements in recent years, organisations themselves provide incomplete information on earmarked funding streams, also because agreed definitions are at a highly aggregate level and there exists little common terminology within and across organisations. There is aggregated data for individual multilateral organisations and OECD data for the multilateral development system at large that allows us to get a first impression of the magnitude of earmarked funding. Taken together, this makes it very difficult to create a comprehensive and more granular picture of the streams and practices concerning earmarked funding. This lack of transparency complicates the assessment of the costs and benefits of earmarked funding. Furthermore, it undermines the multilateral oversight that should, in principle, cover all aspects of an organisation's activities. As such, the lack of transparency is one element that prevents member

states from identifying, confronting and rectifying certain problems around earmarking, thus further stabilising undesirable aspects of the multilateral aid architecture.

*The earmarking phenomenon has many shades of grey*

The voluntary nature of earmarking has engendered a plethora of varieties of funding instruments. Both the MDBs and the UNDS report on the major official instruments, but instruments are far from homogenous, and their boundaries are fluent (the UN, for example, considers programme- and project-specific funding to be under the same category as “tightly earmarked” contributions, though the former is often much less restrictive). Differences pertain to the organisational level of earmarking, the number of donors involved, the alignment with organisational priorities, and governance modalities. Accordingly, this plurality translates into diverse effects of earmarked funding, which oscillate between dark/negative and light/positive consequences. Not every form of restricted funding imposes donor priorities and turns an organisation into a service implementer. Although highly restrictive and customised forms of earmarking might be detrimental to development effectiveness or the ability of multilateral organisations to act as catalysts for the 2030 Agenda, other forms of earmarked funding can provide welcome impetus to increase the scale and scope of development interventions, allow for greater risk-taking or foster partnerships. The contribution of earmarked funds to increasing the resource base for multilateral organisations represents a clearly positive aspect of these funding practices. At the same time, such funding may detract from their multilateral assets, particularly in the UNDS. “Shades of grey” also refers to what can be considered the darker side of earmarking. Earmarking has opened up a vast area of unstructured interactions and institutional bargaining, which is only partly based on agreed rules and aligned with multilateral mandates and purposes. Donors and organisations typically negotiate individually, and in such a setting, the weaker side typically has to compromise more than the powerful side, which controls the resources. MDBs, in particular the World Bank, are in a better position to protect their institutional integrity, since they are less dependent on earmarked resources than the UN agencies, in particular individual field offices.

*Instruments of earmarked funding in the UN Development System: Donor influence comes with downsides*

The UNDS offers member states four main instruments for earmarked contributions, which differ in the number of agencies and donors that are involved in them. Donors can support agencies' specific programmes and projects or they can contribute to agencies' pooled thematic funds or trust funds and joint programmes that bring together several agencies. The study describes the general characteristics and trade-offs involved in the use of these instruments. Programme- and project-specific funding accounts for 92 per cent of the UN's earmarked funding. It affords donors good influence, visibility and direct accountability, but it ranks last in terms of efficiency given the high transaction costs. Furthermore, this form of "tightly earmarked" funding carries risks regarding development effectiveness. Often short project durations of around two to three years or less, a rigid orientation towards tangible results, problems around host government ownership, and the lack of coordination with the UN's other activities can all undermine the UN's ability to tackle complex issues with a view to sustainable impact. The other instruments of softly earmarked contributions all score better in terms of efficiency, coordination and ownership. As forms of pooled funding, they offer donors less direct influence, but this translates into certain benefits. They allow for an un-politicised and merit- or needs-based allocation, they provide crucial resources for innovative approaches and they can bring agencies together for improved coherence. Country-based pooled funds stand out by bringing donors together, offering political functions such as burden- and risk-sharing, quick action in (post-)conflict contexts and policy dialogue with host governments. Despite generally positive experiences from all stakeholders, these softly earmarked instruments are severely underused, constituting around 9 per cent of total earmarked revenue.

*Instruments of earmarked funding in the multilateral development banks: Opportunities to complement core funding*

The World Bank trust fund business differs considerably in magnitude from the RDBs. The World Bank's engagement in trust funds accounts for about 10 per cent of its lending business, whereas for the RDBs it is only around 1-2 per cent of their lending, and thus constitutes more of a side-activity. The main instruments of earmarked funding in the banks are co-financing, global vertical funds and trust funds. If used strategically and based on

sound principles, these instruments are complementary to core funding of MDBs. Selective co-financing of MDB lending projects can reduce risk in innovative approaches, as compared to purely bilateral funding; help to buy down interest rates; and enhance projects by adding technical assistance and capacity-building activities. Investing in global funds can render additional benefits through joint approaches and facilitate the creation of new financing approaches (e.g. climate insurances, pandemic bonds). Contributing to trust funds is a way of leveraging impact in priority areas, promoting innovative approaches and enhancing capacity for quick action in fragile contexts. In general, multi-donor and programmatic approaches have potentially greater impact.

Despite these advantages, the trade-off between donor visibility and influence on the one hand, and coherent bank management on the other hand, remains. Synchronising bilateral donor and MDB decision cycles is inherently challenging. Ownership by the recipient government is generally good for country-specific trust funds. In global funds, recipient countries are usually not involved in the design and governance of thematic trust funds, which can lead to discrepancies between thematic priorities of donors and countries' own priorities.

#### *Earmarked funding leads to negative consequences across institutions*

In the MDBs, repercussions of earmarked funding are mostly confined to fragmentation, management inefficiencies and a lack of alignment to the banks' core strategies and the respective control through the boards. The question of board control is particularly relevant since the bulk of earmarked funding is provided by a limited number of donors. The UN is afflicted by the same problems, but to a much larger extent. Revenue structures have substantially changed in the UNDS, and this has left a deep impact on organisations themselves, their structures, mechanisms, mandates as well as the expectations of member states towards them. Organisations have come under pressure, to the point that they find it increasingly difficult to reconcile their funding and mission, and in the interest of bureaucratic survival (or expansion), they prioritise the former. A gap has evolved between how organisations are supposed to operate and how earmarking practices push them to operate. Earmarking makes them less strategic and independent, and more commercial and donor-oriented. They are less able to bring their multilateral assets and comparative advantages to bear on issues that matter

for developing countries as well as the common good. High transaction costs and limits to organisational effectiveness are not just administrative problems – they also contradict donors’ self-interest in value for money.

All organisations grapple with their responses to the increase in earmarked funding and use similar approaches to regain control and mitigate the negative effects of existing earmarking arrangements. At the UNDS, individual agencies aim to engage donors in closer partnerships, both individually as well as collectively; redirect donors to more flexible forms of funding; and improve their transparency and cost-effectiveness. More recently, the Funding Compact formulates a system-wide approach to increase the number of overall contributors, augment the share of core contributions and step-up more flexible multi-donor funds. In the MDB system, the World Bank is most advanced with its efforts to consolidate the long tail of small trust funds into a new programmatic umbrella structure in order to improve management oversight and ensure strategic alignment to the World Bank’s priorities. RDBs appear to orient themselves towards this approach in their own reform efforts.

*Earmarking also poses challenges for donors*

The common understanding of the rise of earmarked funding puts donors front and centre and highlights their benefits in terms of control, accountability and making use of an organisation’s multilateral assets for their own interests. Although we found many arguments supporting this reasoning, we also discovered that earmarking is costly for donors, too. In many instances, they might not be able to profit from earmarked funding the way they expect. Transaction costs are also burdensome for donors. Donor bureaucracies often cannot provide the oversight and follow-up on reports that would arguably be needed to establish the sort of accountability that was a primary motive for earmarking in the first place. In addition, costs in terms of staff time are not adequately taken into account when taking decisions on earmarked funding.

Decision-making on earmarked contributions is remarkably fuzzy in practice, also because of the multitude of involved actors scattered across thematic units, units with responsibilities for international organisations or countries, as well as those at the country level. The rationales and potential alternatives to providing earmarked funds are often not explicit. Remarkably, arguments

for the use of specific forms of earmarking are not easily distinguished from more general reasons for supporting multilateral organisations. Making use of the unique capabilities of multilateral organisations for implementing the 2030 Agenda and strengthening organisations and the system in times of multilateral crisis seems paramount, yet there are signs that donors' multilateral funding decisions reflect primarily considerations other than strengthening multilateralism. A more strategic approach that is used by some of the analysed donors is still hampered by scattered decision-making, which makes adhering to coherent policy priorities rather difficult. This further adds to the challenges in terms of oversight and accountability.

*Earmarking and the 2030 Agenda – from undermining to supportive?*

Earmarked funding risks instrumentalising mission-based multilateral organisations for project-implementation purposes; grants individual donors a greater say and thereby undermines multilateral governance; and negatively affects organisational effectiveness and efficiency. In light of the side effects of earmarking, how then can earmarked funding contribute to the implementation of the 2030 Agenda, which not only requests integrated approaches at scale but also strong multilateral cooperation? The trend towards earmarked funding seems to be stable, if not expanding. Against this political reality, it seems crucial to put earmarked funding into service for the 2030 Agenda. Pooled funding arrangements hold great promise for making headway in implementing the Sustainable Development Goals (SDGs). They adopt many advantages unique to multilateral organisations. For the UNDS, they are indeed the only way to fund activities by more than one organisation and to foster collaboration and coordination. Both are urgently needed if the UNDS is to provide more integrated support to governments. The Funding Compact specifies that the share of pooled funding is to double within the next four years. For the MDBs, programmatic multi-donor trust funds have the potential to promote innovative approaches and leverage impact in priority areas.

At the same time, such pooled funds cannot be looked at in isolation. Not only is there the need to keep further fragmentation at bay, allow for substantially capitalised funds and bear in mind an overall division of labour within the multilateral system, but the current state of the multilateral development system must also be taken into account. In order for multilateral development organisations to be better able to make use of their unique assets, overall



better balanced funding mixes from a larger number of contributors are needed to support and nourish multilateral core functions and assets. In the end, multilateral development organisations are requested not only to provide thematic and country-specific support and expertise. They also need to credibly advocate for human rights and other internationally agreed norms and values as well as act impartially and in the interest of the greater global good. They must also make the case for multilateral cooperation and support states and other stakeholders in their cooperation.

## Recommendations for the German government

### **1. Germany should help narrow down knowledge gaps on earmarked funding and its effects**

There is still a lot about earmarked funding that is unknown. Better data holds the key to evaluating the effectiveness of varied forms of earmarked funding and how they differ from other funding approaches. Improved data can provide guidance on more effective aid allocation. The room for improvement is rather large, both at the international as well as the national level. Germany should advocate for a more detailed and consistent data basis with multilateral organisations (the UNDS and MDBs) and improve transparency and access. It should establish and regularly update a government-wide transparency portal for multilateral funding and allow public access. The government should initiate processes to create an evidence base on the impact of different earmarked funding instruments to inform further decision-making. With its long experience, BMZ is well-suited to take the lead in identifying best practices, innovative models and negative examples, which can be shared and further developed with other ministries. Administrative costs on the donor side should be factored into these assessments. Germany should better communicate the results of multilateral cooperation in general, and earmarked funding in particular, to the German public.

### **2. The German government should develop a more strategic approach to multilateral cooperation, including funding**

To date, there is no overarching strategy that informs the German approach to multilateral cooperation. This includes its approach to multilateral and earmarked funding allocations. It could be argued that the current

fragmented decision-making in the German system also has advantages. It allows different ministerial and other actors with different competencies to shape the substance of cooperation, for example, and may also add flexibility in programming. Given the constitutionally predetermined authority of individual ministries, it will be difficult for any actor to assume an overarching role. However, by taking a piecemeal approach to multilateral organisations in general, and allocation questions in particular, Germany significantly plays under its weight vis-à-vis multilateral organisations, in particular in the UNDS. Moreover, it risks jeopardising its long-term interests in an effective and strong multilateral system that can achieve goals which other actors cannot. At the same time, multilateral development cooperation is under pressure also in the domestic political debate within Germany. A multilateral strategy could help increase the coherence of Germany's multilateral efforts and more clearly justify its increased engagement in the multilateral system.

### **3. The German government should include a more systemic perspective in its funding decisions to ensure its fit with strategic priorities**

To date, decisions on earmarked funding are more often than not taken in isolation and not looked at in their entirety – neither when it comes to individual multilateral organisations, nor with regard to the overall multilateral development system. A systemic view to shape Germany's overarching funding profile is therefore warranted. The government should develop an overarching perspective and assess the current mix of core, flexibly earmarked and restrictively earmarked funding against overall policy objectives. Germany should strive to reduce the fragmentation in its earmarked funding by consolidating its UN and MDB portfolios. It should explore ways that allow Germany's interests in the areas of stabilisation, reconstruction, refugees and climate to reinforce its institutional interests of strengthening multilateral organisations, as well as to review the role of implementing agencies such as the KfW Development Bank (KfW) and the Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ) in earmarked funding arrangements in terms of political control and transaction costs.

#### **4. BMZ and other German federal ministries should strengthen policies on the use of earmarked funding**

Earmarked funding has increased strongly over the last five years. Internal policies that formulate guidance on the terms of use help in weighting funding options against each other, or provide clarity on how to deal with trust funds that seem to be lagging behind. Likewise, for BMZ, funding sources are scattered across the budget, which does not need to be a disadvantage per se but seems to disproportionately affect the MDBs. Ministries should clarify options, procedures and trade-offs for the different instruments of earmarked funding (at the country, regional and HQ levels) in internal guidelines. They should explore the leeway for less restrictive forms of earmarking, both internally and with the Federal Ministry of Finance. BMZ should establish a reliable source for earmarked funding to MDBs in its budget.

#### **5. Germany should both drive and support international initiatives that tackle the negative consequences of earmarking in multilateral organisations**

As Germany is currently the second largest contributor to the UNDS and an important donor to the World Bank and other MDBs, its support to ongoing reforms can make a real difference. Germany can also send important signals to organisations and other donors by adjusting its practices around earmarking. BMZ should support the MDBs in their efforts to better align earmarked funding sources with their core business and encourage the use of transparent and unified reporting mechanisms, which show the contribution of donors to outputs and outcomes of programmes without undue reporting requirements for individual donors. The government should encourage UN agencies through their governing boards to strengthen their rules and mechanisms for receiving and aligning earmarked funding with multilaterally agreed frameworks and make the case in governing boards to bring earmarked funding under intergovernmental supervision. It should explore how to better use UN processes to inform its funding decisions and take a whole-of-government approach to support the current UNDS reform process.

# 1 Introduction

Adequate and predictable funding to multilateral development organisations is key to promoting global sustainable development. Funding volumes and practices matter. They affect the scale and scope of development solutions that can be offered. They can promote coherence and integrated approaches across different dimensions of sustainability, or increase fragmentation and silo thinking. Funding amounts and practices also reveal the extent to which multilateral organisations are owned by member states when looking at who shares the risks and costs of multilateral activities, and they demonstrate the level of trust placed in an organisation. Through resource politics, states attempt to increase their influence and control over an organisation. This can serve to support and strengthen multilateral organisations by helping them to be efficient, effective and innovative. However, those same states can also undermine international organisations by making their work harder, eroding their multilateral advantages and hampering development effectiveness.

Earmarked funds to multilateral organisations and related practices are relatively recent phenomena that have gained importance over the last two decades. Earmarking can carry both positive and negative consequences for multilateral organisations, development effectiveness and the implementation of the 2030 Agenda for Sustainable Development. According to figures from the Organisation for Economic Co-operation and Development (OECD), earmarked net official development assistance (ODA) resources more than doubled between 2007 and 2017.<sup>1</sup> Over one decade, they rose from \$9 billion to \$22.8 billion. In 2017, they amounted to 35 per cent of total multilateral ODA and about 18 per cent of overall ODA flows.<sup>2</sup> Since the 1990s, an ever growing share of funding to multilateral organisations has been earmarked. Earmarked funds come in many varieties but share three features: 1) they are always voluntary in nature for both contributors and organisational recipients, 2) contributors specify a purpose for which they are used and 3)

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- 1 The OECD statistics on OECD members' total use of the multilateral system (Organisation for Economic Co-operation and Development [OECD], 2019a) covers all ODA-receiving organisations and therefore provides a good approximation of earmarked funding. However, they do not include non-DAC donors and are collected at a highly aggregate level; see also Section 3.
  - 2 In 2017 total multilateral aid was at \$64.8 billion (OECD, 2019a), and overall net ODA stood at \$147.1 billion (OECD, 2019b).

the regular multilateral governance bodies have little responsibility or say over their management.

It is important to understand how this sizeable sum of (mostly) public money is spent, what factors bring it about, and its effects. To provide another illustration of the overall magnitude: the \$22.8 billion in earmarked resources in 2017 falls between what the second- and third-largest aid providers contributed in the same year. According to OECD figures, Germany's net ODA totalled \$25 billion, and that of the United Kingdom (UK) \$18.1 billion (OECD, 2019b). Earmarked funding creates effects that range from implications for multilateral organisations and the multilateral system as a whole to development impacts on the ground.

This study analyses the most important instruments of earmarked funding, studies practices of selected donors that supply large shares of earmarked funding, and analyses practices and consequences of earmarked funding with regard to the United Nations Development System (UNDS) and multilateral development banks (MDBs).

In research and policy debates, earmarking has been regarded as a powerful means to mobilise resources and engage in partnerships with public and non-state actors. It has supported cooperation on new or innovative topics as well as facilitated humanitarian and development work in difficult country contexts. Arguably, the practice of earmarking has also pushed international organisations towards greater accountability and transparency. At the same time, earmarking arrangements have created challenges in terms of the overall coherence and impact of allocations. They generate transaction costs and hamper efficiency for all bureaucracies involved in their design, oversight and implementation. In bypassing regular governance mechanisms and programmatic priorities of multilateral organisations and replacing them with bilateral agreements, they also undermine multilateral principles and potentially weaken the multilateral system. Earmarking has also been associated with the prospect of “mission creep” in multilateral organisations, that is, their gradual expansion beyond original fields of activities.

Donors use a multitude of earmarking arrangements, differing in various dimensions and with regard to their advantages and disadvantages for donors, multilateral organisations and recipients. Instruments range from multi-donor trust funds (MDTFs), which allow a better coordination of humanitarian aid, to single-donor trust funds (SDTFs), where one contributor strengthens an organisation's work in one particular programmatic area,

to single-donor project funding, whereby an organisation receives funds – often at the country level – for a specific project or output to reach a specified target group of beneficiaries. Given their different properties, these funding arrangements can vary widely in their effects on individual multilateral organisations, on the broader multilateral development system and, of course, on the effectiveness of development interventions. They also vary with regard to the influence, control and accountability that donors allegedly seek. Earmarking is a matter of degree, ranging from very tight, highly customised, donor-driven projects, to quasi-core support.

The overall diversity of earmarking arrangements is the first reason for using “Shades of Grey” as the report title. The second reason is that this plurality translates into diverse effects of earmarked funding, which oscillate between dark/negative and light/positive consequences. Although highly restrictive and customised forms of earmarking might be detrimental to development effectiveness or the ability of multilateral organisations to act as catalysts for the 2030 Agenda, other forms of earmarked funding can provide welcome impetus to increase the scale and scope of development interventions, allow for greater risk-taking or foster partnerships. The third reason for this title lies in the relational dimension that is inherent to the practice of earmarking.<sup>3</sup> Earmarking brings contributors and organisations together in a voluntary relationship of mutual interest. However, both sides can expect to endure compromises and are often aware of negative consequences. In that sense, desire (for making use of multilateral organisation on one’s own terms on the part of contributors, and raising funds and engaging in development work on the part of organisations) and compromise (having to adapt one’s preferences and accommodate the other party’s ideas) are inherent to such arrangements.

Earmarking continues to grow faster than multilateral core funding, which is comingled without restrictions and allocated as each organisation sees fit in accordance with organisational mandates. There are many reasons why contributors choose to provide earmarked funds to multilateral organisations. At the same time, multilateral organisations are by no means passive bystanders but usually also play a role in driving the supply of

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3 The authors would like to note that some readers will associate the title to a Hollywood production about an unequal yet dynamically evolving relationship. While not an unwelcome metaphor, the authors will not dwell further on it in this report.

earmarked funding themselves. It is likely that earmarked funding will remain a significant source of funding to the multilateral system.

Understanding and addressing the negative consequences of earmarking has gained a new urgency. The 2030 Agenda for Sustainable Development and the crisis of multilateralism make it imperative to tackle and remedy the downsides of earmarked funding and bring out their positive forces. The 2030 Agenda raises ambitions by committing to no less than a global transformation towards sustainable development. It also calls for an integrated approach that takes into account all sustainability dimensions and is anchored in the principle of leaving no one behind. Despite many inspiring stories across the globe, the world is clearly not currently on track for implementing the 2030 Agenda (Independent Group of Scientists appointed by the Secretary-General, 2019). At the same time, multilateralism has come under increasing pressure, not only because of the role of the Trump administration and nationalist upsurges in a number of countries worldwide. Multilateralism – understood here as collective decision-making and action according to mutually agreed rules among several states – is built on the understanding that certain problems need to be addressed through collective action, because individual states cannot, or only at disproportional costs, solve them alone. In order to make multilateral cooperation work, actors need to adhere to the rules and decisions they set up, and engage in burden- and risk-sharing, dialogue, the search for consensus, and mutual adjustment of positions and policies. Yet, an alarming number of states are distancing themselves from multilateral cooperation – by pulling out of multilateral treaties, disregarding international rules and norms, and refraining from developing new ones (Brühl, 2019).

Strong multilateral organisations are needed that can bring their unique strengths to the table in order to help accelerate implementation of the 2030 Agenda, make the case for multilateral cooperation, and support states and other stakeholders in their cooperation. They also need to be credible advocates for the norms and values enshrined in the Human Rights Charter and other international agreements. Multilateral organisations have many assets that they can put to work (see Table 1). Yet, for them to make full use of them, organisations must be rightly positioned, adapt to the requirements of the 2030 Agenda, and be funded in ways that support and nourish their core functions and assets.

Small-scale, projectised approaches that address topics in isolation must be upgraded into coherent and integrated responses at scale. Given the magnitude of the needed transformation, ODA funds must be used as a catalyst, leverage additional funding, and incentivise broader economic and social changes. Development banks in particular must play an important role in mobilising private-sector support for the Sustainable Development Goals (SDGs). The UNDS must help governments access expertise and development finance and support them in weighing synergies and trade-offs when addressing the cross-cutting, multi-sectoral nature of the SDGs. Yet, the tasks of multilateral organisations do not stop at assisting governments in their national SDG implementation. Having paved the way for the 2030 Agenda, the United Nations (UN) has important functions in measuring progress, monitoring and assessing the state of implementation, as well as in educating on – and advocating for – its universal goals. The World Bank is involved in improving data availability and quality and contributes to progress monitoring. Multilateral organisations also contribute knowledge and analysis to implementation efforts at the global, regional and national levels. Last but not least, they must support states and other stakeholders in their cooperation efforts to manage the interdependencies between countries and societies and secure and provide global public goods (GPGs).



<b>Table 1: Key multilateral assets for implementing the 2030 Agenda</b>	
Political legitimacy and neutrality	<p>The broad membership, unique mandates and multilateral governance allows organisations:</p> <ul style="list-style-type: none"> <li>– to convene stakeholders at the national, regional and global levels to help further implementation, raise ambitions and link-up different levels</li> <li>– to assist governments as credible partners, also by taking a more long-term perspective</li> <li>– to improve data quality; monitor and measure progress towards SDGs</li> <li>– to advocate for the 2030 Agenda, including for human rights and other multilaterally agreed norms</li> <li>– to address sensitive issues, act in “difficult” situations, and on challenges with global or cross-border dimensions</li> <li>– to push the universal agenda (instead of a North-South development project)</li> </ul>
Economies of scale to address global challenges	<p>The pooling of resources allows:</p> <ul style="list-style-type: none"> <li>– greater orders of magnitude in terms of volume of funding and geographic reach for development solutions at scale</li> <li>– opportunities to leverage and mobilise additional resources and expertise, for both national implementation but also GPGs and cross-cutting topics</li> <li>– shared risks for innovative approaches</li> </ul>
Experience, expertise and knowledge	<p>The longstanding development work, broad thematic responsibilities and extensive country presence allows:</p> <ul style="list-style-type: none"> <li>– a deep knowledge of developing countries’ economic and social conditions to better anchor and direct support and act quickly in case of emergencies</li> <li>– the formulation of integrated policy responses by harnessing the expertise of the whole organisation</li> <li>– addressing global thematic issues that cut across countries</li> <li>– the advancement of/advancing global and regional debates on common implementation challenges and solutions</li> </ul>
Source: Authors	

Many organisations have engaged in reform and adaptation processes to make them fit for the 2030 Agenda. The UNDS has notably embarked on an ambitious reform round that aims to both tackle longstanding problems and position the system in a way that allows it to be more than the sum of its parts in order to effectively address the cross-cutting, multi-sectoral nature of the SDGs. Attempts to address the negative consequences of earmarking are part of these efforts. At the World Bank, efforts to consolidate the long tail of small trust funds into a new programmatic umbrella structure are ongoing in order to reduce issues of management oversight and ensure strategic alignment to the World Bank's priorities. Regional development banks (RDBs) are pursuing their own reforms with similar purposes. In the UNDS, after many years of appeals for more reliable and sustainable funding, the UN Funding Compact (adopted in May 2019) lays down commitments, by both member states and UN entities, in order to markedly improve the quality of funding.

The Funding Compact, the trust fund reform at the World Bank and related processes at the RDBs compel governments to revisit the way they fund multilateral development organisations and explore their options. Earmarked interventions are usually designed bilaterally between the organisation concerned and contributors (or mini-laterally with a group of contributors). Involved stakeholders are keen on designing and implementing an effective development intervention, establishing a new topic on an organisation's agenda, or fostering cooperation and coordination among donors, organisations and recipients. Concerns for creating and maintaining a functioning multilateral development system receive far less attention, and often there are insufficient accompanying efforts to coordinate within and across multilateral organisations and harmonise overall approaches.

Governments need to reassess how they can best achieve their goals in the age of the SDGs and in times of multilateral crisis. There is a need to balance and reconcile interests that can be in tension: interests for influence and attributions on the one hand, and interests in strong multilateral organisations, coherent approaches and a working multilateral system on the other.

## 1.1 Objectives and focus of the study

This study analyses earmarking practices and their consequences to inform ongoing reforms and help contributors in rebalancing their approaches to multilateral development organisations. For this purpose, we take allocation decisions within donor bureaucracies as a starting point of our analysis and

attempt to sketch out the effects that follow from these decisions. Two core assumptions inform our analysis. First, we assume that the world needs a strong multilateral system – including strong multilateral development organisations – to deal with collective problems that cannot be addressed by individual or small groups of states alone. Multilateral development organisations have a unique role to play based on their multilateral assets, which include an insulation from national interests, embodiment of multilateral norms and the pooling of resources. These assets are not static but need to be renewed by states and organisations alike. If depleted, they can seriously diminish the value of what multilateral development organisations can offer to the world. Second, we assume that earmarked funding cannot be understood when looking at the policies of contributors or the practices of agencies in isolation. Earmarking has turned into a systemic issue that encompasses actors and practices at all levels. In order to grasp its scope and get an understanding of its effects, it is therefore important to combine different levels of analysis and look at contributors as well as organisations both at headquarters (HQ) and in the field.

The objectives of this study are to analyse the drivers of earmarking practices within bureaucracies on the side of contributors and of multilateral organisations, describe and assess earmarking instruments, and analyse the effects of earmarking on multilateral development organisations and their ability to effectively deliver the kind of change required by the 2030 Agenda. On the basis of this analysis, recommendations will be directed at the German government as well as other stakeholders to inform strategy and decision-making towards international organisations.

The study is guided by four broad questions: 1) Which instruments of earmarked funding are there, how are they used, and what trends have been shaping the last decade? 2) What does Germany's profile of earmarked funding look like in comparison to other selected donors? 3) How can we assess selected instruments of earmarked funding when it comes to donor interest, consequences for multilateral cooperation and development effectiveness? 4) Which recommendations can we draw from this analysis for the German government?

Two sets of institutions are examined in detail, namely the UNDS and the MDBs, which could be seen as two very dissimilar groups of multilateral institutions at first glance. The UNDS consists of about 40 funds and programmes, specialised agencies and other units active in operational

development activities.<sup>4</sup> With a large field presence in developing countries, the UNDS engages mostly in technical assistance in areas such as development cooperation, humanitarian aid, and peacebuilding; it usually receives grants, which it also provides to recipients. Most of its work is funded by voluntary contributions (core and earmarked). The UNDS has been experiencing a strong rise in earmarked contributions, whereas core resources have stagnated. The multilateral development banks for their part provide financial assistance in the form of grants and concessional as well as non-concessional loans to promote poverty alleviation and economic development, and also provide knowledge and advice. The World Bank acts as a trustee – and in some cases as a secretariat and partner – of a rising number of global facilities/ vertical funds, which have been created by public and private donors as a response to global challenges, thus transcending the traditional country focus of the MDBs. MDBs, including the RDBs, have also been affected by increased earmarking, though not as strongly. They have witnessed increases of their ordinary capital and replenishments of their concessional funds (International Development Association (IDA) in the case of the World Bank Group (WBG)) in recent years, augmenting their core resources. Earmarked funding increased particularly for the climate- and health-related global funds, with the World Bank as a trustee, reflecting donor responses to global challenges and fragile situations. We consider four MDBs in particular: the World Bank, the African Development Bank (AfDB), the Inter-American Development Bank (IDB) and the Asian Development Bank (ADB).

Although MDBs have begun to address the efficiency and effectiveness challenges arising from a more fragmented funding structure, earmarked resources are still perceived as an opportunity to engage in activities that regular resources cannot cover. Contributors appreciate trust funds as tools for influence that complement the weighted voting rights provided by their share of core funding. Many UNDS agencies face a different reality. Their very survival depends on the provision of earmarked resources that have long exceeded core contributions. The challenges faced by the UNDS go beyond efficiency and effectiveness issues, touching at the very core of what they

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4 We follow the definition of the United Nations Development System as used by UN DESA – it includes UN entities that undertake operational activities for development and are eligible for ODA. Operational activities for development cover both longer-term development-related activities as well as those with a humanitarian-assistance focus (see UN Department for Economic and Social Affairs [UN DESA], 2019a).

stand for and how they can work. Contributors perceive that they can exert a greater influence and achieve better results as well as more accountability by means of earmarking than their core contributions would allow. In fact, some core contributors lament that they are victims of free-riding behaviour by other member states.

Treating these diverse animals in one study certainly involves challenges, and caution is warranted to do justice to their unique circumstances, funding and governance arrangements, as well as development portfolios. Such a combination yields benefits, though. Synthesising findings from two groups of institutions that, according to OECD statistics, together receive nearly 60 per cent of all multilateral funding (2017) allows us to gain a more comprehensive understanding of how earmarking affects the multilateral system.<sup>5</sup> In addition, reforms in the UN and World Bank have similar objectives, aiming at alignment and a consolidated and more strategic dialogue on earmarked funding with funding partners. All this allows the study to contribute to the larger debate about the kind of engagement that is necessary to enable multilateral organisations to play their part in pushing for the transformation towards sustainable development envisaged in the 2030 Agenda.

Different instruments of earmarked funding to multilateral organisations, that is, different ways of delivering ODA to a multilateral organisation for specific development purposes, are scrutinised in the study. Instruments differ according to how funds are managed and disbursed, and how contributors, multilateral organisations and recipients interact in such processes. The distinction between instruments primarily concerns the process used to transfer the funds, rather than the content of development interventions. For the purpose of our study, we take those instruments as a starting point that multilateral organisations themselves use for their internal or external reporting purposes. In the case of the UNDS, we look at programme/project funding, inter-agency trust funds, joint programmes and agency-specific thematic funds. In the case of the MDBs, we analyse co-financing of MDB projects, global/vertical funds administered by the World Bank, and trust funds. It is important to note that instruments analysed in this study differ from instruments or modalities usually dealt with in debates about aid and development effectiveness, although there exist overlaps and commonalities

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5 In the same year, the European Union received 23 per cent, and other multilateral institutions received 19 per cent of overall multilateral ODA; see also next section.

(see for instance Foster & Leavy, 2001; Paulo, Janus, & Holzapfel, 2017; Tilley & Tavakoli, 2012). In this context, it is interesting that the OECD lists earmarked funding as one specific aid type in its classification of funding flows.

The study also focusses on Germany and its policies towards the multilateral system. Germany is among the top donors to the multilateral system. In 2016, it advanced to become the second-largest government donor to the UNDS, following the United States. The German government was the fifth-largest cumulative contributor to World Bank trust funds and the third-largest contributor to global “vertical” funds in the period 2013 to 2019. At the same time, Germany is a latecomer to earmarking. Although it supplied roughly equal amounts of core and earmarked funding to the UNDS until 2010, the share of earmarked funding has substantially increased since 2014. Germany has traditionally focussed on core funding and only hesitantly followed other donors in contributing to trust funds on a larger scale. The recognition of the role of MDBs in contributing to crisis response and fragile situations and of thematic “vertical” funds in tackling global challenges led to an increase in Germany’s earmarked funding to the MDB system, particularly the World Bank and affiliated global funds with the World Bank as trustee.

The study assesses Germany’s earmarking practices in comparison with those of the United Kingdom and Sweden, as well as of the European Union (EU). All of those analysed belong to the rather small group of top contributors that fund the largest share of core and earmarked contributions to the multilateral system. However, they differ substantially in their approaches to multilateral development organisations. This is due not only to variations in the organisational context for aid decision-making among funders, but also to alternative perceptions of what modes of working are more effective. Changes in the funding patterns and approaches of these funders could have a real impact on the multilateral system.

Taken together, the study makes two key contributions to the academic and policy debate. First, by including both the MDBs and the UN, we are able to arrive at more comprehensive assessments of the consequences of earmarked funding on the multilateral system. Second, by combining multiple levels of analysis – namely headquarters of donor bureaucracies, international organisations and field offices – we are able to capture the immense complexity of earmarked funding.

## 1.2 Methodology, data and limitations

This study was commissioned by the Federal Ministry for Economic Cooperation and Development (BMZ). Data-gathering and analysis was conducted between August 2018 and April 2019. The study builds on a mix of methods, which include a structured literature review and an analysis of publicly available policy documents; the analysis of publicly available funding data as well as sources made available by our interlocutors; and semi-structured interviews as well as off-the-record conversations.

Interviews with members of contributor's bureaucracies were conducted in Berlin, Bonn, Brussels, Eschborn, Frankfurt, London and Stockholm, and by phone. Despite efforts, we were not able to engage with all German ministries. Interviews with officials from multilateral organisations were conducted in New York, Washington and Manila, as well as by phone. This HQ perspective was complemented by interviews with staff from donors and multilateral organisations in Bogota, Kampala, Abuja and Bishkek, as well as with participants of courses taking place at the UN System Staff College in Bonn. A list of interviewees can be found in Annex 1.<sup>6</sup> An expert workshop co-organised with the Dag Hammarskjöld Foundation in Bonn in March 2019 provided further helpful input, as did a number of reviewers, to whom we are very grateful.

For the UNDS part of the study, as well as for the analysis of contributing countries, valuable resources included the analyses of UN funding practices by the UN Department of Economic and Social Affairs (UN DESA) (e.g. UN Secretary-General, 2018, 2019a) and other UN reports, the reports co-edited by the UN Multi-Partner Trust Fund Office (MPTFO) and the Dag Hammarskjöld Foundation (UN MPTFO & DHF, 2017, 2018, 2019), as well as the OECD reports on multilateral funding and financing (OECD, 2015b, 2018b). For the MDBs, major resources were the data as published in the banks' annual reports as well as reports on trust funds, global funds and partnerships.

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6 Following established practice, we do not quote interviewees by name. We mark interviews with an abbreviation that refers to the area (MS for member state representatives, UN for United Nations staff, B for bank staff, Ex for experts) as well with a number. The number links the interviews to our transcripts. It is unrelated to the list of interviewees provided in the Annex and does not reflect the chronological order of our interviews.

Some caveats are in order. The triangulation of sources puts the analysis on firmer ground. The interviews yielded an added value, as they allowed us to look beyond the earmarking discourse of official documents and discover new perspectives and nuances. They helped bring out different perceptions between stakeholders in country offices and at several headquarters. However, interviews also add new elements of uncertainty, as it is never possible to fully confirm statements. Our conclusions are therefore subject to the typical limitations of qualitative work. We reviewed country-level documents such as project documents, trust fund policies and evaluations from the four partner countries that we visited for this study, and we spoke with around 60 individuals from donors and multilateral entities in these countries. Unfortunately, despite many efforts, it was not possible to bring in the perspective of developing-country governments to a meaningful degree.

Given the magnitude and complexity of the UN Development System, the report does not claim to deliver an in-depth analysis that covers all specificities of each UNDS entity. We place the focus of analysis on the New York funds and programmes – UN Development Programme (UNDP), UN International Children’s Emergency Fund (UNICEF), UN Population Fund (UNFPA) and United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) – yet added insights also from other programmes and specialised agencies and used available system-wide data and analysis. Our approach was to look for patterns that are valid across several UN entities, not to do justice to each and every UN entity.

There exist also other forms of conditioned support to multilateral organisations that are similar to – and might also be combined with – earmarked funding, such as making available national experts or junior professional officers to support specific topics, or providing other forms of services and goods while specifying the terms of their use. Although it could be highly beneficial to analyse the parallels and overlapping usage, these forms of earmarking are beyond the scope of this study.

Working with funding data across different institutions and across different years is always a challenge. Already within the UNDS, there is a wide variety of working definitions and classifications, which makes comparisons very difficult. Moreover, despite harmonisation efforts, there are also discrepancies in reporting between the Chief Executive Board and data gathered by UN DESA, entity-specific data, as well as between UN data and the OECD creditors system, and data provided by governments directly.



System-wide standards for reporting in the UNDS were introduced in 2018 (UN Chief Executives Board for Coordination – High Level Committee on Management [UN CEB-HLCM], 2019) and will hopefully make future research easier, yet they remain at a relatively aggregated level. Wherever possible, when aiming at comparisons across contributors or organisations, we therefore used data from one source only.

Variations in definitions and data availability pose a challenge in comparing the use of earmarked funding across the MDBs. Project data is often kept confidential and is accessible only for contributors. Definitions of what is regarded as a trust fund, a co-financing platform or a thematic financing facility vary among the banks. Therefore, part of the data on MDBs presented in this study shows orders of magnitude rather than exact figures.

### 1.3 Study outline

The report proceeds as follows. Section 2 first provides a conceptualisation of earmarking and an overview on the overall trends of earmarking in the multilateral development system; discusses what we already know about earmarking practices, effectiveness and consequences; and identifies knowledge gaps that subsequent sections narrow down. Section 3 focusses on the intentions, motives, strategies and practices of selected contributors of earmarked funding, namely Germany, Sweden, the United Kingdom, and the EU. It discusses their respective approaches to earmarked funding and concludes with identifying a set of common challenges that all donors face to varying degrees. After describing the key characteristics of the most common earmarking instruments, Section 4 assesses their pros and cons in relation to advancing donor interests, impact on multilateral development institutions, development effectiveness concerns and the overall goal of implementing the 2030 Agenda for Sustainable Development. The section is divided into two parts, which deal with the UNDS and the MDBs, respectively. Section 5 zooms in on the institutional consequences of earmarking as well as on the responses and coping strategies developed by international organisations. It also has a section dedicated to the UNDS as well as one to the MDBs. Building on this analysis, Section 6 discusses the complex picture that emerges from looking at the UNDS and the MDBs and draws conclusions. It formulates recommendations directed to the German government.

## **2 Setting the stage: Earmarking in the multilateral system**

### **2.1 Earmarked funding in the multilateral development system**

This section provides an overview of the earmarking phenomenon in the multilateral system and assesses what we know so far about its origins, characteristics and consequences. Against this background, it describes knowledge gaps and situates the approach of our study. The section also clarifies key concepts used and provides background analysis for subsequent sections. It is divided into five parts. Section 2.2 gives a definition of earmarked funding and describes its importance in the multilateral development system. Section 2.3 discusses the main drivers of earmarked funding. Section 2.4 unpacks the different nuances that earmarked funding arrangements come in by presenting typical instruments used by the UN Development System and MDBs, and then further differentiating between stakeholder configurations, earmarking purposes and other customisable elements of earmarking arrangements. Section 2.5 examines findings with regard to the positive and negative effects of earmarking with regard to donors, multilateral organisations, recipients and the multilateral system as such. Concluding, Section 2.6 provides an overview on how our study approaches and contributes to the crucial questions of what drives earmarking and what kind of consequences arise.

### **2.2 Earmarked funding in the multilateral development system**

#### **2.2.1 What is earmarking?**

From a historical point of view, earmarking could be characterised as an unforeseen, ad hoc mechanism of funding multilateral organisations. Multilateral development organisations that were founded in the 1950s were designed to rely on core contributions, which still play an important role for nearly all multilateral development organisations. By core contributions, we understand funding that is provided without restrictions to the budgets of organisations, which are controlled by the respective

intergovernmental governing body of the organisation.<sup>7</sup> Core resources are allocated in accordance with the specific mandates and guidelines established by governing bodies. This typically leaves some leeway for the international bureaucracy, which is accountable to the governing body. There is no standardised terminology for core contributions, but typical terms such as “regular resources” (UNDP, UNICEF, UN Women), “multilateral contributions” (World Food Programme, WFP) or “ordinary capital resources” (MDBs) underline that these resources are integral to the formal world of multilateralism, to joint decision-making and the delegation of authority to international organisations.<sup>8</sup>

Earmarked contributions represent a fundamentally different way of supporting an agency. They can be seen as a means to work around existing multilateral rules and structures. Earmarking means that donors restrict resources to specific purposes, usually in terms of geographic and thematic scope.<sup>9</sup> Earmarked contributions constitute a hybrid aid allocation channel that displays characteristics of both multilateral and bilateral aid. In some cases, these resources are best characterised supporting “bilateral [...] activities under multilateral cover” (Sridhar & Woods, 2013, p. 33), but they can also represent bilateral support to multilateral core functions. The most commonly used terminology reflects these different aspects: The OECD classifies earmarked funds typically as bilateral aid through multilateral organisation. Commonly used terms are “bi-multi aid” or “directed multilateral contributions” (Reinsberg, 2017a). What clearly sets earmarked funds apart from core resources is the related governance, lines of accountability and oversight (Goetz & Patz, 2017; Gulrajani, 2016, p. 77). As they are not formally part of budgets, they are also not subject to

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7 Core contributions come in two forms: mandatory contributions, which are charged as a legal obligation of membership according to an agreed scale of assessment, and voluntary contributions, the size of which are determined by the donor individually. The UN Secretariat and UN specialised agencies such as WHO and FAO receive mandatory core contributions from the UN’s membership, yet increasingly they also seek to attract voluntary core funds. UN funds and programmes rely exclusively on voluntary resources. The World Bank and other MDBs technically rely on voluntary core contributions, which, however, are raised in collective capital increases and replenishment processes.

8 For a full overview on UN terminology, see UN Secretary-General (2017).

9 The term “earmarking” also appears within bilateral aid to describe aid monies that are restricted by purpose. The widespread earmarking by the US Congress vis-à-vis the United States Agency for International Development (USAID) has been identified as a constraint on the agency’s effectiveness (see e.g. Lundsgaarde, 2013).

(full) multilateral oversight. Organisations have agreed rules that regulate the acceptance of earmarked contributions, however individual contributors have the authority to determine spending priorities.<sup>10</sup> In the case of pooled funding arrangements, contributors exercise their authority together with others. Earmarked funds are therefore commonly referred to as extra-budgetary or earmarked resources. Taken together, earmarking has three characteristics.

1. Earmarking is voluntary. Such contributions are not part of obligatory membership duties, and organisations do not have to accept them or specific modalities that come with earmarked contributions. As such, contributors and organisations alike share the responsibility for the consequences that are linked to earmarking.
2. Earmarking preserves the national identity of a grant or concessionary loan. The “line of sight” from source to results ensures that contributions can at all times be connected to the donor through planning frameworks, accountability mechanisms and visibility, although in the case of pooled funding, an individual donor’s contribution cannot be attributed to specific results.
3. Earmarking bypasses statutory governance bodies of a multilateral organisation. Decisions concerning how, where and for what purposes funds are used are foremost taken by the contributor, or groups of contributors to which the international organisation’s staff is also accountable. Thereby only a subset of the original members of the multilateral organisation is involved. On the side of the multilateral organisation, the number of stakeholders involved is typically also reduced, for instance when only a country office handles the thematic side of earmarked contributions, or when specific departments of an organisation benefit from earmarked contributions more than others.

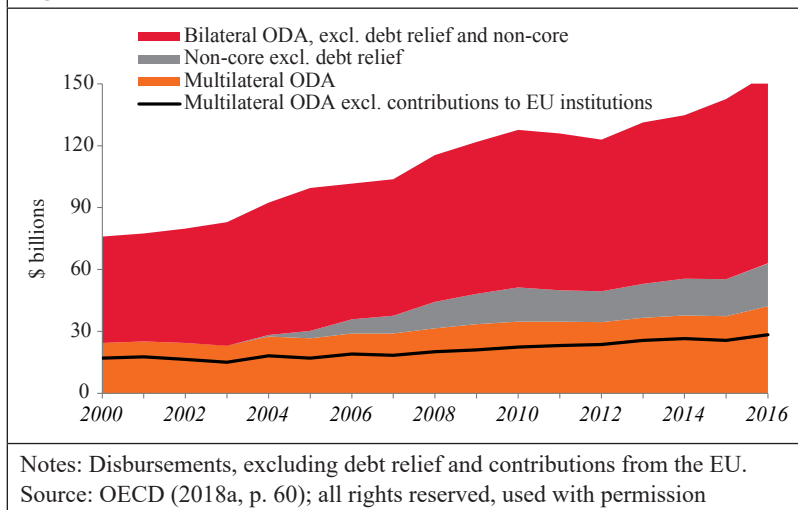
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10 Recent reforms in the UN aim to better connect earmarked funds with multilaterally agreed work programmes. With WHO as a pioneer, agencies have introduced integrated budgets that provide a comprehensive picture of all projected resources. Governing bodies adopt the budget even though not all resources have been committed (OECD, 2018a, pp. 222-223).

## 2.2.2 Patterns of earmarked funding in the multilateral development system

Starting from nearly nothing in the early 1990s, earmarked funding to multilateral organisations soon amounted to a sizeable part of multilateral funding flows (Eichenauer, Reinsberg, & Michaelowa, 2015). The significance and exponential rise of earmarked resources from 2000 onwards is shown in Figure 1, which gives an overview of overall aid flows of member countries of the OECD/Development Assistance Committee (DAC) over time.<sup>11</sup> Earmarked funding has grown massively and nearly continuously, and at a faster pace than multilateral aid. With a volume of now \$23 billion, it amounts to 35 per cent of total multilateral funding by OECD-DAC donors, which stood at \$65 billion in 2017.

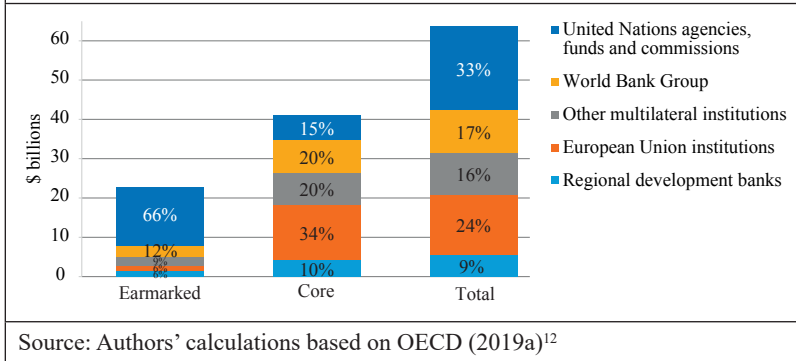
**Figure 1: Increase in earmarked contributions from 2000 to 2016**



11 Although this volume of earmarked funding is already impressive, it does not entail disbursements by the European Union or other non-state actors to multilateral organisations or earmarked contributions by non-DAC countries.

Observers stress that several issues came together to facilitate the increase in earmarked resources from the 1990s onwards (see for instance Jenks, 2014; Reinsberg, Michaelowa, & Eichenauer, 2015). When the foreign policy rationale for aid lost importance with the end of the East-West conflict, a new rationale for development cooperation was needed. Instead of a peace dividend, a frequently deplored aid fatigue started to emerge. In trying to address this, aid was to become more specific and its impact better measurable. The series of global conferences in the 1990s culminated in the 2000 Millennium Summit, which later became associated with the Millennium Development Goals (MDGs) – an expression of the desire to define clear development goals and objectives towards which the international community would commit itself. At the same time, increasingly critical national constituencies demanded more efficiency and visibility of their contributions to multilateral organisations. It is no surprise that, with greater aid volumes, scrutiny of these funds and the need for accountability also increased. OECD-DAC states were dissatisfied with the perceived inefficiencies and shortcomings of multilateral organisations or their restricted mandates. This translated into funding for highly specialised, newly founded vertical funds such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and the vaccine alliance GAVI. It also led to more earmarked funding that not only allowed for more transparency, accountability and communication regarding efficiency and results – new MDTFs also enabled a more coordinated approach among groups of donors to support a common cause. Multilateral organisations generally welcomed the additional voluntary contributions, despite the associated compromises to their mandates and management processes.

Although the overall trend towards increased earmarking applies across the multilateral system, it affects various organisations to different degrees (see Figure 2). When looking only at earmarked funding to the multilateral system, the most important aid channel by far is the UNDS, which received 66 per cent of overall earmarked flows to multilateral organisations. This stands in stark contrast to the 15 per cent of overall core resources it received in the same year. It is clear that it is only because of earmarked contributions that the UNDS is the top recipient of overall ODA contributions to multilateral organisations – a position it has held for many years (2017: 33 per cent).

**Figure 2: Funding to multilateral organisations (2017)**

When we use UN figures, the numbers are even more staggering. According to UN DESA, the earmarked share of humanitarian- and development-related funding to the overall UNDS amounts to 79.4 per cent of overall contributions, which stood at \$33.6 billion in 2017. Other than OECD statistics, these numbers also entail funding from donors that are not part of the OECD-DAC and from non-state contributors, for example also from the EU, whose contributions come second only to those of the United States (UN Secretary-General, 2019a).

With 12 per cent, the WBG receives a distinctively lower share of earmarked ODA than UN entities. Its share of overall core resources is nearly twice as large with 20 per cent. For the World Bank, earmarking is less relevant than for the UNDS; in particular, because it is primarily a lending institution and generates its own resources in the financial markets. Moreover, it fills up its core resources for the IDA in regular three-year replenishment cycles. Earmarked funds complement its core business with grant and concessionary resources. Trust funds, however, do play a sizeable role: At \$2.6 billion, earmarked funding represented 23 per cent of its overall contributions from OECD-DAC donors (2017). When we look at the latest World Bank figures, the numbers are higher because they include contributions from non-OECD

12 The OECD statistics cover over 200 multilateral agencies and global funds that have some sort of government membership and carry out developmental activities which are funded partially or in whole as ODA. Our figure does not include contributions to the International Monetary Fund and the World Trade Organisation (see OECD, 2019a).

and private donors. In FY19 contributions to World Bank Group trust funds amounted to \$4.3 billion (World Bank, 2019).

At 6 per cent, the share that RDBs receive from overall earmarked contributions is rather small. Their share of overall core contributions is 10 per cent and – similarly to the World Bank – consists of contributions to their capital base as well as replenishments of their concessionary funds (e.g. the African Development Fund, AfDF). The cluster comprises the Asian Development Bank, the Islamic Development Bank, the Inter-American Development Bank, the African Development Bank, the European Bank for Reconstruction and Development, and others. At \$1.398 billion, earmarked funds made up 25 per cent of all ODA contributions to RDBs in 2017.

The EU receives the same share of earmarked funding as the RDBs. The small percentage reflects that it was only in 2012 that the EU altered financial regulations to allow the European Commission to establish trust funds. The impact of these now five trust funds can be seen in an already strong increase in earmarked contributions between 2015 and 2016 (OECD, 2018a). For the EU, however, core contributions play a much bigger role as a funding source, also given its special status as both a supranational and international organisation that receives its development funding from inter alia shares of the EU budget, the European Development Fund and the European Investment Bank. Counting its core and earmarked funding, the EU is the second-largest multilateral aid recipient for OECD-DAC donors.

The EU is a special case as both an autonomous actor with its own development policy and resources, and as an intergovernmental/supranational organisation that acts as a forum for member states. In recent years it has emerged as a quasi-multilateral donor and is increasing its profile in initiating and managing trust funds, which in part are implemented by multilateral organisations. While acknowledging these recent trends and the EU's broader role and mandate, we focus on the EU in its first capacity, namely as a contributor of development funding to the multilateral system (see Section 3.2.4).

Figure 2 also refers to the cluster “other multilateral institutions”, which includes a wide variety of multilateral organisations, ranging from established international organisations such as the Commonwealth, the African Union and the Economic Community of West African States, to highly specialised institutions such as the GFATM, the vaccine alliance GAVI and the Green Climate Fund (GCF). Although the share of earmarking

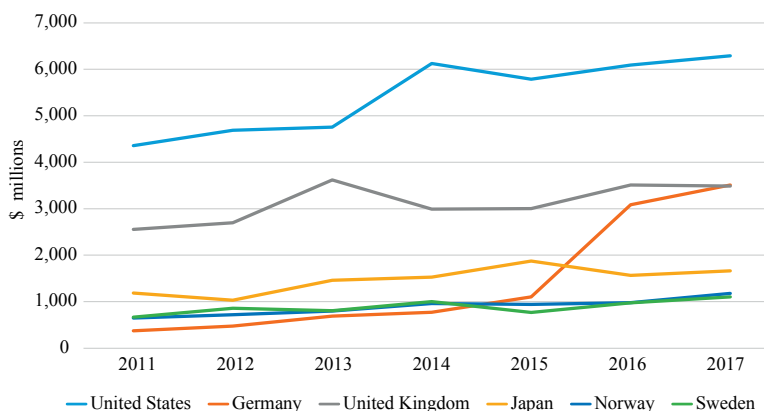


for organisations with a broader mandate is higher, earmarking in highly specialised organisations is less relevant. These organisations are in fact already quite similar to trust funds attached to other, broader international organisations (see Eichenauer et al., 2015). They also function as important sources of earmarked resources, in particular for the UNDS.

### 2.2.3 Major contributors of earmarked funding

OECD-DAC member states continue to be the most important providers of earmarked contributions across the multilateral system. The top five contributors in 2017 were the United States, Germany, the United Kingdom, Japan and Norway, with Sweden nearly astride with Norway. The first three together provided about 59 per cent of all earmarked funding to the multilateral system. The top 10 DAC donors for earmarked funding correspond very much to the top donors for overall ODA contributions to the multilateral system. However, France and Italy, which ranked five and six with respect to their core contributions (2016), are notably absent from the list of top earmarked funding contributors (OECD, 2018a, p. 74).

Figure 3 displays the increase in earmarked funding since 2011 from top DAC contributors. It shows that, despite smaller fluctuations, the overall trend is going upwards for all contributors. The stark increase in German earmarked contributions is particularly prominent. Germany more than quadrupled its earmarked contributions between 2014 and 2017, which rose from \$771 million to \$3.5 billion. This considerable increase in funding was mainly through greater earmarked funding to several UN organisations, most prominently the UN High Commissioner for Refugees (UNHCR) and UNICEF (see also Section 3.2.1).

**Figure 3: Earmarked contributions to the multilateral development system from top donors**

Source: Authors' calculations based on OECD (2019a) (gross disbursements, in 2016 constant US dollars)

In addition to DAC donors, there are also other contributors to earmarked funding that are not, or only partially, considered in OECD statistics, also in order to avoid double counting. The most important ones are other multilateral organisations and institutions. Given the overall increase of multilateral organisations involved in development as well as greater differentiation and specialisation, actors such as the EU and vertical funds (e.g. GAVI, the GFATM, or more lately the GCF) provide earmarked funding according to their priorities and areas of activity (Browne, 2017). Their importance as a source of earmarked funding to multilateral organisations also highlights the complexity of tracking aid flows, as their implementation models make them intermediaries between contributors and implementing partners, such as multilateral organisations that the contributors support through other means (Reinsberg, 2017a, 2017c; Reinsberg, Michaelowa, & Knack, 2017).

Private-sector resources have also increased in recent times, although there are big differences among organisations with regard to their share of non-state funding. Philanthropic foundations, in particular the Bill & Melinda Gates Foundation, are the most important non-state donors to the UN system, and also to other multilateral organisations (Clinton & Sridhar, 2017; Seitz & Martens, 2017).

Contributions from countries from the South complete the picture. Interestingly, funding from non-DAC members was the fastest-growing component of UNDS funding between 2011 and 2016 (OECD, 2018a, p. 86). Yet, overall figures remain rather low. In 2017, developing countries contributed \$2.7 billion, or nearly 10 per cent, to the overall \$26.6 billion in earmarked contributions for humanitarian and development activities at the UNDS. Of this, \$1.8 billion were local resources used to finance programmes within their own borders (UN Secretary-General, 2019a, p. 9). At the World Bank as well as at the RDBs, countries from the South contribute to trust funds, yet also rank low in comparison to DAC donors.

**Box 1: China as a contributor to multilateral development organisations**

China's funding for multilateral organisations has risen rapidly since 2015, due in large part to new international financial institutions such as the Asian Infrastructure Bank, which was set up in December 2015. China's total multilateral assistance was estimated at \$1.5 billion in 2018, making up about 23 per cent of its foreign aid (Kitano, 2019). China's UNDS funding is highest of all non-OECD countries, yet it remains overall modest, totalling about \$326 million in 2017. Between 2007 and 2017, China's contributions to the UNDS roughly quadrupled and changed also in terms of composition. Local funding (funding earmarked for activities within China's own borders) has decreased, whereas core funding and other earmarked contributions have increased (Mao, 2020).

China has markedly increased its contributions to the World Bank Group trust funds in recent years, from \$0.1 million in FY13 to \$51 million in FY15-FY19 (World Bank, 2019, p. 164). China has also developed into an important co-financier for the RDBs, with dedicated co-financing facilities at the AfDB and the IDB amounting to \$2 billion each. China is unable to contribute to the equity capital of the MDBs according to its wishes, given that the majority shareholders block a significant increase. Through the co-financing agreements, which are earmarked mainly for infrastructure projects, China encourages a larger degree of infrastructure lending of the RDBs, which corresponds to its peculiar development philosophy and priorities (Gasemyr, 2018).

## 2.3 What drives earmarked funding?

Most frequently, the rise of earmarked funding is explained by looking at the supply-side, for example the policies of donor countries, mostly from OECD-DAC countries. Yet, multilateral organisations are not innocent bystanders to this, although their role is harder to pin down. The following section discusses explanations from academic and policy-oriented literature as to why states resort to earmarking and why multilateral organisations accept and actively raise earmarked contributions. Until very recently, only a few academic studies explicitly addressed earmarked funding, and more systematic research has only just begun.

### 2.3.1 The role of member states

The literature distinguishes between two types of drivers for earmarked funding, namely international factors and domestic factors. With the focus on international drivers, earmarking is placed in the context of the struggle for power and influence among states in the international system. Attention to domestic factors attributes greater importance to national policy priorities, the demands of electoral politics, bureaucratic processes or legal restrictions.

1. *Influence and control*: International relations scholars use the distribution of interests and governance structures in international organisations to explain earmarked funding, often using a principal–agent approach. Member states feel the need to earmark if their interests are not aligned with either the majority in the governing board and/or the profile of the respective organisation (Graham, 2016; Milner & Tingley, 2013). Through earmarked funding, states wield influence. They bypass multilateral decision-making structures and use a multilateral organisation for their own purposes. This might also help side-step a decisional impasse in governance bodies (OECD, 2015a, p. 100). States also use earmarked funds to push multilateral organisations into their desired direction (Graham, 2017; OECD, 2015a, p. 101; Reinsberg, 2017c). They also narrow down the room for manoeuvre of a multilateral organisations and increase their own ability to control the delegated activities (Sridhar & Woods, 2013). States will not always act individually but may also look for coalitions with others to address new development challenges or work jointly in areas of particular interest (Independent Evaluation Group [IEG], 2011; Reinsberg, et al., 2017). The more member states' interests diverge, the more restrictive the earmarking will be. This

also helps explain donors' choices for single-donor trust funds versus large multi-donor funds (Reinsberg et al., 2017). In a 2014 OECD survey, donors highlighted that the additional influence in shaping an international organisation's development agenda was in fact the main reason for resorting to earmarking (Tortora & Steensen, 2014, p. 15). However, there are limits concerning the extent of influence states can exert through earmarking, as Gulrajani (2016, p. 19) notes: "For all but the largest providers, multi-bi assistance remains a signalling device to national publics rather than a real influence on multilateral agency priorities."

2. *Domestic politics*: A broad range of domestic factors have been used to explain the use of earmarked funding (Gulrajani, 2016; Reinsberg et al., 2015; Tortora & Steensen, 2014). Some relate to actual development policy choices; others are more idiosyncratic. Donors might want to use earmarking in order to reinforce their bilateral aid priorities. Such geographic and thematic priorities might require earmarking. Often, these priorities are approved by parliament, and this "earmarking at source" (Adugna, 2009, p. 22) reduces the amount of ministries' discretion over how to spend resources. States might also use multilateral organisations in a complementary way, in particular they might want to use organisations in areas that they are lacking capacities or where they consider them to be best suited, for example due to their multilateral assets (OECD, 2015a, p. 102). Particular earmarking arrangements such as trust funds may allow for more coordination with other donors and several organisations, thus providing benefits in terms of expertise and increasing coherence (IEG, 2011; OECD, 2015a, p. 102). Domestic legal requirements present another subset of domestic drivers for earmarking. The disbursement of money is subject to rules and regulations, which may necessitate earmarking. These rules pertain to accountability, reporting standards, the prohibition of funding on activity through different channels, sanctions against certain states/individuals, multi-year commitments, etc.
3. *Accountability, effectiveness and efficiency*: Although donors might be happy with an organisation's overall mandate and thematic orientation, they might lack trust in the effective and efficient use of funds. Earmarking involving additional accountability requirements and a closer involvement of donors, the argument goes, allows donors to ensure the adequate use of their funds. Earmarking also provides governments

with greater visibility on how their funds are spent: This is the second main reason cited in the 2014 OECD donor survey (Tortora & Steensen, 2014, p. 15). This is particularly important vis-à-vis parliament and other national constituencies that might be sceptical of both the presumably more altruistic orientation of multilateral development organisations and of their effectiveness and efficiency (Gulrajani, 2016).

4. *Entrepreneurial staff*: Donor governments are not unitary actors. Decisions on the allocation of earmarked funding may be taken at HQ and at the country level, as well as across different ministries (OECD, 2015a, pp. 104-105). Entrepreneurial staff has also been identified as a driver of earmarking, be it for reasons of expanding influence or to meet spending targets (Reinsberg, 2017a, pp. 7, 12).

### 2.3.2 The role of multilateral organisations

The practice of earmarking has push- and pull-factors: Although donors might see the need to earmark, organisations or individual stakeholders within them might also see benefits. In theory, organisations exist to serve member states and implement delegated tasks. Intergovernmental bodies are the ones that set the rules regarding what resources agencies can accept, and they define the modalities of doing so (Graham, 2016). However, as several theoretical approaches to international organisations lead us to assume, organisations are more than faithful implementers. They are furnished with certain liberties that are necessary to carry out mandates, but which can also be used to pursue organisational self-interests and become actors in their own right (Barnett & Finnemore, 2004; Hawkins, Lake, Nielson, & Tierney, 2006; Weinlich, 2014b). Every organisation has an interest in core and flexibly earmarked resources to preserve organisational autonomy (Dreher & Lang, 2016, pp. 15-17). It is plausible that organisations typically strive not only for reliable core resources that confer autonomy, but that they also attempt to expand revenue as a matter of survival and prestige. This becomes even more important in an environment where there is a lot of competition over mandates, competences, financial and other resources, and reputation, as is the case in development cooperation. Earmarked funding provides a welcome expansion of an organisation's resource base. Research has started to stress the "entrepreneurial features" of organisations (Goetz & Patz, 2017, p. 99). However, there are very few studies that focus on the international bureaucracy in order to explain the rise in earmarked funding.

Reinsberg (2017b) suggests that the sudden rise in trust funds around in the 2000s at the World Bank resulted not only from the availability of funds and lenient internal regulations, but also from entrepreneurial staff who reacted to internal reforms that cut their budget autonomy. For the UNDS, no comparable research exists to date.

## 2.4 The different shades of earmarked funding

In the literature, earmarked funding has traditionally been treated as one category and juxtaposed to multilateral core funding. This was also how we described the broad trends on the basis of OECD data above. Furthermore, academic literature often equates earmarked funding with its most harmful manifestations, whereby donors use multilateral organisations as implementing agencies for their own bilateral priorities, to the detriment of multilateral organisations and recipients. However, earmarked funding comes in many different forms and differs along a variety of dimensions. It is important to stress that earmarked funding in general can, but does not need to, be detrimental to multilateral organisations and their capacities to tackle global problems. In principle, if managed well and with the right properties, earmarked funds could also strengthen multilateralism and the ability of organisations to help implement the 2030 Agenda. In order to be able to assess how earmarked funding works and what intended and unintended effects it creates, it is important to be aware of the different properties of earmarked funding arrangements. Accordingly, the following section introduces the most important instruments of earmarked funding as used by the United Nations and MDBs. It presents characteristics that may differ from one earmarked funding arrangement to the other, leading to positive and negative effects on donors, recipients, multilaterals and development interventions.

### 2.4.1 Instruments of earmarked funding

Earmarking has evolved over the years, often as a flexible means to work around already existing structures. Therefore, it can be rather difficult to bring conceptual order to these instruments (see also Goetz & Patz, 2017). We understand an instrument of earmarked funding to be a particular way of delivering ODA that is contributed to a multilateral organisation for specific development purposes. The distinction between instruments primarily concerns the process used to transfer the funds rather than the

content of development interventions. The spectrum ranges from large-volume global trust funds with high political relevance to relatively tiny and highly customised funding arrangements. Instruments differ according to how funds are managed and disbursed, and how contributors, multilateral organisations and recipients interact in such processes. The instruments analysed in this study differ from instruments or modalities usually dealt with in debates about aid and development effectiveness, such as budget support, or thematic allocations, although there exist overlaps and commonalities, as we see below (see for instance Foster & Leavy, 2001; Paulo et al., 2017; Tilley & Tavakoli, 2012). There exist no agreed definitions across the multilateral system; multilateral organisations have created their own idiosyncratic definitions as a basis for data collection. We confine ourselves to providing an overview of earmarked instruments that follows the usage of the respective organisations themselves (Table 2). Definitions of the instruments are provided in Section 4.

For the MDBs, the umbrella term for earmarked funding arrangements is “trust fund”. A trust fund in the context of banks is understood as a financial vehicle for channelling aid resources from governmental and non-governmental donors to provide funding for programmes and activities agreed between the donor(s) and the trustee organisation (IEG, 2011, p. 2). The World Bank distinguishes three types of trust funds: 1) bank-executed, 2) recipient-executed and 3) financial intermediary funds (FIFs), also called vertical funds. For funds such as the GFATM, the Global Environment Facility (GEF) or the Climate Investment Funds (CIFs), the World Bank holds the funds in trust, guarantees high fiduciary standards and often also acts as implementing agency alongside other implementing organisations. The World Bank also has other sources of external funding, such as from reimbursable advisory services, which are mostly financed by its clients, that is, developing countries themselves, or cost-sharing arrangements. In this study, we focus on the bank-owned trust funds, the vertical funds, and also include co-financing arrangements between bilateral donors and the MDBs, because they are a way to work through the MDB system for the financing of specific purposes, and, as Section 4.2 describes, display very similar features to trust fund arrangements.



<b>Table 2: Instruments of earmarked funding in the UNDS and MDBs</b>	
<i>Instrument</i>	<i>Examples of earmarked funding arrangements</i>
<b>Multilateral development banks</b>	
Trust funds	Funds to 1) support the work programme of the MDBs, including advisory services and analytics, and 2) finance projects and technical assistance (TA) in recipient countries
Financial intermediary funds	Funds to support global development initiatives and partnerships focussing on the provision of global public goods
(Bilateral) co-financing arrangements	Joint or parallel financing of projects in recipient countries with various forms of division of labour between bilateral agencies and MDBs, often on the basis of framework agreements
<b>United Nations Development System</b>	
Inter-agency pooled funds (several donors, several agencies)	Global funds, joint programmes, humanitarian country-based funds, One UN Funds
Single agency thematic funds (several donors, agency-specific)	Thematic funds, funding windows, UN-donor partnership funds, other ad hoc agency-specific trust funds, rapid response/ emergency funds, Innovation Funds
Project and programme funding (one or several donors)	Single- and multi-donor projects, funding to agency programmes or parts thereof at country, regional or global level
Local resources (one donor, typically one agency)	Programme and project funding by developing countries, for implementation in their own countries
Source: Authors	

The UN development system has an even wider spectrum of earmarked funding instruments. In order to identify specific instruments of earmarked funding that at least share some important characteristics and collect comparable data about the system's earmarked portfolio, UN agencies are requested to report on four modalities of earmarked funding: UN inter-agency pooled funds, single-agency thematic funds, project-/programme-specific contributions and local resources (UN CEB-HLCM, 2019). Inter-agency pooled funds (also "multi-partner trust funds") bring together both several donors and several UN agencies. They are typically, but not necessarily, administered by MPTFO, hosted by UNDP. Some of these instruments are defined by sectors (the humanitarian funds), others by their purpose of improving coordination (One UN Funds, joint programmes), and yet others by their function of promoting global thematic priorities (global funds) (Annex 4 lists trust funds with German contributions). Agency-specific and "thematic funds" can be multi- or single-donor, but are owned by one UN agency only. While only the thematic funds of UNDP, UNICEF and UNFPA are reported in the UN's category of "thematic funds", there is a long list of additional agency-specific trust funds on which transparency is usually low (in Annex 3, an overview of such funds is offered). Both inter-agency and thematic funds are explicitly mentioned in the UN Funding Compact with the aim of raising their shares in the overall UNDS funding mix. Programme or project funding is often described as contributions by one donor and for activities by one agency – usually, but not exclusively, at the country level. There is little transparency on this type of funding. Our research suggests that, in this area, various stakeholder compositions are possible, and in fact common (see Section 4.1). Local resources are defined based on the source of funding. Although all UN member states and private actors may contribute to the other forms of funding outlined, in this case the developing-country government itself contributes funding for UN activities within its own borders, usually through trust funds, programme or project funding, but sometimes also outside any planning framework.

Section 4.1 of this study focusses on programme and project funding, which receive the bulk of earmarked funding, on multi-partner trust funds (both global and country-based, which includes the humanitarian country-based funds), and agency-specific funds. Joint programmes are discussed separately, as they are a well-defined instrument in the UN. We did not study local resources in detail, but we provide some comments based on our observations.

## 2.4.2 Varieties in earmarked funding

To understand the differences and overlaps of the earmarked funding instruments introduced above, this section looks at their specific organisational features in more detail. This will indicate how these instruments can be used and what choices, benefits and trade-offs are involved for donors and organisations. It will also show, however, that the instruments, while being based on common characteristics, are far away from being clear-cut categories. This becomes even more obvious when scrutinising in greater detail the different purposes of earmarking as well as other factors that can be customised in earmarking arrangements. These differences highlight that, indeed, there are many shades of grey in earmarked funding arrangements. Although we have readily available data on the overall instruments of earmarked funding, more granular data with regard to the aspects discussed below is missing, or only selectively available for individual earmarking arrangements.

### *Stakeholder configurations and division of labour*

Various stakeholder configurations are possible in earmarked funding. In essence, any combination of one or multiple donors, agencies and development interventions is feasible. In addition, in particular in the case of the MDBs, the beneficiary government can also play various roles.

*Donor structure: Single or pooled.* Although the constellation of one donor funding one agency/project is the simplest form of earmarking, donors can also pool their resources in a trust fund, or at least come together to fund aspects of a joint programme. For a contributor, although pooling allows economies of scope and of scale, it goes hand in hand with losses in attribution and control. From the perspective of a multilateral organisation, pooled funding arrangements have more flexibility than single-donor arrangements, often come with fewer transaction costs at HQ and can increase the flexibility in fund allocation.

*Organisations: One or multiple.* Funding can be received by one organisation, as is usually the case for the MDBs. Particularly in the UNDS, it can also be used to bring several organisations together in joint programmes or projects. Such multi-agency settings are suitable to improve coordination and pool resources and knowledge. They typically come with higher transaction costs for organisations. This is also the case for donors, though a lead organisation model might provide a remedy.

*Complexity: Single- or multi-project.* An earmarked grant might be for one specific project only, but it can also support a programme-like structure that works with a longer time-frame and which, in turn, provides funding to smaller, related programmes and projects.

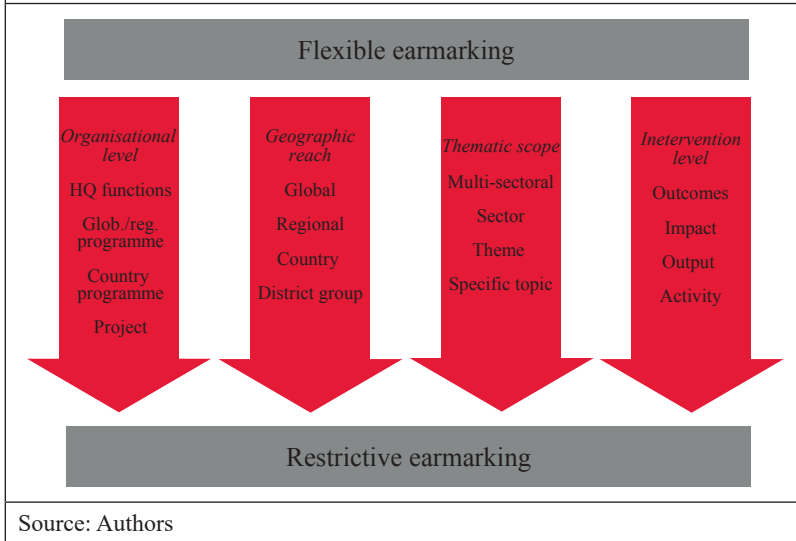
*Governance: Different weights for donors, recipients and agencies.* Decisions on how to allocate the funds can be taken by the multilateral organisation alone, with other actors such as steering committees, or by contributors themselves. Many trust funds have their own governance arrangements – which differ significantly in who decides – both from the original governance bodies of the multilateral organisation as well as among each other. The decision-making can be completely entrusted to multilateral organisations (e.g. in the case of thematic and selected humanitarian funds, where donors just have advisory functions, or in the case of bank-executed funds for the World Bank’s flagship reports), but it can also rest mainly with donors (typically in global trust funds and project funding). In the MDBs, donors usually have a greater say and can also chair governing boards, which they usually do not do with UN trust funds. The host government beneficiaries of earmarked funding also typically have a say for country-based instruments.

*Implementer: Organisation or third party.* The role of the multilateral organisations in earmarked funding arrangements varies. They always play the role of a trustee and fiscal agent. In the case of some FIFs, the World Bank’s role is restricted to this, as in the case of UN organisations such as UNICEF or UNDP’s MPTFO that administer multi-donor trust funds. Development interventions may be implemented by organisations alone, with partners or through the government. Organisations can also act as a pass-through mechanism, directly funding civil society organisations, other non-governmental groups or other multilateral organisations.

### *Purposes of earmarked funding*

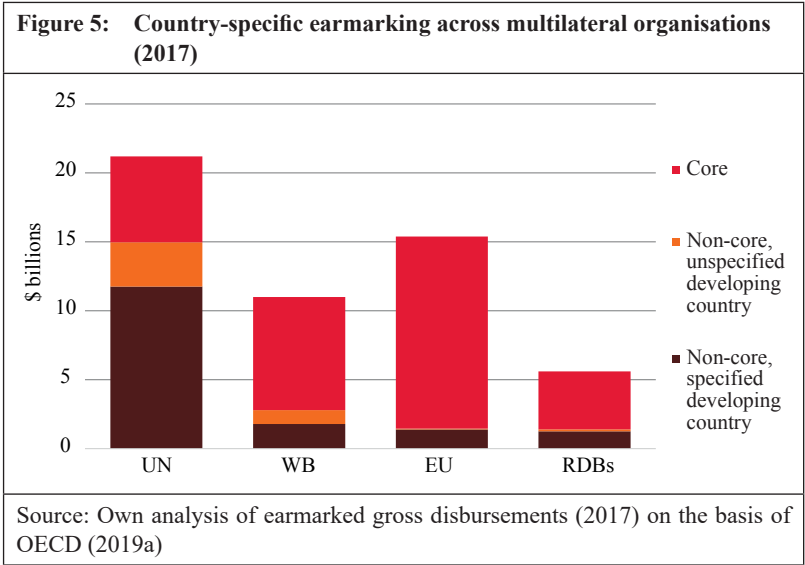
Earmarked funding entails the specification of purposes that restricts the use of funds. We can distinguish between four different dimensions: organisational level, geographic scope, thematic scope and approach (see Figure 4).

**Figure 4: Dimensions of earmarked funding**



These dimensions are usually combined in one way or the other. Research on the purposes for which earmarked funding is spent is relatively new and scarce (see Eichenauer & Reinsberg, 2016), not least because of data difficulties. Although earmarking is mostly positive in the sense that the purpose is clearly stated, there can also be negative restrictions in the sense of excluding certain activities, groups, etc., from benefiting from an intervention. Broadly speaking, any earmarking to HQ functions, global programmes, broad sectors and outcome areas can be described as non-restrictive or softly earmarked. This core-like funding leaves organisations with broad discretion in how to implement resources, visible at the top of the figure. At the bottom, we find more tightly earmarked, restrictive forms of earmarking. A rigid geographic and thematic specification might result from political or budgetary requirements that make it imperative that a contributing agency spends the funds on exactly this issue. It can also be an expression of the wish for tighter control and attribution. Although the country office of a multilateral organisation might welcome these funds, from an HQ perspective, the inflexibility of this contribution can become problematic, since the funds cannot be allocated according to organisational priorities and changing needs. Furthermore, there is a danger of distorting

programme priorities by limiting the degree to which governing bodies and programme countries themselves are involved in priority-setting through selection, design, and implementation of projects and programmes.



Section 4 shows that all of the options outlined above are used. However, earmarking to specific countries or themes is probably most common, amounting to the lion’s share of all earmarked resources. Based on OECD data, Figure 5 shows that there are geographic specifications for the majority of earmarked funding arrangements across all multilateral organisations. Often, thematic and geographic specifications are combined. There are no comprehensive and updated datasets that would provide a more comprehensive or fine-grained overview (but see Eichenauer & Reinsberg, 2016). In sum, the lack of information on tightness of earmarking reflects the diversity of forms and definitions.

*Other customised elements of earmarking arrangements*

Donors can attach conditions that may further limit the autonomy of multilateral organisations. Any earmarked contribution is preceded by contracts between donor and agency that stipulate the modalities of the transaction. These modalities might look like technicalities. They not only

mean that earmarking allows for considerable customisation of voluntary contributions, which in itself is a source of inefficiencies and fragmentation, but they can also have a large impact on donor–agency relationships, on the administrative burden on all involved actors and on how effectively multilateral organisations and potential implementing partners can work. Such elements include the duration and financial volume, reporting requirements, matching requirements or other forms of conditional payments, such as payment by results. Policies on how to proceed with unspent funds are also part of this, as well as provisions for the reallocation of funds or extensions or general payment modalities (in tranches or lump sums). There is little academic research or analysis of the consequences of these different modalities of earmarked funding. Since funding contracts are not openly accessible, it is difficult to gain an overview on their prevalence. Some elements such as reporting requirements and multi-annual funding are also an issue in the broader development and humanitarian context and receive more scholarly attention (see for instance Gaston, 2011; Honig, 2019; OECD, 2017).

Many multilateral organisations aim at introducing standardised contracts that not only reduce the transaction costs that occur in recurrent negotiations, but also help establish standards and keep unfavourable terms at bay, with varying success. In addition to codified elements of earmarking arrangements, donors also engage in practices that may carry harmful consequences. Donors might pressure organisations to reduce overheads or indirect cost contributions, or stake out staff costs and other administrative costs. They can also ask for additional updates or other forms of extra reporting.

## 2.5 The (side) effects of earmarking

The previous section has highlighted that the decision to earmark funding to multilateral organisations can take many different forms. Although there are established instruments of earmarked funding and it is clear that these instruments are indeed based on certain common properties, there is still room for a lot of variance. This diversity in earmarked funding arrangements has received rather little scholarly attention. Part of the problem seems to be that there exist large data and knowledge gaps, since funding data is collected at too aggregate a level and earmarked funding contracts are not publicly accessible.

Scholarly literature on earmarked funding has picked up notably in recent years, in particular with regard to the World Bank (Eichenauer et al., 2015; Reinsberg, 2017b, 2017c; Reinsberg et al., 2017), but also the UNDS (Graham, 2016; Weinlich, 2014a), the EU (Michaelowa, Reinsberg, & Schneider, 2017a, 2017b) and concerning broader questions of multilateralism (see Goetz & Patz, 2017; Michaelowa, 2017; Sridhar & Woods, 2013). There is also more policy-oriented literature that seeks to analyse problems arising through increased earmarked funding and identify remedies (Gulrajani, 2016; Norad Evaluation Department, 2019; Reinsberg, 2017a), as well as sporadic research on individual instruments, in particular trust funds (Barakat, Rzeszut, & Martin, 2011; Bezerra, Disch, & Gairdner, 2010; Herrmann, Kükenshöner, Reinsberg, & Tesfaye, 2014; Pech, 2010). Studies that look at the recipient side of earmarked funding are scarce (see Keijzer, Klingebiel, Örnemark, & Scholte, 2018, for an exception). Although there is a growing knowledge base about why donors earmark, there is less evidence concerning the effects of earmarking. In particular, there is a lack of systematic analysis and case studies that provide concrete evidence about how multilateral organisations are affected.

### 2.5.1 Four main effects of earmarked funding

Earmarked funding arrangements are highly diverse, and their different effects are not easily pinned down. In light of the limited academic scrutiny of this subject, many of the described effects lack substantiation. We can distinguish between three broad effects of earmarked funding (see also Reinsberg, 2017a).

1. **Earmarked funding arrangements increase transaction costs.** First, transaction costs arise for all involved actors from the preparation, negotiation, implementation and enforcement of earmarked funding arrangements. This applies to donors that might struggle to stay atop of managing and monitoring the earmarked funding arrangements that they authorised. It also applies to multilateral organisations, which often deal with as many contract forms as there are donors (or even more), creating high labour costs. In addition, reporting requirements place an additional burden on organisations, and they might also be further handed down to implementing actors (Gaston, 2011).



2. **Earmarking leads to incoherence and aid fragmentation.** The vast majority of earmarked funding at the UNDS is single-donor funding (at least on paper), and despite attempts to reduce their numbers, SDTFs also remain popular at the World Bank and the RDBs. This leads to incoherence and fragmentation at various levels. Donors have difficulties enforcing their own strategic priorities in an environment of dispersed decision-making on funding allocations (OECD, 2015a, 2018a). It becomes harder for partner-country governments to promote ownership with a coherent development agenda (Keijzer et al., 2018, p. 49). And multilateral organisations struggle to formulate and apply coherent strategies that would guide donor funding and staff behaviour. This is reinforced by the unpredictability of earmarked funding. Furthermore, while competition over funding may have positive effects, it can have many negative repercussions, as is particularly evident at the UNDS. In the absence of system-wide coordination among agencies, there is the danger that an agency's funding needs will top the recipient country's needs (Baumann, 2018b; Mahn, 2016; Weinlich, 2014a). Competition might also make organisations lower their overhead costs and be overly accommodating in other ways, which might, in the long run, undermine their financial health. Or they will engage in mission creep and accept offers that fall outside of their core competencies.
3. **Earmarking endangers the multilateral assets of organisations.** Multilateral organisations are tasked with implementing collective decisions. In this process, they are vested with legitimacy and authority, which gives rise to a certain degree of independence from states, and they can draw on the benefits from the pooling of activities, risks and resources. There are multiple ways through which earmarking may undermine an organisation's multilateral assets.
  - a) Earmarking is working around rules. Decisions on earmarked funding are taken outside of regular governing bodies and grant donors influence, or even control, over the activities of multilateral organisations. Recipients that would otherwise participate, at least formally, in multilateral governance lack influence over earmarked resources. This is a critical issue for multilateral organisations, which count among their assets the perceived impartiality that builds the basis for other core competencies, such as convening power, linking normative and operational work, or their role as independent knowledge actors.

- b) Bilateral donor influence, including from private actors, may distort the priorities of multilateral agencies determined by their governing bodies. Donors might favour short-term political gains over long-term public goods goals, or prefer a more politically motivated allocation of funds, which can undermine what a multilateral organisation stands for. Earmarking can also reduce an organisation's autonomy by orienting it towards donors (Seitz & Martens, 2017; Sridhar & Woods, 2013).
- c) The non-predictability of funding as well as the wish to be competitive leads to consequences for organisational internal structures and staffing. It may lead to increased reliance on non-traditional, short-term consultancy contracts, which hinders the organisation from attracting and retaining expertise (Ege & Bauer, 2017; Heldt & Schmidtke, 2017; Joint Inspection Unit [JIU], 2014b). Across the board, earmarked resources tend not to recover their management costs, thereby hollowing out core resources of multilateral organisations and compromising capacities for institutional learning and knowledge production.

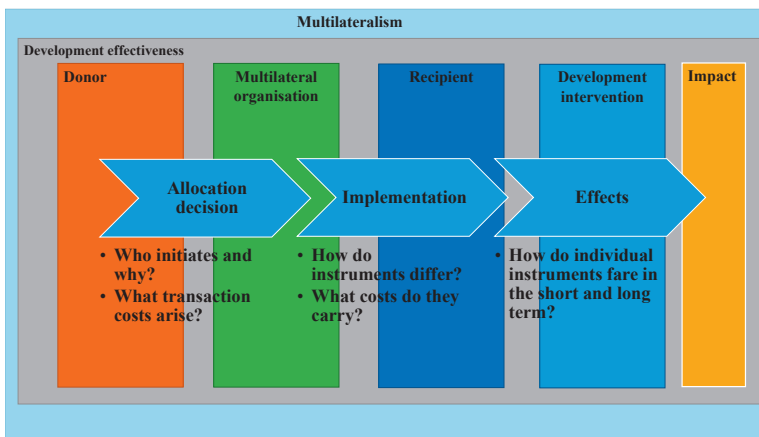
However, it is important to remember that these effects can, but do not necessarily, need to go together with earmarked funding, as we see in the assessment of instruments of earmarked funding in Section 4. Moreover, earmarked funding can also come with positive effects. Advocates of earmarking pinpoint potential efficiency gains and greater accountability afforded by tailored reporting on earmarked funds. Indeed, earmarking can help inject more professionalism, results-orientation and innovation into multilateral organisations. Multilateral organisations can also benefit from targeted support on difficult topics or processes if donors not only provide money but also engage politically, thereby amplifying the multilateral message and strengthening the clout of an organisation.

## 2.6 Our approach

In this study, we look at the roles of both donors and multilateral organisations in earmarked funding, as well as the effects of earmarking. Figure 6 depicts our overall approach. The report contributes to research on donors with its analysis of the earmarking practices of Germany, Sweden, the United Kingdom and the EU. It not only looks at the motives for earmarking, but also highlights different challenges in managing earmarked funding

decisions. Another focus is on the role of multilateral organisations, where the report adds important insights, especially from country-level research, where the majority of earmarking decisions are taken. We focus specifically on the ambiguous role of multilateral organisations. The analysis shows how UN agencies invite, or even drive, earmarking through weak coordination structures, decentralisation strategies and the leveraging of earmarked resources through core resources. At the same time, UN agencies also mitigate its more problematic consequences and try to push back against certain donor practices. Regarding the World Bank and RDBs, the respective section describes how the bank has embarked on a reform process to restructure and consolidate its trust fund business, with the aim of keeping donors at due distance and, inter alia, reducing the level of uncoordinated fundraising by mid-level management.

**Figure 6: Analytical framework**



Source: Authors

So far, the literature has mostly looked at donors or organisations individually, or looked at the dyadic relations between a donor and an organisation. In this report, combining different levels of analysis (donor, multilateral organisation, HQ, country-level) allows us to develop a systemic perspective on earmarked funding in the multilateral system. Embedding the relations between organisations, funders and recipients into a larger systemic view, Section 6 then suggests additional explanations for the continued increase

in earmarked funding. Perceiving earmarked funding as a set of collective action problems, or looking at it as a new form of appropriate behaviour, sheds light on a previously neglected perspective.

In addition to looking at the initiation of funding decisions and their implementation, we also examine the effects of earmarked allocations. We also differentiate between various instruments of earmarked funding and assess their diverse impacts at an aggregate level. Of greatest interest to decision-makers are certainly the consequences that the decision to channel earmarked funding through multilateral organisations has on the actual development impact. However, establishing causal relations between the funding decision and development success is extremely difficult. Meta-analysis of individual instruments (see Barakat et al., 2011, for such an analysis on trust funds in crisis settings) and large-N studies can help to establish effects, but with the typical constraints. Since evaluation data on instruments of earmarked funding is very uneven, and our goal is much more to draw a broader picture and profile instruments, we look at indirect ways through which funding decisions potentially affect development impact. Taking into account elements of the broad literature on aid and development effectiveness that discuss specific ideas and reform measures on how aid can be better managed, we look at the organisational effectiveness of multilateral organisations and donors as well as the actual design of development interventions, including the involvement of recipients (Ashoff, 2015; Gulrajani, 2014).

There will be positive and negative effects alike on stakeholders and processes, and effects might also contradict each other. The most important discrepancy arguably exists between short- and long-term benefits. Although an individual development intervention might become more successful through earmarking and satisfy a donor's wishes for more accountability, there are long-term repercussions on multilateral organisations that – taken together and accumulated over years – reduce overall development effectiveness and are harmful to multilateralism.

### 3 **Reviewing donor earmarking practices: Priorities, motives and administrative challenges among major multilateral contributors**

This section provides an overview of the earmarked funding practices of four contributors to the multilateral system: Germany, Sweden, the United Kingdom and the EU.<sup>13</sup> Its main objective is to identify donor-specific drivers of earmarked funding decisions rather than to provide an assessment of the consequences of the selection of particular forms of support for the effectiveness of donor programmes. The donors analysed in this section are all strong supporters of the multilateral system. Their contributions represented 53 per cent of the total of bilateral assistance from DAC member countries channelled through multilateral organisations in 2016.<sup>14</sup> Due to the scale of these donors' contributions, their modes of support may thus be especially influential in shaping the effectiveness of key multilateral recipients and the multilateral system as a whole.

The section is divided into three parts. Section 3.1 briefly outlines the donors' different funding profiles. Section 3.2 discusses earmarking practices in each donor setting. It identifies earmarking priorities and features of the decision-making context that influence the way earmarked funding is managed. It also explores donor rationales for earmarking and the administrative challenges donors face in managing earmarked funds. Section 3.3 identifies common themes across the cases to inform the broader conclusions of this report.

#### 3.1 Overview of multilateral aid among leading donors

Table 3 highlights the scale of the donors' aid programmes and the general profile of their funding for multilateral development cooperation. In terms of absolute ODA budgets, Germany has in recent years overtaken the United Kingdom as the second-largest governmental OECD-DAC aid provider. However, the United Kingdom surpasses Germany as a contributor to the multilateral system, providing the largest share of multilateral core support of the four donors. Sweden and the United Kingdom channel a similar share of bilateral aid through the multilateral system, while Germany provided the

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13 In the context of this study, the EU refers to the role of the EU's institutions as development cooperation actors, as funded under the EU's multi-financial framework and relevant off-budget funds and initiatives.

14 This figure is based on OECD (2019b).

lowest share of its aid in the form of earmarked multilateral support of the four donors (as of 2017). The aid volume administered by EU institutions places the EU in a league with major donor governments. The EU and Germany are the largest overall contributors to the UN Development System, while the United Kingdom's contributions to the World Bank are especially large in comparison to other donors. The mix of earmarked funding differs from donor to donor. With respectively 31 per cent and 21 per cent of funding going to inter-agency or agency-specific thematic pooled funds for development activities in the UNDS, the Swedish and UK profiles differ markedly from those of Germany (12 per cent) and the EU (7 per cent) (UN Sustainable Development Group, 2019, p. 10). Among the donors, Sweden stands out for providing a significantly higher aid-to-GNI (gross national income) ratio and for the above-average share of support for the UNDS provided as core funding.

Across the donor contexts, similar UN organisations are key recipients of voluntary contributions due to their operational profiles (see Figures 8, 11, 13 and 15 in the sections that follow). WFP, UNHCR, UNICEF and UNDP were among the top four organisational recipients of earmarked funding from all donors in 2017 (UN Secretary-General, 2019b). The Office for the Coordination of Humanitarian Affairs (OCHA) ranked fifth for Germany and the United Kingdom, whereas UNFPA held this position for Sweden, and the UN Agency for Relief and Work for Palestine Refugees in the Near East (UNRWA) for the EU. This reflects the importance of humanitarian assistance, which is an important source of support to organisations such as WFP, UNHCR and OCHA. Donor contributions to UN-managed pooled funds underline the humanitarian orientation of pooled voluntary support: for Germany, Sweden and the United Kingdom, humanitarian funds are well-represented on the list of top 10 UN multi-donor trust funds (see Table 4). In 2018, the United Kingdom was the largest contributor to UN inter-agency pooled funds, with Germany second and Sweden third. For the United Kingdom, these funds amounted to 19 per cent of its overall earmarked contributions to the UNDS, whereas they made up 12 per cent of Germany's and 30 per cent of Sweden's earmarked contributions (UN MPTFO & DHF, 2019, p. 53). There are clear variations among donors in how large a share of their contributions to individual organisations take the form of core or earmarked support. Whereas Germany's funding to UNDP consist of 91 per cent earmarked funds, the United Kingdom's share is at 66 per cent earmarked; 98 per cent of German funding to WFP is earmarked,

whereas Sweden's share of earmarked funding is at 39 per cent. With respect to the MDBs, the World Bank is the primary recipient of earmarked resources from the four donors, with RDBs having a more marginal role in implementing bilateral assistance.

<b>Table 3: Core and earmarked funding for multilateral development cooperation in 2017 (\$ millions)</b>				
	<b>European Union</b>	<b>Germany</b>	<b>Sweden</b>	<b>United Kingdom</b>
Total aid volume	16,440	25,005	5,563	17,735
Aid-to-GNI ratio	0.5%	0.67%	1.02%	0.7%
Core multilateral aid	352	5,187	1,736	6,768
Multilateral (core) % of total	2%	21%	31%	38%
Earmarked volume	3,783	3,401	1,131	3,391
Earmarked % of total	23%	14%	20%	19%
Earmarked % of bilateral aid	23%	17%	30%	30%
World Bank (IDA)	(n.a.)	604.2	320	1,598
World Bank (WB) trust funds	442.7	252.2	117.8	430
Total UNDS (dev. and humanitarian)	2,528	3,195	1,286	2,686
UNDS earmarked	2,409	2,898	718.6	2,094
Earmarked as % of funding for UNDS	95%	90%	56%	78%
UNDS development only	1,227	1,173	829.2	1,248
UN Dev. Earmarked percentage	100%	78%	56%	72%
UN Humanitarian earmarked percentage	91%	98%	55%	83%

**Table 3 (cont.): Core and earmarked funding for multilateral development cooperation in 2017 (\$ millions)**

Notes: Earmarked aid is registered as bilateral aid channelled through the multilateral system in the OECD database. Data on core contributions to the IDA are from the OECD's International Development Statistics Online Database (OECD, 2019c, accessed 4 July 2019), reflecting disbursements to the IDA in 2017. The figures on contributions to World Bank trust funds stem from the World Bank (2017). Figures on contributions to the UN Development System are taken from the report of the UN Secretary-General (2019b). This data source distinguishes between donor support for development-related activities and humanitarian-related activities, and the percentage of earmarked funding by these purposes is listed in the final two rows of the table. Percentages have been rounded to the nearest full percentage point, with the exception of the ODA/GNI ratio.

Source: Figures on aid volumes, aid to GNI, multilateral aid as a percentage of the total, and earmarked aid are based on data from the OECD (2019c). The ODA/GNI ratio for the EU is from the European Commission (2018b); all rights reserved, used with permission

**Table 4: Ten largest UN multi-donor trust fund contributions by donor for development and humanitarian purposes (2008-2018)**

Germany	Sweden	United Kingdom	European Union
Peacebuilding Fund \$121,644,395	DRC Humanitarian Fund \$165,945,514	DRC Humanitarian Fund \$443,371,030	Spotlight Initiative Fund \$151,005,581
South Sudan Humanitarian Fund \$39,538,220	Sudan Humanitarian Fund \$148,298,645	Sudan Humanitarian Fund \$438,813,940	Somalia Multi Window Trust Fund \$67,631,211
Somalia Humanitarian Fund \$35,310,885	Peacebuilding Fund \$113,069,556	South Sudan Humanitarian Fund \$280,821,964	UNDG Iraq Trust Fund \$56,855,216



<b>Table 4 (cont.): Ten largest UN multi-donor trust fund contributions by donor for development and humanitarian purposes (2008-2018)</b>			
<b>Germany</b>	<b>Sweden</b>	<b>United Kingdom</b>	<b>European Union</b>
DRC Humanitarian Fund \$27,756,777	South Sudan Humanitarian Fund \$104,253,926	Peacebuilding Fund \$203,011,361	JP Yemen Rural Resilience \$38,068,538
Somalia Multi Window Trust Fund \$24,720,225	Somalia Multi Window Trust Fund \$88,288,433	Somalia Humanitarian Fund \$128,037,503	UN REDD Programme Fund \$25,166,208
Partnership for Action on the Green Economy \$17,529,500	Somalia Humanitarian Fund \$70,908,464	Afghanistan Humanitarian Fund \$105,824,830	JP Somalia Local Governance & Decentralised Service Delivery \$10,161,450
Colombia Peace UNMPTF \$16,347,970	Afghanistan Humanitarian Fund \$51,075,884	South Sudan Recovery Fund SSRF \$82,138,182	JP Sri Lanka Catalytic PB \$8,525,183
CAR Humanitarian Fund \$16,275,500	Tanzania One UN Fund \$49,669,187	Expanded Delivering as One Funding Window \$63,729,000	Albania SDG Acceleration Fund \$3,474,781
Ebola Response MPTF \$11,606,933	CAR Humanitarian Fund \$37,624,522	Malawi One UN Fund \$57,497,178	JP Belarus BELMED \$3,345,653
Afghanistan Humanitarian Fund \$10,705,281	Rwanda One UN Fund \$31,236,381	CAR Humanitarian Fund \$39,064,684	Yemen NDCR TF \$1,996,080
Cumulative funding commitments via multi-donor trust fund office 2008-2018 (total number of funds and programmes supported)			
\$359,433,117 (23)	\$1,148,300,573 (51)	\$2,210,725,891 (51)	\$369,218,902 (13)

**Table 4 (cont.): Ten largest UN multi-donor trust fund contributions by donor for development and humanitarian purposes (2008-2018)**

Notes: For the United Kingdom, the Department for International Development (DFID) and the government of the United Kingdom were listed separately: The figure for the Peacebuilding Fund reflects contributions attributed to both entities. Similarly, the database reports contributions from both the Government of Sweden and the Swedish International Development Cooperation Agency (Sida): The figure for the Rwanda One UN Fund is a consolidated amount (UN MPTFO, 2019b). Figures on cumulative funding and the number of initiatives supported also combine figures for the different UK and Swedish entities. The highlighted humanitarian funds underline both the weight of humanitarian motives in earmarked support from Germany, Sweden and the United Kingdom and the difference between these donors and the EU in terms of pooled funds supported. Source: Authors. This table summarises the 10 largest cumulative contributions to trust funds reported on the UN Multi-Donor Trust Fund Office's website for the period 2008 to 2018; all rights reserved, used with permission

## 3.2 Earmarking practices of key contributors to multilateral system

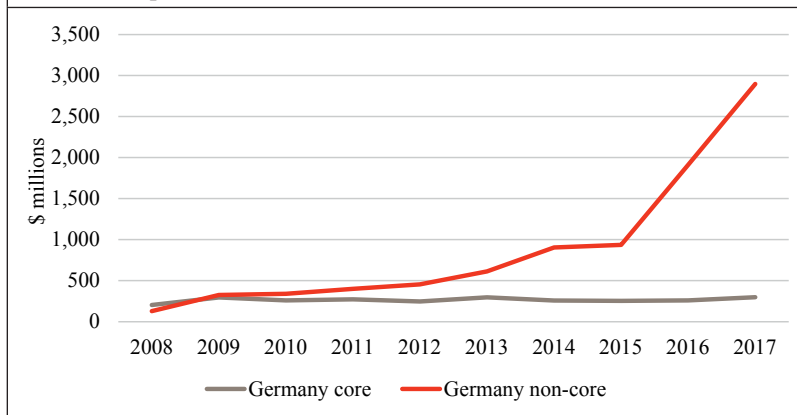
### 3.2.1 Germany

Germany is among the top donors to the multilateral system. In 2016, it was surpassed only by the United States and the European Commission as contributor to the UNDS. In 2017, it became the largest contributor to UNDP. Although it supplied roughly equal amounts of core and earmarked funds to the UNDS until 2010, the share of earmarked funding has substantially increased since 2014 (see Figure 7). Within the UNDS, Germany uses restrictive funding to a greater extent than Sweden and the United Kingdom (see Table 3). Germany's largest UN recipients – WFP, UNHCR, UNDP and UNICEF – overwhelmingly receive earmarked contributions (see Figure 8).

Its core funding to UN entities has remained stable over the last decade. Germany started to increase its core funding in 2017 and continued to do so in 2018, 2019 and 2020 for UNDP, UNFPA, UNICEF, UN Women and OCHA. Earmarked contributions showed an increase from 2013 onwards, with strong growth in 2016 and 2017 in particular, at a level that is roughly \$1 billion greater than in the previous year. The rise in earmarked

contributions took place for both humanitarian and development activities. It started with humanitarian activities, for which funding more than quintupled between 2013 and 2017, from \$382 million to \$1.98 billion. The increase for development-related activities began in 2016, as funding more than tripled from \$241 million in 2015 to \$920 million.<sup>15</sup> The increase in German earmarked contributions to UN organisations especially reflected rising allocations to humanitarian work, with WFP and UNHCR serving as important channels for earmarked contributions in connection with this agenda (Deutscher Bundestag, 2018b; OECD, 2018a, p. 65).

**Figure 7: Evolution of German core and earmarked funding for UN operational activities**

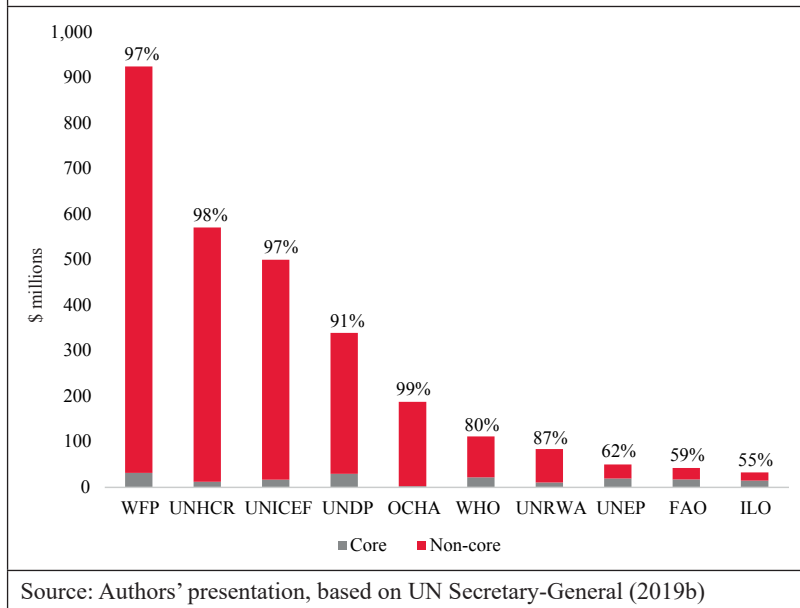


Source: Authors' presentation, based on UN DESA (2019b)

- <sup>15</sup> Until the autumn of 2018, the UN registered all activities of UNHCR, UNRWA and OCHA, as well as emergency operations by UNICEF, humanitarian emergencies of UNFPA and WFP's humanitarian operations as humanitarian, in the absence of common definitions on development or humanitarian activities. These categories, however, do not fit completely with the German distinction between humanitarian and development work, which is also informed by the division of ministerial responsibilities between the Ministry of Economic Cooperation and Development and the Foreign Office. Humanitarian affairs are under the remit of the Foreign Office. In addition to its medium- to longer-term development cooperation, BMZ also engages in transitional development support and disaster risk management (see Auswärtiges Amt & Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung, 2012). From 2018 onwards, UN data has been collected using OECD-DAC purpose codes (UN CEB-HLCM, 2019).

The German government was also the fifth-largest cumulative contributor to World Bank trust funds in the period 2015-2019 (World Bank, 2019). German engagement with the World Bank has focussed on capital increases and core contributions to the IDA, whereas it was reluctant to follow other donors in contributing to trust funds on a larger scale. Its expanding trust fund portfolio has emphasised support for multi-donor funds, with funding focussing on fragile states, South Asia and climate action (Herrmann et al., 2014). Herrmann et al. (2014) indicate that the portfolio of German trust fund support for the World Bank has a fragmented quality, with the use of relatively small-scale contributions covering a range of priorities, indicating the lack of a strategic approach to trust fund allocations.

**Figure 8: German core and earmarked funding for operational activities to top 10 UN recipients (2017)**



The recent uptick in German multilateral support reflects a departure from a long-term trend. From the early 1990s onwards, when Germany made drastic cuts to voluntary UN funding, its overall contributions to the UNDS stagnated to a rather low level (Hüfner, 2008). When overall ODA numbers went up, this led to a decline in multilateral aid (core) as a share of ODA. In 2015, only 21 per cent of ODA was multilateral (Bohnet, Klingebiel, & Marschall, 2018). This share of core funding also applies to the 2017 figures. Successive governments articulated a strong political preference for bilateral assistance. The government's 2009 coalition agreement expressed a commitment to a goal that had been backed by the parliament since 1993 to cap multilateral assistance at one-third of BMZ's budget (Fues, 2010). The cap had not been mentioned in government documents after 2012 and was officially abolished by the parliament in the budget negotiations in 2019.

### *Decision-making context*

There is no overarching strategy for Germany's multilateral engagement, nor is there a whole-of-government approach towards earmarked funding. To date, no actor collects and updates data on earmarked funding to multilateral organisations on a regular basis, whether within individual ministries or across the government.<sup>16</sup> Emphasising the role of the United Nations as a foundation of the rules-based international order, the current government coalition agreement expresses a commitment to increase and advance the strategic orientation of German earmarked contributions to the United Nations. It vows to promote investment projects by RDBs targeting vocational training and also commits to strengthening the World Bank as a part of the rule-based international financial system (CDU, CSU, & SPD, 2018).

At the time of writing (July 2019), BMZ was in the process of finalising a new strategic framework for its multilateral engagement, which, however, would inform only its own policies, not those of other ministries. This strategy follows a BMZ strategy paper formulated in 2013 that indicated that

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16 All financial contributions to the UN are part of the government's report on its cooperation with the United Nations, which is published every two years. Yet, the overall sums contributed by German ministries are not broken down in a way that they could be used for this study (see Deutscher Bundestag, 2018b). Ministries also contribute to the OECD's creditor database and register their bilateral and multilateral aid contributions, including earmarked funding. In additions, multilateral organisations themselves collect and report on all funding flows, including earmarked.

the ministry would work to limit the proliferation of initiatives and advocate effectiveness concerns within multilateral organisations. Concretely, the strategy underlined the importance of core funding in supporting organisational mandates, indicated the potential to consolidate funding vehicles such as SDTFs to favour pooled approaches, and emphasised Germany's role in supporting multilateral reform efforts to counter fragmentation (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung [BMZ], 2013). The strategy proposed reviewing German engagement in multilateral organisations by assessing their alignment with German priorities, their organisational effectiveness and the opportunities for German influence. BMZ's most recent development policy strategy, "Entwicklungspolitik 2030", emphasises support for comprehensive reforms of the United Nations system; the intention to strengthen cooperation with UNICEF, UNDP and UNHCR; the need for dependable core financing from all member states; and the value of establishing a UN fund for responding to crisis- and conflict-affected countries as relevant contributions towards addressing global challenges (BMZ, 2018).

Although the German parliament (Bundestag) decides on the overall budget and designated use of development funds, its engagement on multilateral development cooperation issues has been rather limited to date. There have been few parliamentary inquiries on multilateral issues, and members of the budget committee have seemingly not collectively scrutinised this issue, though the strong increase in resources might change this (interview MS 48). Interestingly, parliament played a key role in increasing core funds for UN and other multilateral development organisations during budget negotiations for 2019 (interviews MS 48, MS 49).

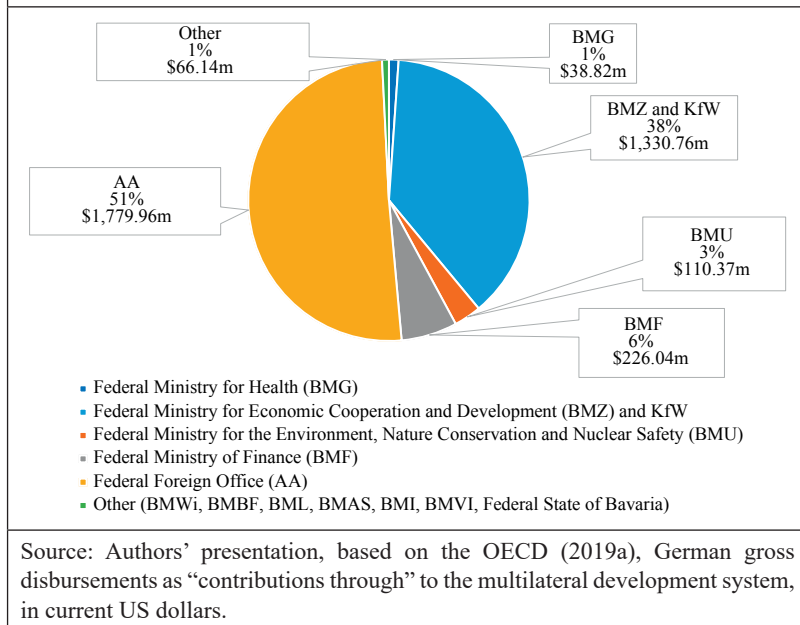
Key features of the German development policy system include the existence of an independent cabinet-level ministry (BMZ) that is concerned specifically with development and responsible for the financial engagement with many – but not all – multilateral development organisations, and the prominent role played by two large implementing organisations providing financial and technical assistance, respectively: KfW Development Bank (KfW) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). This system, which is also reflected in the structure of the German budget, reflects German preferences for cooperation instruments, including its emphasis on the use of loans (OECD, 2015b). KfW and GIZ have a large

presence in developing countries, whereas BMZ staff is usually represented only by one or two individuals at selected embassies. Allocation decisions are predominantly taken at HQ.

Over the last decade, the position of multilateral development cooperation within BMZ's organisational structure has provided an indication of its limited significance in light of the organisational resources committed to its administration compared to other work areas. The directorate (*Abteilung*) on multilateral development cooperation does not seem to have profited from the overall increase in staff within the ministry over the last couple of years and remains rather small. The multilateral directorate, among other issues, has responsibility for overall multilateral policies, RDBs, the World Bank, overall UN development policy, UNDP, UN Volunteers and UN Women. The responsibility for dealing with two UN organisations that have benefitted to a large extent from the recent increase in BMZ earmarked contributions falls within another directorate. Contributions and policies towards WFP and UNICEF are dealt with in the directorate "Displacement and migration; crisis prevention and management". Contributions to the MDB system are administered by various units in BMZ within the multilateral department and implementing organisations.

The development policy system is characterised by fragmented decision-making at the governmental level, as ministries beyond BMZ are assuming a growing role in administering ODA (see Figure 9). Beyond BMZ and implementing organisations, numerous ministries have roles in shaping policy and managing financial contributions to multilateral organisations. For the MDBs, financial responsibilities reside mostly with BMZ. BMZ administers capital shares and exercises voting rights – the only exception being with respect to the new Asian Infrastructure Bank, which falls under the remit of the Federal Ministry of Finance. The Federal Ministry of the Environment contributes to climate-related funds. For the UNDS, the situation is more complex. Even as BMZ continues to hold responsibility for the largest share of German ODA, several ministries have registered large increases in ODA spending over the last two decades. Sectoral ministries take a leading role in content-related engagement with UN specialised organisations (Deutscher Bundestag, 2018b). Altogether 14 ministries make earmarked contributions to multilateral organisations, and 12 ministries provide core support (OECD, 2018a, p. 201).

**Figure 9: German earmarked funding to the multilateral development system (2017) (\$ millions)**



The Foreign Office plays an important multilateral funding role, having gained significant budget increases for securing peace and stability following the Ukraine crisis and the rise of the Islamic state in Iraq and Syria (Deneckere & Hauck, 2018). The Foreign Office holds primary responsibility for coordinating and communicating German positions regarding budgetary, management and personnel issues in the UN system, as well as for German positions advanced in the respective UN political fora. It provides core and earmarked contributions to the UN, ranging from Germany's share of funding the UN's regular and peacekeeping budget to international tribunals or special political missions (Deutscher Bundestag, 2018b). During a reorganisation of the division of labour with BMZ in 2012, the Foreign Office gained comprehensive responsibilities for humanitarian aid. Humanitarian funding increased drastically, from about €303 million (2014) to €1.206 billion (2017) (Deutscher Bundestag, 2018a). From 2016 to 2018, between 77 and 80 per cent of German humanitarian aid was spent through UN organisations such as OCHA, UNHCR, UNICEF and WFP



(interview MS 32). There has also been a strong increase for the funding of international measures to support crisis prevention, peacebuilding and conflict resolution, as well as human rights and democracy promotion – many of which are implemented by UN organisations. The budget increase went hand in hand with the creation of new structures. A dedicated Directorate-General (DG) for Crisis Prevention, Stabilisation, Post-Conflict Peacebuilding and Humanitarian Assistance (now some 150 officials) – commonly referred to as the Directorate-General S – was created to lead the ministry's humanitarian, peace and security actions (Deneckere & Hauck, 2018). Yet, analysts deplore that the size of diplomatic staff within the Foreign Office as well as the ministry's internal organisation does not match its tasks (Brockmeier, 2018).

Another ministry that spends sizeable resources through multilateral organisations is the Federal Ministry for the Environment, Conservation and Nuclear Safety (BMU), which manages growing resource streams related to climate action (Bohnet et al., 2018) and provides funding to both MDBs and the UN. The Federal Ministry of Food and Agriculture (BMEL) not only provides core funding to the Food and Agriculture Organization of the United Nations (FAO) but has also been making use of a bilateral trust fund to support projects to eradicate hunger and malnutrition with an annual budget of €10 million since 2002 (Bundesministerium für Ernährung und Landwirtschaft & Food and Agriculture Organization of the United Nations, 2017). The Federal Ministry for Health (BMG) holds the responsibility for core contributions to the World Health Organization (WHO) and has recently started to meaningfully increase the size of its earmarked contributions in the form of programme funding.

The increases in ODA funding from sector-specific ministries reflects the internationalisation of areas of domestic public policy. They are also a source of fragmentation in the management of contributions to international organisations, as sector ministries engage with different multilateral actors (Lundsgaarde, 2014). In the absence of overall strategic and technical guidance and strong coordination, uneven funding practices exist across ministries. Apart from the Federal Budget Code (*Bundeshaushaltsordnung*), there are no government-wide guidelines to inform ministries in their approach to earmarked funding. Several government-wide thematic strategies (e.g. on crisis prevention or global health, among others) merely touch on multilateral issues.

Several ministries may make contributions to the same UN organisation, reflecting the different purposes that funding for individual organisations can serve, but they also use different approaches towards the same organisations. For instance, FAO receives funding from BMEL (for work on forestry and genetic resources, as well as for work supported by the bilateral trust fund), BMU (environment), the Foreign Office (emergency) and BMZ (development) directly as well as through GIZ and KfW. Whereas line ministries have long contributed assessed and voluntary core funds to the respective UN entities under their purview, earmarked funding is a rather recent development. BMZ may contribute development-related funding for programmes and projects at the country level or for specific topics, for example to WHO for fighting Ebola in West Africa, or to the International Labour Organization (ILO).

Coordination between BMZ and the Foreign Office can be particularly difficult. This was demonstrated in a recent review that was initiated by the Federal Ministry of Finance with a view to increasing the effectiveness, efficiency and results-orientation in humanitarian aid and transitional development cooperation.

Although neatly separable on paper, there are overlaps in the activities of the Foreign Office (humanitarian aid, stabilisation) and BMZ (development-oriented transitional support), since both humanitarian and more long-term-oriented approaches are often needed simultaneously in crisis situations. Although there are mechanisms for consultation and coordination in place, there is need for improvement (Bundesministerium der Finanzen [BMF], 2018a). Both ministries make earmarked contributions to UNDP, UNICEF, UNHCR, WFP and UNRWA. In 2017, Germany contributed altogether about €355 million to UNDP. Fifty-five per cent of this sum was contributed by the Foreign Office, and another 7 per cent by BMU, all of it in the form of earmarked contributions. BMZ, which holds institutional responsibility (*Federführung*) for overall policies towards UNDP, had a share of 38 per cent that included €25 million in core funds as well as earmarked contributions.

### *Motives for earmarking*

The German portfolio of earmarked funding for multilateral organisations thus reflects an aggregation of a multiplicity of decisions taken in different ministries and various units within them, rather than the outgrowth of a centralised decision-making process on how to support organisations or the

multilateral system most effectively. Government ministries have significant autonomy in shaping policy and budgetary choices within their fields of activity as an extension of the Departmental Principle (*Ressortprinzip*), outlined in the German constitution, which gives cabinet ministers the authority to independently manage their portfolios (Lundsgaarde, 2014).

The importance of individual ministerial plans (*Einzelpläne*) in public budgeting underscores the importance of bureaucratic autonomy. These plans outline the distribution of funding by purpose and – in the case of BMZ – the allocation channel, specifying how much funding is provided for financial cooperation through KfW, technical cooperation through GIZ, and other channels. Funding options for multilateral organisations are only partially specified. Usually, voluntary or assessed core contributions are specifically included in budget plans authorised by parliament, which leaves little flexibility for a more strategic approach towards organisations.

Earmarked contributions may stem from various budget lines. For the Foreign Office, the most important sources are the budget titles for humanitarian aid as well as for crisis prevention, stabilisation and the promotion of peace. Both titles require that funds are spent in line with the thematic denomination. In the case of BMZ, there used to be a limited number of budget lines, which allowed for the allocation of earmarked funding to multilateral organisations. The most important one has been the so-called Funds in Trust budget line, which, over the last decade, have fluctuated roughly between €30 and €40 million annually.<sup>17</sup> Budget lines for financial and technical cooperation may also be used, channelling money through KfW and GIZ to a given organisation, including to trust funds at MDBs, which are funded to a large extent from these bilateral budget lines. In 2017, 14 different funding lines were used for core and earmarked contributions to the UNDS. In terms of volume, the special initiatives and crisis management funding are the most relevant.

The introduction of thematic funding in the form of three special initiatives that BMZ launched in 2014 and the increase in the budget line for crisis management, reconstruction and infrastructure made new budget lines available. Special initiatives are tools to provide quick and flexible responses to specific challenges through shorter decision-making procedures (e.g. by

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17 These resources are referred to as “Funds in Trust” (FiT) instruments and are part of the budget line 68701 under budget heading 2303, which covers contributions to the EU, the UN and other international institutions.

excluding negotiation with partners). The thematic focus is on the elimination of hunger, addressing root causes of displacement, and promoting stability and development in the Middle East and North Africa. Budgetary allocations for these initiatives are distinguished from the remainder of the BMZ budget, which allocates resources according to instruments and specific organisations.

The special initiatives reflect a high-level political commitment to specific thematic objectives and provided a means of directing funding to different types of implementing partners, including multilateral or non-governmental organisations. Although they contributed to the stark increase in German UN funding, they were not explicitly framed as German contributions aimed at strengthening the multilateral system. Intended as a means of disbursing funds in a more flexible manner through the most relevant implementation channels, their creation raised concerns about the coherence of the separate thematic initiatives with the remaining aid portfolio (OECD, 2015b). Especially the special initiative to address the root causes of displacement and reintegrate refugees has contributed to the recent increases in earmarked funding. According to internal BMZ estimates, in 2017 earmarked funding from special initiatives to UN organisations amounted to roughly €289 million. UNICEF received a large share, followed by FAO and UNDP. Another €358 million was contributed from the budget line for crisis management, reconstruction and infrastructure, with UNICEF, WFP and UNDP receiving the largest shares. Geographically, North Africa and the Middle East were the most important recipient regions, followed by sub-Saharan Africa.

According to internal estimates, between 2015 and 2017, BMZ engaged in more than 500 different earmarked funding arrangements with UN organisations. It seems reasonable to assume that the Foreign Office and the Federal Ministry of Environment also add to this fragmented portfolio, creating transaction costs both on the side of multilateral organisations and on the German side. Although German ministries use a variety of modalities, it seems that the largest part of earmarked contributions used rather restrictive conditions – with thematic and geographic specifications – and a tight monitoring scheme. The Foreign Office only recently changed its practice concerning the duration of projects from one to two years. Across the government, pooled funding seems to be used only on an exceptional basis. Support for pooled humanitarian funding vehicles such as the Central Emergency Response Fund (CERF) or country-based pooled funds (CBPFs) in the area of humanitarian funding only find a match with modest

contributions to UN pooled funding arrangements in the area of development. The potential of the BMZ special initiatives to support flexible approaches such as softer forms of earmarked support to multilateral organisations may be underutilised, although less restrictive forms of earmarked support offer a way of strengthening the recipient organisation. The same holds true for earmarked funds from other ministries.

Although support for specific organisations is in some cases justified in the budget by describing the mandate of the organisation, earmarked contributions are in general justified by an interest in contributing to the strategic development orientation of UN organisations and the goal of bringing “German development policy accents” into the organisation’s work (BMF, 2018b). Other rationales for earmarked funding include demonstrating a commitment to specific issues, targeting funding to specific geographies or beneficiary groups, or placing new issues on the agendas of organisations such as MDBs. Earmarked projects are also used to support Germany’s foreign policy strategies and processes for crisis management and conflict resolution (BMF, 2019). Part of this can also intend to demonstrate support to multilateral processes and events. Motivations also include the wish to pool risks and leverage resources from other actors, and to enable stricter quality assurance and monitoring of projects. Humanitarian trust funds are understood to expand the reach of German contributions to contexts where the bilateral implementation actors are not capable of responding at scale, and where local actors need to be mobilised (interview MS 31). They enable UN entities to disburse funding quickly in response to humanitarian crises and reach underfunded areas (Deutscher Bundestag, 2018a).

The division of labour between the Foreign Office and BMZ and the need to avoid funding similar activities from more than one source also lead to earmarking. UN organisations receive funds earmarked for humanitarian or stabilisation activities (development-oriented work), reflecting the different mandates of German actors. This specification of purpose may complicate the programming of organisations working on the humanitarian–development–peace nexus (interviews UN 31, 55).

The different ministerial relationships with UN organisations can lead to varied motives for, and approaches to, engagement across the German government. As an example, BMG recently made a commitment of €115 million in voluntary funding over a four-year period to support the work of WHO, in line with an interest in strengthening the organisation’s position

as a preeminent coordinating actor in the field of global health policy while supporting administrative reform efforts, including earmarked funds at the programme level. Although the German government has long been a top provider of WHO core funding, its voluntary contributions prior to 2016 were project-based. The sharp increase in the available funding pool for BMG for WHO reflects a desire to improve WHO's capacities to respond to global health crises (Kühlen, 2017). These contributions intend to support the increased predictability of funding that is aligned with the strategic priorities of WHO. With these qualities, earmarked contributions may be understood as increasing the range of manoeuvre of a multilateral organisation rather than restricting its scope of action. For the ministry, a more flexible and long-term voluntary funding arrangement appears advantageous in light of the heavy administrative burden associated with the management of smaller-scale earmarked projects (interview MS 45).

### *Administrative challenges*

Although the administrative challenges that go hand in hand with increased earmarked funding to multilateral organisations (and other actors) seem to affect all actors that have been witnessing an increase in resources in recent years, each ministry seems to look for its own remedies. The Federal Court of Auditors (Bundesrechnungshof) has raised concerns that the Foreign Office has not demonstrated that it has adequate human resources to manage the significant expansion of funding for which it is responsible. The Court of Auditors has indicated that improvements are needed both with respect to establishing a better overview of funding flows under the purview of the Foreign Office and in relation to the promotion of more effective governance of the funding portfolio, including results control (Bundesrechnungshof, 2018).<sup>18</sup> The Foreign Office answered this criticism with a plan to establish a new specialised agency to improve the effective and efficient allocation of earmarked resources, among other reasons (Graw, 2019). Already in 2017, BMU created a similar agency to deal with the management and administrative side of projects in the context of its climate initiative and other funding channels (Bundesministerium für Umwelt, Naturschutz, und nukleare Sicherheit, 2017). BMEL has delegated the management of its bilateral FAO trust fund in 2010 to the Federal Office for

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18 The criticisms expressed by the Court of Auditors reflect broader concern about the funding management role of the Foreign Office and extend beyond the management of core and voluntary contributions to multilateral organisations.

Agriculture and Food. This shows that the motive of greater control through tight earmarking might be difficult to realise in practice. At the same time, the choice of softer forms of earmarking such as trust funds may help limit the administrative burden associated with the management of additional relationships with multilateral partners. As indicated above, administrative capacity constraints also affect BMZ, whether more generally in terms of staff working on multilateral issues within the ministry and at the HQ of multilateral organisations, or with respect to the management of earmarked funds.

Instead of establishing a new agency, BMZ can rely on the existing entities for aid implementation: KfW, which manages financial assistance, and GIZ, which manages technical assistance. Because of their role as implementation partners for German ministries in bilateral development cooperation, these entities are also involved in the management of earmarked contributions to multilateral organisations. According to internal BMZ estimates, about 66 per cent of overall funds (about €908 million) provided by BMZ to the UNDS in 2017 were channelled through KfW, and 2 per cent through GIZ. UNDP reports on its website that Germany, through KfW, contributed \$376 million in the period between 2016 and 2018. It is plausible to assume that GIZ funds to UN agencies are also sizable.

Even though BMZ retains responsibility for policy guidance and oversight vis-à-vis its implementation partners, KfW and GIZ have distinct organisational identities and interests. The differences in their trust fund participation in the World Bank context reflect their profiles, with KfW managing larger-scale funds to engage in fragile settings where bilateral cooperation is challenging, and GIZ engaging with smaller-scale trust funds intended to support knowledge generation and innovation (Herrmann et al., 2014).

The implementing organisations are also heavily involved in the management of earmarked contributions to UN entities. In particular, KfW has taken over a significant role in managing the recent rise in funds contributed to UN agencies active in the context of crises and conflict. A recently concluded set of agreements between KfW and UNDP testify to this increased importance (UN Development Programme [UNDP], 2019a). KfW is involved throughout a project cycle and also takes on broader questions. KfW supports BMZ in selecting projects, assists UN entities in formulating the project proposals, reviews proposals, negotiates and finalises contracts on BMZ's behalf, engages in monitoring and supervision of project activities, reports to BMZ,

and also includes funded UN activities in its evaluations. It furthermore advises and supports BMZ with regard to its positions in government bodies and develops standardised procedures with selected UN entities to improve the quality and effectiveness of the cooperation (interview MS 29).

A general argument for the involvement of KfW and GIZ is that BMZ has confidence in their administrative systems. The capacities and competencies of implementing organisations provide a valuable supplement to the management of earmarked funds in light of the ministry's capacity limitations in contributing to the design of and engagement with varied initiatives.<sup>19</sup> Substantial resource increases for multilateral development cooperation in recent years have arguably added to these capacity constraints. The role of the implementing agencies is also shaped by legal and budgetary restrictions at the ministerial level, for example with regard to ensuring that all UN entities comply with EU sanctions and other regulations. Last but not least, it can be argued that these specialised development actors bring in valuable expertise that increases the quality of development interventions.

The role of the implementing organisations in the management of earmarked funds raises questions about the administrative efficiency of the funding arrangements. First, the delegation of funding through implementing organisations adds a layer of complexity in the process, with partner organisations networking with, and accountable to, different entities that vary with respect to their thematic or managerial expertise and their accountability requirements. These complex arrangements can also have the consequence of diminishing the visibility of German contributions, meaning that the government's role as a supporter of the UN system is not valorised as being commensurate with the volume of funding provided (interview MS 57). This reflects a broader challenge with respect to visibility in the German development policy system, as KfW and GIZ are often more visible in implementation arenas than BMZ due to the nature of their mandates. The involvement of additional players also potentially increases the difficulties in ensuring an overall strategic approach to individual organisations and the whole multilateral system.

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19 The different capacities of BMZ and the implementing organisations are apparent with a review of staffing levels. Although BMZ has expanded its hiring at both the HQ and field levels in recent years, in 2014 its 788 HQ staff and 105 country staff were easily outnumbered by GIZ's 2,741 HQ staff and 1,852 field-level staff, plus GIZ's 10,659 local staff. KfW had 593 HQ, 79 field and 290 local staff in the same year (OECD, 2015b).

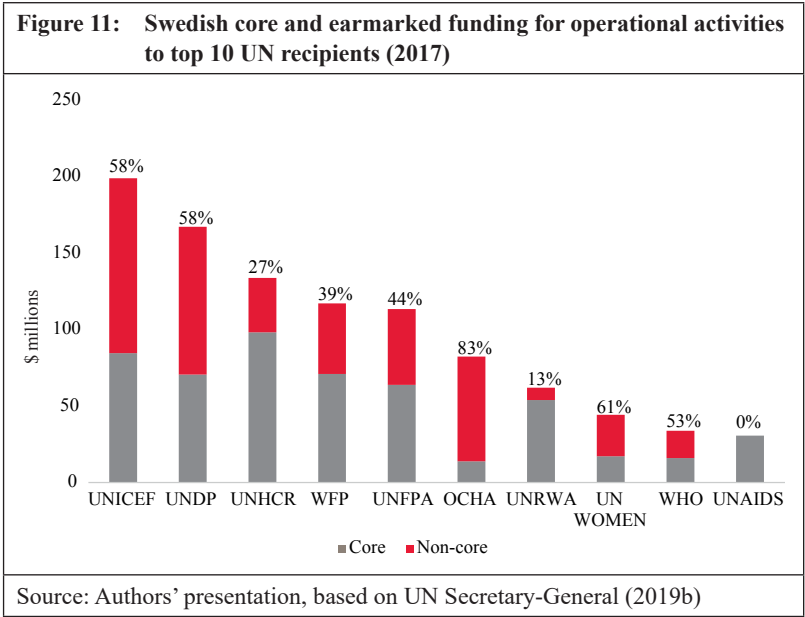
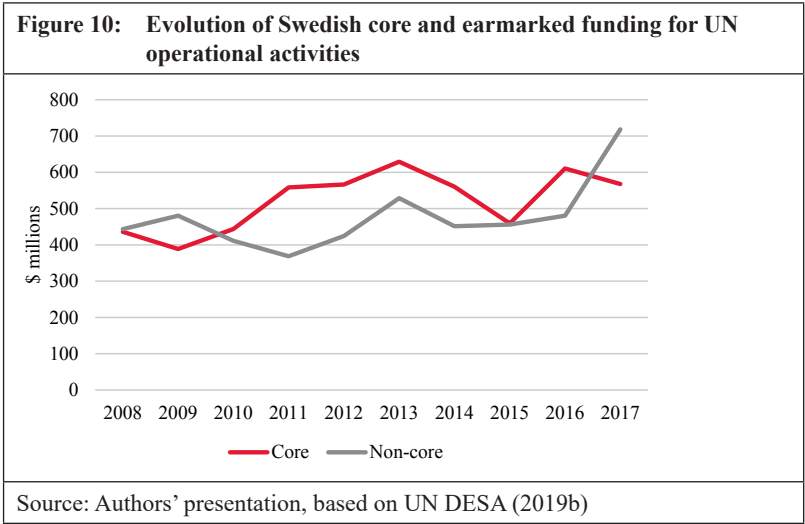


Second, the reliance on KfW and GIZ as intermediaries in funding the multilateral system poses an obvious question about the value of the resources being disbursed to multilaterals in light of the additional costs that are related to the delegation of funding through implementing organisations. Paying overheads twice increases the cost of such development interventions while at the same time reducing aid funds that directly reach beneficiaries.

Although Germany has traditionally not supported the multilateral development system at a level matching its economic weight and long had a relatively passive role in multilateral reform debates (see Weinlich, 2011), its role as a multilateral contributor appears to be shifting in light of significant increases in funding in recent years as well as its active engagement in international dialogues on issues such as advancing good donorship principles. Germany's willingness to assume a different role within the multilateral system requires adaptation in its development cooperation system due to a strong bilateral orientation that is reflected in its emphasis on German implementing organisations. A core element of this adaptation process should involve addressing fragmentation problems within the system in order to improve the transparency of funding flows and effects and to advance a consistent strategic approach for engagement with multilateral organisations. In the German case, fragmentation problems leading to oversight and management challenges are primarily HQ-level problems. It is essential to increase the amount of attention to how work processes within BMZ, between ministries and across the chain of implementation involving implementation organisations as administrative intermediaries can be reformed to better support the increased effectiveness of the variety of multilateral initiatives to which Germany contributes.

### 3.2.2 Sweden

Sweden displays a strong commitment to multilateral development cooperation. Its role as a global development leader is expressed in its high aid commitment relative to GNI, a poverty reduction focus and advocacy for development effectiveness. Other elements of Sweden's aid profile include a coherent institutional set-up for aid management and priorities in the areas of human rights promotion, climate change and the environment, and the advancement of gender equality (OECD, 2013). It emphasised the importance of these priorities by becoming the first country to launch a feminist foreign policy in October 2014. In the UN context, Sweden takes pride in its principle of prioritising unearmarked or softly earmarked aid.



Sweden has historically sought an equal balance between multilateral and bilateral support in its aid portfolio (Statskontoret, 2011). At a broad level, the thematic and geographical priorities for Swedish development cooperation and guideposts for implementation are outlined in “The Policy Framework for Swedish Development Cooperation and Humanitarian Assistance”. The 2016 framework notes that multilateral organisations are important as a vehicle for advancing Swedish norms at different levels of governance, highlights that their substantial country-level operational capacities can facilitate the effective implementation of Swedish cooperation and emphasises the contribution of multilateral cooperation to development effectiveness. The framework references the role of core funding in providing a basis for strategic dialogue with multilateral organisations. It also indicates that effective engagement with the multilateral system is not only a question of how organisations are funded, but also what personnel and expertise are available in Sweden to shape these efforts (Government of Sweden, 2016a).

In 2015, bilateral aid channelled through multilateral organisations represented one-third of Sweden’s support for multilateral organisations. Between 2005 and 2014, the share of this funding rose from 20 per cent to 40 per cent of the portfolio of Sida, with larger increases registered at the start of this period (Government of Sweden, 2018).

### *Decision-making context*

Sweden’s “Strategy for Multilateral Development Policy” from 2017 outlines key considerations to guide its multilateral engagement on development cooperation and humanitarian assistance. It expresses an interest in prioritising support to multilateral organisations on the basis of their relevance for Swedish priorities and their organisational effectiveness. The strategy articulates a clear preference for providing core support, highlighting that concerns about the effectiveness, transparency and coherence of the core activities of organisations are more important than intensive steering of the financial contributions (Government of Sweden, 2017).

In spite of the clear commitment to providing core support, there has been a trend towards increasing bilateral support for the multilateral system by Sweden over the last decade. This increase can be understood against the backdrop of an aid budget that has steadily increased in volume. While core contributions to multilateral organisations have represented a relatively stable share of the aid budget and increased as the overall budget has grown,

the earmarked share of multilateral aid has increased. Earmarked aid has thus not increased at the expense of core funding. The UN Development System is by far the largest destination for Swedish earmarked funds. In 2016, 72 per cent of earmarked multilateral support went to UN entities, while another 17 per cent of earmarked funding flowed to the WBG. RDBs implemented only 4 per cent of Swedish earmarked multilateral aid in the same year (Government of Sweden, 2018). A large share of this support goes to multi-donor funds and programmes administered at a global level.

The multilateral strategy acknowledges that earmarked multilateral support can be useful when it is aligned with the strategies and budgets of multilateral organisations, enables the reduction of administrative burdens or allows for operations at a larger scale. The strategy clearly describes the division of responsibilities between the Ministry of Foreign Affairs and Sida in engagement on multilateral development policy, with the ministry having responsibility for the oversight of core support to multilaterals, while Sida holds decision-making responsibility for earmarked support provided in line with Sweden's geographic and thematic strategies (Government of Sweden, 2017). Line ministries also engage with multilateral development actors due to the role of sectoral expertise in accompanying the normative and knowledge-generation functions of UN entities; however, the financial component of this dimension of cooperation with the UN system is limited in scale. This section focusses especially on Sida, given its central role in administering Swedish bilateral assistance and earmarked funding to multilateral organisations.

Determinations on how to allocate aid reflect multiple layers of decision-making. The parliament sets the overall direction for allocation through the budgetary framework and the authorisation of governmental actors to disburse development cooperation funding through various budget lines. A large share of the management of development cooperation funds is entrusted to Sida in this process. Decision-making on the use of the funding that Sida is authorised to manage reflects a principle to delegate decisions to the country level to the extent possible. Different layers of management are involved in funding approval, depending on the size of the funding envelope to be provided (Expert Group for Aid Studies [EBA], 2018). Government regulations allow for a delegation of decisions on how aid monies can be spent at the partner-country level below a certain financial threshold – 80 million Swedish Krona, as cited in EBA (2018), depending on the country context. The full delegation to country representatives is based on criteria

related to the management capacities of foreign missions. In 2014, 98.5 per cent of Sida's total number of disbursement decisions were made at the country level, reflecting 70 per cent of total funding disbursed (EBA, 2018).

Although there has been a general trend towards decentralisation in aid management, in some cases where Sweden has a country office, decision-making is not delegated. Afghanistan and South Sudan provide examples (EBA, 2018). Although funding decisions at the country level are anchored in broader strategies and part of accountability chains involving HQ, the different arenas for decision-making within the Swedish system offer an explanation for the reliance on multilateral earmarking at the country level, which appears to contrast with an overall commitment to prioritising core support to multilaterals.

#### **Box 2: The Swedish UNFPA strategy**

Sweden's overarching multilateral strategy is complemented by more specific strategies guiding Swedish engagement on an organisational level. The current organisational strategy for UNFPA provides an example. The strategy expresses confidence in the organisation following a review of organisational performance and underlines a commitment to UNFPA's core mandate. At the same time, it highlights areas where the Swedish government seeks to influence the organisation's future direction. This not only concerns the selection or reinforcement of particular thematic and operational priorities but also the manner in which UNFPA should secure a stable funding base. In this context, Sweden proposes that UNFPA should organise yearly funding dialogues with member states to increase funding predictability, expand its contributor base and increase core funding, among other recommendations. The strategy indicates that the goal of increasing core funding is linked to organisational efforts to improve the incentives to donors for supplying more flexible and predictable funds by ensuring the visibility – and acknowledging the value – of core or softly earmarked support (Regeringen, 2017). The strategy underlines that the Swedish government views the promotion of robust core organisational support as a means of influencing the organisation's agenda.

### *Motives for earmarking*

The rise in earmarked aid can be understood in part as a response to the disbursement pressures created by a generous and expanding aid budget, where growth in the volume of funding to be managed has not been accompanied by commensurate administrative funding or staffing increases at Sida (Keijzer et al., 2018). Geographic and thematic priorities also provide an explanation for the scope and nature of earmarked funding. Strengthened emphasis on support for conflict-affected states and humanitarian response is a key driver (Government of Sweden, 2018). In fragile settings, bilateral support to multilateral organisations can be considered an alternative to operating through poorly functioning country systems (OECD, 2013). A shift away from country-to-country cooperation towards a reliance on multilateral implementers can thus have a risk management purpose (Keijzer et al., 2018). It may also reflect a belief in the unique ability of multilateral organisations to promote collective action in support of stabilisation, peacebuilding and state-building or the absence of alternative implementation partners in these contexts (Government of Sweden, 2018). Funding to multilaterals may in turn be distributed to other actors at the country level, such as civil society organisations.

The linkage between state fragility and earmarking is evident in reviewing geographic priority areas in Sweden's earmarked funding portfolio. Sub-Saharan Africa received the single largest share of earmarked multilateral funding by region (33 per cent of the total), while Afghanistan, the Democratic Republic of Congo, Somalia, South Sudan, Bangladesh, Palestine, Syria and Zimbabwe were important recipient countries in the same period (Government of Sweden, 2018).

The global thematic strategies advanced by recent governments have enabled increased investments in human security, sustainable environmental development, sustainable social development, sustainable economic development, human rights and democratisation, and international crisis management (Keijzer et al., 2018). The largest thematic priority areas for bilateral aid channelled through the multilateral system between 2014-2016 were democracy, human rights, and gender equality and humanitarian aid; these priority areas accounted for nearly half of Swedish bilateral funding to multilateral organisations. Health, sustainable development (water, sustainable energy and sustainable urbanisation) and education together

represented an additional 30 per cent of the earmarked multilateral funding (Government of Sweden, 2018).

Some Swedish justifications for using multilateral channels to implement bilateral assistance parallel the rationale for providing core support, namely that multilateral organisations offer the potential for greater effectiveness through a larger economy of scale, their coordinating mandate or their implementation capacities. Other rationales are linked more directly to donor-specific interests. Examples include the potential to influence policy agendas of multilateral organisations via support for thematic initiatives at the global level, or the capacity of multilaterals to adjust to fluctuations in aid budgets by absorbing or reducing funds quickly (Government of Sweden, 2018).

In recent years, UNDP has overtaken the World Bank as the largest recipient of Swedish earmarked funding. Support for World Bank trust funds has been a significant component of Swedish engagement with the World Bank. In 2016, trust fund contributions amounted to one-third of Sweden's funding for the WBG, with the Afghanistan Reconstruction Trust Fund, the Global Partnership for Education, and the Global Water and Sanitation Partnership serving as important examples (Swedish International Development Cooperation Agency [Sida], 2018). Funding choices related to trust funds can reflect not only an effort to support thematic priority areas such as sustainable and inclusive economic development, environment and climate, gender equality, and peace- and state-building, but also a means of engaging in strategic policy dialogue in these areas to amplify such contributions.

For several years, Sida has articulated a preference for supporting MDTFs as a means of fostering donor harmonisation in line with aid effectiveness principles. The agency has proposed reducing the number of SDTFs and ensuring that remaining thematic contributions are focussed and aligned with the Swedish strategy for engagement with the WBG (Government of Sweden, 2016b; Sida, 2014). The reduction in SDTFs is part of a general trend in Sweden's earmarked aid portfolio towards support for fewer initiatives, but also to channel larger volumes of funding through vehicles chosen, and to provide longer-term support to the selected cooperation partners (Government of Sweden, 2018).

Sweden's approach to earmarking within the UN system is perceived to promote flexibility and support multilateral organisations in executing their core mandates by providing assistance that is in line with organisational

strategies. Although Swedish earmarked funding to UNICEF represented an average of 60 per cent of total Swedish funding to the organisation in the years between 2010 and 2015, for example, it is regarded as a flexible donor to the organisation (Browne, Connelly, & Weiss, 2017). The characteristics of organisations themselves may shape how flexibly funding through earmarked channels can be implemented. Browne et al. (2017) note that UNICEF may be in a better position to align earmarked funding with its organisational priorities due to its narrow thematic mandate and internal approaches to mixing financing streams.

The promotion of more flexible forms of support for multilateral organisations extends to Swedish considerations on what accountability measures multilateral recipients should be subject to. Although Sweden recognises the importance of continuously engaging with multilateral organisations on how they can improve their efficiency and demonstrate results, it emphasises that a focus on narrow and detailed reporting creates an unnecessary administrative burden on organisations and undermines their effectiveness. In the place of individualised reporting formats, Sweden therefore advocates for a greater use of aggregated reporting that does not attribute results directly to support from specific donors. The objective of such an approach is to balance donors' shared interests in promoting results-based management with the interest in strengthening multilateral capacities (interviews MS 37, MS 39).

### *Administrative challenges*

Sweden has carried out multilateral assessments and developed organisation-specific strategies for multilateral engagement as an extension of reviews on the utility of broader development strategies. These strategies have informed decision-making, especially those related to core funding for multilateral organisations (OECD, 2013). Although these strategic approaches to multilateral aid have been considered a strength of Swedish development cooperation, the ability for key governmental actors to analyse challenges, formulate strategies and policies, and provide adequate oversight of implementation is subject to capacity limitations. Swedish and international assessments have pointed to human resources deficits in aid management related to reductions in personnel in times of increasing aid budgets (Statskontoret, 2011; OECD, 2013). These constraints do not apply only to multilateral cooperation.



Pressures to limit the size of the administration in Sweden grew alongside a rising interest in the promotion of results-based management. A new governance approach was introduced in the development cooperation arena in 2007 as an extension of aid effectiveness commitments (Sida, 2007). The results-based management agenda provided another impetus for earmarked funding, given that multilateral organisations had administrative procedures in place to meet the stronger accountability requirements that results-oriented aid implied (interview MS 34). The link between results-based management and earmarking is not straightforward, however, as the multilateral development cooperation strategy from the same period acknowledged the risk that earmarking could weaken governance of multilateral organisations and thereby undermine their effectiveness (Government of Sweden, 2007). The strategy noted that although earmarking could challenge multilateral organisations' core competences and make the division of labour among actors less clear, it might also serve to complement multilateral country programmes. The strategy suggested that earmarked funding should ideally have characteristics such as alignment with organisational strategies, predictability and flexibility to foster effectiveness (Government of Sweden, 2007). The change in government in 2014 offered an opening for critical reflection on, and reform of, Swedish results-based management practices, which were reviewed against the backdrop of tensions between HQ-oriented reporting obligations and the decentralised approach to implementation that Sida embodied (Keijzer et al., 2018).

This analysis indicates that issues such as whether donor administrative capacities are adequate for providing oversight of earmarked funds and how greater consistency can be fostered across levels of decision-making are relevant areas for reflection on the future Swedish approach to earmarked multilateral funding.

Another challenge that Sweden confronts with earmarking relates to international burden-sharing. The most recent multilateral strategy cautions against Sweden pursuing a role as "equaliser" within multilateral organisations in cases where contributions are not forthcoming from other states (Government of Sweden, 2017). In concrete terms, there are concerns that Sweden's commitment to more flexible multi-donor approaches can lead to it subsidising more narrowly earmarked contributions from other actors (interview MS 35). The willingness of Sweden to go farther than other contributors – both with respect to its core support to multilateral organisations and in providing supplementary resources via pooled trust

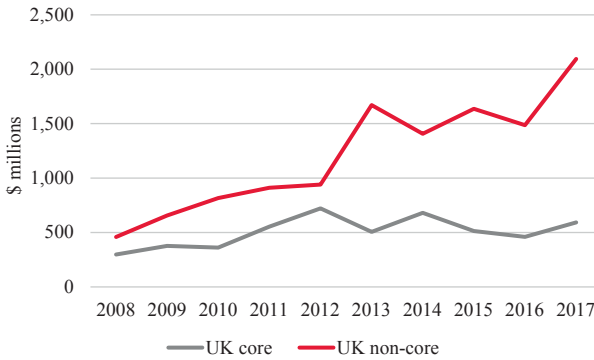
funds – presents a challenge, as a wider resource base would better reflect the broader representative character of multilateral organisations. It also poses a problem for the Swedish government as a contributor if it accepts lower visibility and political recognition for its efforts while other donors pursue a higher visibility approach with the potential to diminish the effectiveness of multilateral organisations.

### 3.2.3 United Kingdom

Like Sweden, the United Kingdom has a reputation as a leader in global development cooperation. Key elements of UK engagement have included a commitment to the 0.7 per cent ODA/GNI target, an emphasis on poverty reduction as an overarching goal, the promotion of a “value for money” agenda that involves a strong focus on performance assessment of international organisations, and a system of aid management that has both consolidated decision-making responsibilities around a strong cabinet-level department – DFID – and pursued a decentralised approach granting country offices an important role in programming (OECD, 2014). Decentralised decision-making is a structural driver of bilateral funding channelled through multilateral organisations, whereas core multilateral funding decisions remain centralised (interview MS 43).

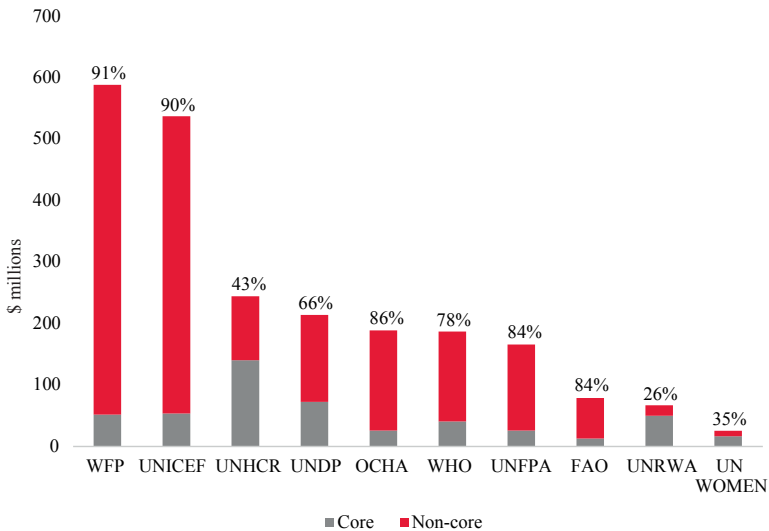
As Table 3 indicates, the United Kingdom was the donor among those analysed here with the highest share of aid flowing to multilateral organisations and a large share of its bilateral aid delivered through multilateral channels in 2017. It stands out for the scale of its support to the World Bank as well as World Bank trust funds. The United Kingdom has been the largest contributor to World Bank (IBRD/IDA and the International Financial Corporation (IFC)) administered trust funds for many years. On its own, it accounted for about one-fifth of trust fund contributions in the period between 2015 and 2019 (World Bank, 2019; see also Table 3). The United Kingdom is one of the top contributors to many multilateral development organisations and, together with Germany, it was a key source of increased funding for the multilateral system in 2016 (OECD, 2018a).

**Figure 12: Evolution of UK core and earmarked funding for UN operational activities**



Source: Authors' presentation, based on UN DESA (2019b)

**Figure 13: UK core and earmarked funding for operational activities to top 10 UN recipients (2017)**



Source: Authors' presentation, based on UN Secretary-General (2019b)

### *Decision-making context*

The United Kingdom's development agenda has evolved along with changes in the global development landscape and the domestic political context. In its current Aid Strategy (HM Treasury & Department for International Development, 2015), the UK government outlines several directions for its global development engagement, proposing a stronger emphasis on aid to fragile and conflict-affected states; heightened attention to advancing economic and other national interests through aid; the expansion of the role of varied government departments; and a continued focus on improving the value for money of UK aid. Value for money has been an important guiding concept in the UK aid system since 2010. In the strategy, expressions of the goal to strengthen the value for money orientation include enhancing transparency and oversight as well as increasingly relying on modes of delivery that enable a clear demonstration of results. The strategy emphasises a move away from budget support towards more targeted forms of assistance as an extension of this thinking (HM Treasury & Department for International Development, 2015). As a guiding concept, value for money can be understood both as an extension of a commitment to an effectiveness agenda that DFID has advanced, and as a response to the heavy domestic political scrutiny of aid spending (interview Ex 4).

The preparation and subsequent publication of bilateral and multilateral aid reviews was one consequence of the greater push to demonstrate value for money. The first bilateral aid review led to the reduction of priority countries for UK aid, whereas the first multilateral aid review resulted in a decision to end core funding to four multilateral organisations judged to be performing poorly in relation to their alignment with UK priorities and organisational effectiveness (Department for International Development [DFID], 2011b). The focus of the multilateral assessment was in identifying strengths and weaknesses of different organisations, rather than reviewing how the manner of the United Kingdom's funding of multilateral organisations influenced their effectiveness (DFID, 2011a). The second multilateral assessment similarly did not address earmarked funding in depth, only describing earmarked funding as a means of focussing on particular goals, countries or regions, and noting that there may be differences in the UK funding mix for different organisations related to their mandates. It indicated that UNICEF received a high share of its funding as earmarked support due to its service delivery role, whereas UNAIDS political advocacy and knowledge functions explain the focus on core support (DFID, 2016). Beyond informing

DFID decisions related to core support for multilateral organisations, the assessments aim to serve as a stimulus for improving the performance of reviewed organisations and contributing to international agenda-setting related to multilateral reforms (DFID, 2011a, 2016).

A key means for DFID to promote consistency in programming decisions across different country contexts and levels of the organisation is the reliance on a set of Smart Rules, which outline the responsibilities of staff designated as “senior responsible owners”, who are accountable for the design and delivery of DFID programmes. The Smart Rules list the varied considerations that senior responsible owners are expected to weigh when proposing how aid resources should be delivered. They underline that programming decisions should reflect organisational goals such as appropriately managing risk and ensuring that aid is delivered economically in light of effectiveness and equity concerns, that they should be informed by political economy analysis, and that they should be respectful of development effectiveness principles, among many other factors (DFID, 2018b). The locus of decision-making for programme funding depends on the scale of proposed funding.<sup>20</sup>

The Smart Rules provide an indication of how DFID staff are encouraged to approach decisions related to channelling bilateral funds through multilateral organisations. The rules suggest, for example, that choices on delivery partners should be based on market analysis that involves the consideration of the strengths and limitations of partners. At the same time, this policy guidance indicates that a direct comparison of the expected value of delivery partners may not be feasible (DFID, 2018b). Thus, decision-making at this level can reflect informal assessments of comparative strengths. Staff considering whether to implement bilateral aid through multilateral organisations are encouraged to consult with the respective team that manages the institutional relationship with the multilateral organisation; however, the policy guidance note does not indicate the expected degree of alignment of earmarked contributions with core funding approaches. In sum, the decision-making guidance provided by DFID’s Smart Rules presents a general framework for programming in which bilateral support to multilateral organisations is one of numerous channels for delivery that are subject to similar procedures of

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20 Business cases for programmes under a threshold of £5 million can be approved by department heads, for example, while business cases for programmes in the range of £40 to £100 million require the approval of the Secretary of State and programmes above £100 million require additional approval from HM Treasury (DFID, 2018b).

identifying investment options that are consistent with the UK government's priorities and of conducting due diligence that applies to other channels as well (DFID, 2018b).

### *Motives for earmarking*

The Independent Commission on Aid Impact (ICAI) – an entity reporting to the UK parliament with a mandate to review aid spending – examined DFID's approach to engaging with multilaterals via core and earmarked funding, focussing on the years 2013-2014 (Independent Commission on Aid Impact [ICAI], 2015). Its report outlined numerous justifications guiding the UK's support for multilateral development cooperation, including the global reach and legitimacy of UN organisations, which enable work in difficult country contexts; the capacity of multilaterals to mobilise and deliver funding on a large scale; the ability for UN entities to provide support in brokering international agreements; the availability to provide specific expertise; and the possibility to organise the timely and collective response to crisis situations (ICAI, 2015).

Although the report laments the absence of strategies that outline the motives for multilateral support at the country level where the largest share of earmarked aid is provided, it suggests that general arguments for funding multilateral organisations extend to decisions on channelling bilateral support at the country level through these organisations. Multilateral organisations may be selected as implementing partners at the country level due to concerns about working with governments related to political instability or corruption or as a means of delivering large amounts of aid where DFID's own capacities are limited (ICAI, 2015). At the same time, the report indicates that rationales for supporting specific multilaterals at the HQ level may not have the same relevance at the country level, as there can be variations across countries in terms of the profile and performance of the same multilateral organisation.

Alongside the donor-specific justifications for bilateral support for multilaterals at the country level, the report also names in-country resource mobilisation efforts from multilaterals themselves as a driver of earmarked funding practices (ICAI, 2015). Decentralised decisions on providing bilateral funding through multilateral organisations can reflect a variety of considerations, such as how closely the work of an organisation is aligned with the UK government's priorities or their performance and track record of delivery (interview MS 43). Thus, the overall portfolio of earmarked support

to multilateral organisations reflects an aggregation of decisions taken across the system (interview MS 43).

An ICAI report from 2012 on DFID's engagement with the World Bank suggests that trust funds serve to close gaps with respect to other forms of bilateral and multilateral financing, particularly in terms of offering support to countries that otherwise have difficulty mobilising resources (ICAI, 2012). There have been large variations in terms of the scale of trust funds supported by DFID, with just 13 per cent of the trust funds still active at the end of 2011 accounting for 77 per cent of trust fund spending. The variations in the scale of trust funds supported reflect a perception that trust funds can be appropriate vehicles for pursuing different objectives and that there is no one-size-fits-all approach to channelling funding through trust funds (interview MS 44).

The report signalled that the fragmentation in the trust fund landscape was linked to the decision-making role of country offices and the limited character of strategic guidance or centralised oversight of the United Kingdom's trust fund portfolio (ICAI, 2012). Larger components of the trust fund portfolio are nevertheless overseen by DFID management in order to identify areas for improving its effectiveness (interview MS 44).

General arguments for supporting trust funds include that donors can exert influence over how funds are spent, that trust funds offer a pooled approach or that these approaches provide a means of taking advantage of the expertise of multilateral actors. The variation in the scale and pooled character of trust funds suggests that the balance of motives driving trust fund decisions may differ across the trust fund portfolio. In 2012, the United Kingdom established a new strategy for trust fund engagement to encourage strengthened consultations between programme officers and DFID departments to promote the alignment of trust fund decisions with priorities supported by the World Bank's board (Tortora & Steensen, 2014). In the context of its overall engagement with the World Bank, the UK government has emphasised trust fund reforms as an element of an agenda promoting increasing the value for money of World Bank operations. Other related priorities include strengthening the focus on results, reducing administrative costs, and improving environmental and social safeguards in World Bank activities (DFID, 2015).

The United Kingdom has also been a leading donor supporting varied UN entities through core and earmarked funding. A business case prepared by DFID's United Nations and Commonwealth Department for engagement

with UNDP, UNICEF, UNFPA and UN Women for the period 2017 to 2021 emphasises the rationale for providing core support to these organisations. It notes that core organisational support is necessary to ensure that there are stable centralised staffing capacities to maintain organisations' normative functions, fulfil an effective oversight role, and retain abilities to operate on a global scale and respond quickly to crisis situations (DFID, 2018a). Additional political advantages of core funding include the ability for the UK government to exercise influence in the governance of funds to which it is a key core contributor, and the demonstration effect it may provide to other donors to similarly support the multilateral system. The business case encourages staff with country-level decision-making responsibilities to consider the comparative advantages of having UN organisations as implementing partners alongside other alternatives, indicating that a diversification of implementing partners could contribute to focussing attention on the policy and normative roles of UN organisations while limiting the expansion of their aid delivery role.

**Box 3: Payment by results in UK multilateral cooperation: The case of WHO**

The engagement of the UK government with WHO provides an example of the current UK government approach towards funding multilaterals. The UK government's performance agreement with WHO reflects the United Kingdom's recognition of the importance of WHO as an actor in implementing the global health agenda while pointing to continuing organisational reform needs. The performance agreement outlines an approach to engagement characterised as being a "critical friend", promising to play an active role in established governance mechanisms, including strategic dialogues. The performance agreement also emphasises making core voluntary contributions to the organisation contingent on improvements in four agreed priority areas, conditioning 50 per cent of the United Kingdom's annual funding on the fulfilment of performance indicators (UK Government, 2017). This approach is advanced as a means of respecting organisational flexibility to determine how to use core funds while retaining influence in shaping the organisation's direction. A recent OECD review of WHO funding practices indicated that the United Kingdom performs well compared to other contributors in providing support for the organisation's programme budget, but signalled that it could improve the predictability of its funding and its funding for underfunded programme areas (OECD, 2018a). The United Kingdom's imposition of specific reporting frameworks on multilateral organisations relates in part to the large scale of resources that it provides (OECD, 2015a).



### *Administrative challenges*

The promotion of a payment by results agenda is a key feature of recent UK multilateral policy. It can be understood as an extension of the value for money agenda, as it advocates the demonstration of outcomes as a basis for continued support. From the UK government's perspective, this agenda is considered to be consistent with efforts to promote the effectiveness of multilateral organisations by encouraging the development of impact measurement standards up front (interview MS 44). The results agenda in UK development cooperation has evolved against the backdrop of a steadily rising aid budget and domestic political shifts that have influenced the accountability pressures that DFID itself is subject to. The focus on results is associated with positive attributes such as promoting evidence-based decision-making and clarifying goals of development interventions. However, it also carries risks such as emphasising accountability relationships with funders rather than towards end-beneficiaries and encouraging attention to short-term results rather than longer-term transformative processes (Valters & Whitty, 2017). In relation to earmarked funding, there is an administrative challenge in finding a balance between assessing performance and enabling flexible action.

Although in-country resource mobilisation and country-level programming reflect effectiveness principles – as they reflect a stronger potential for funding decisions to be informed by locally determined priorities – from the donor perspective, decentralised decision-making can also create challenges related to maintaining oversight. The ICAI report on multilateral engagement suggests that country-level decisions on earmarked aid can limit DFID's control over the aid flows, as UN organisations at the country level may focus on their delivery role, and so become less accountable to DFID headquarters (ICAI, 2015).

There is potential for the increased monitoring of earmarking within the UK system to obtain a better overview of both the resources directed through different channels and the administrative burden associated with managing them. Evaluations may be useful in contributing to such an assessment process and informing the bigger-picture discussions on solutions for better funding. Similarly, there could be further attention given to evidence on the efficiency gains associated with the use of core funding versus earmarked funding, as well as the means of preserving visibility.

Another challenge in the management of earmarked funding is to ensure that the substantial resources provided as earmarked support are consistent with,

and reinforce, broader strategies for bilateral engagement with multilateral organisations as intended. In practice, both core and earmarked funding provide opportunities for donors to influence multilateral organisations. For example, the United Kingdom's representation in the World Bank's core governance structure provides the main channel for influence over the bank's strategies. This enables the United Kingdom to shape the agenda and implementation procedures across World Bank areas of activity (interview MS 44). Country-level experiences with trust funds are understood as one input to informing higher-level engagement between the UK government and the World Bank (DFID, 2014). The strong level of UK support for trust funds facilitates dialogue with the World Bank unit responsible for trust fund reform, and it seeks to promote the coherence of trust fund activities with core organisational strategies and advance other effectiveness concerns (interview MS 44). Other forms of engagement with multilateral entities include annual reviews involving dialogue between DFID headquarters and country offices to assess multilateral performance within specific country contexts and strategic dialogues with multilateral organisations to review the spectrum of activities supported (interview MS 44). Promoting coherence across arenas for action and different funding streams places demands on administrative resources.

Finally, the UK case indicates that there are tradeoffs involved in selecting earmarked funding channels and that funding choices reflect a balance of different considerations. Although earmarked funding can be considered advantageous in terms of resource mobilisation, for example, DFID also recognises disadvantages such as contributing to fragmentation in aid delivery, distorting priorities and promoting a short-term orientation (DFID, 2018a). Although DFID seeks to maintain an appropriate balance between core and earmarked resources, it does not advocate increasing core resources to key UN entities, but rather expresses a preference for maintaining core funding levels and managing 30 per cent of this funding as results-based payments. Among the explanations for this recommendation are the perception that the organisations still have reform needs, that a consideration of burden-sharing should limit the United Kingdom from assuming too dominant a role within specific organisations and that reducing the reliance on UN organisations as implementation partners at the country level represents another means of improving the balance (DFID, 2018a). These points underline that the balance between core and earmarked funding provided by the United Kingdom reflects a mixture of decisions taken in

different settings, indicating that addressing perceived imbalances requires improving the consistency of decision-making between HQ and field levels and across the different country contexts where DFID is represented.

### 3.2.4 European Union

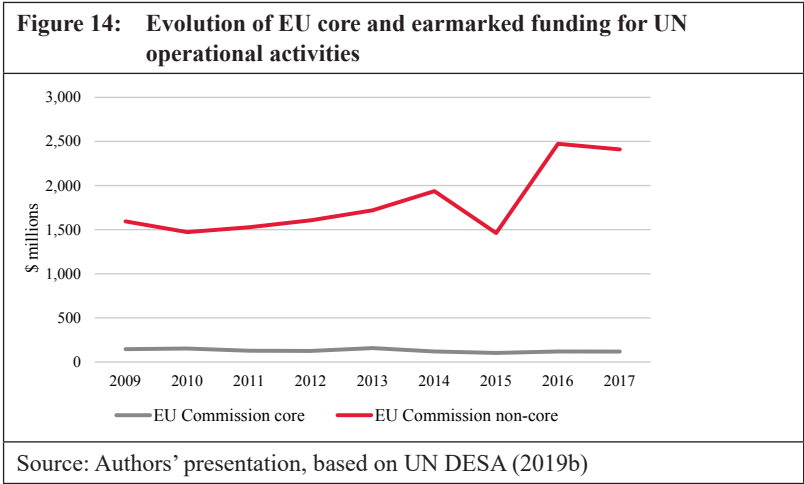
The EU is a unique aid provider. It has the properties of a multilateral organisation that balances member state and institutional interests and serves as a channel for the collective implementation of funding from EU member states. At the same time, it operates as a bilateral donor, and in this capacity it represents an important contributor to multilateral organisations. Following the most recent treaty change, it gained the possibility of managing trust funds, thus becoming a multilateral implementer of bilateral aid itself, with the EU's Emergency Trust Fund for Africa in 2015 exemplifying this form of engagement.<sup>21</sup> The EU treaties define development policy as an area of shared competence between the EU and its member states, but they also mandate the EU to provide a forum for promoting the consistency and coordination of the member states' bilateral development policies (OECD, 2012; OECD, 2018b).

As noted above, contributions from EU institutions to multilateral entities are substantial. EU financing for development cooperation and humanitarian aid channelled through the UN system expanded significantly between 2000 and 2015, rising from just under €400 million at the start of the period to reach €1.705 billion in 2015. For most of this period, the share of EU contributions to the UN for humanitarian aid exceeded the development cooperation component, suggesting that crisis response and emergency relief represents a key priority area for EU support. EU contributions to UN organisations cover a broad range of activities related to democracy promotion, good governance, human rights, inclusive green growth and environmental protection (UN Office in Brussels, 2017). The volume of EU funding to UN organisations experienced a sharp increase in connection with

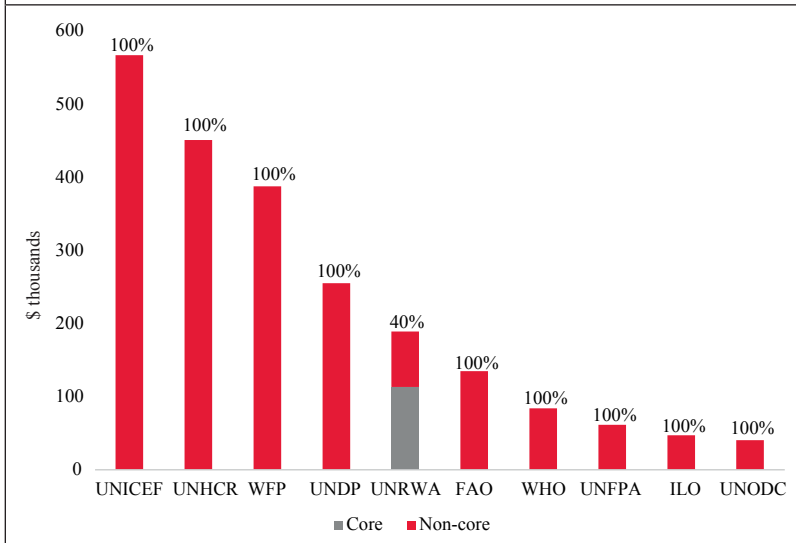
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21 The EU trust funds illustrate complexities related to the proliferation of aid initiatives. Although they may be considered an alternative channel for mobilising bilateral support to specific purposes, and therefore compete with other multilateral actors, in practice they also implement funds via other organisations. UN organisations are important implementing agents for the EU Trust Fund for Africa. In 2017, 39 per cent of all payments from the trust fund were disbursed via indirect management with international organisations (European Commission, 2018a).

the migration and refugee crisis after 2015 (Medinilla, Veron, & Mazzara, 2019). The leading positions of UNICEF and UNHCR as UN recipients of EU funding in 2017, as indicated in Figure 15, reflect the importance of refugee support on the humanitarian agenda in these years.



The EU is a major contributor to MDTFs in both the World Bank and UN settings. The EU was second only to the United Kingdom in terms of the cumulative funding provided to World Bank trust funds from fiscal years 2015 to 2019, with its total support across this period amounting to \$1.963 billion (World Bank, 2019). Important priority areas for funding through trust funds have related to stabilisation efforts in Afghanistan and Iraq and resources for responses to natural disasters and pandemics (European Commission, 2016).

**Figure 15: EU core and earmarked funding for operational activities to top 10 UN recipients (2017)**

Source: Authors' presentation, based on UN Secretary-General (2019b)

### *Decision-making context*

The United Nations is singled out in the Lisbon Treaty as a forum where the EU should promote “multilateral solutions to common problems”. Following EU institutional reforms that were intended to give the EU a stronger and more coherent voice in international affairs, the EU gained the right to present common positions within the UN General Assembly in 2011; however, only member states hold privileges such as voting rights (UN General Assembly, 2011). The EU attends board meetings of UN bodies and international financial institutions, but its role is restricted to that of an observer. The special status of the EU means that there are legal constraints on how EU institutions can provide funding for multilateral entities, which, in addition to the treaties, are periodically revised through its Financial Regulation, as agreed between the member states and the European Parliament (European Union, 2017a). This explains why the EU, in practice, contributes limited core

multilateral funding.<sup>22</sup> As Table 3 indicates, nearly all of the EU's funding to the UN system and the WBG is registered as earmarked contributions. A main exception is the UNRWA, for which EU funding provides a large share of support for the organisation's general budget.

EU engagement with multilateral organisations has evolved alongside its expanded global political role. A 2003 Communication stressed the importance of an effective multilateralism as a core element of EU external action. It highlighted that the EU could fulfil its “front runner” role in supporting multilateralism by adopting and amplifying UN initiatives, increasing organisations' means to effectively deliver and being a supportive partner in reform initiatives (Commission of the European Communities, 2003). The Communication emphasised the value of developing common positions among member states, signalling the constraints on the EU, given the diverse interests of an expanding membership. It also referenced Commission efforts to establish strategic partnerships with UN agencies, funds, and programmes in development and humanitarian affairs, indicating that a combination of considerations, such as the consistency of UN agency mandates with EU priorities, and administrative characteristics, such as capacities of agencies, provided partnership selection criteria (Commission of the European Communities, 2003).

Guided by these earlier policy orientations, the 2005 European Consensus on Development – a tripartite political statement adopted by the presidents of the Council, the European Parliament and the Commission – stated unequivocally that “the EU is strongly committed to effective multilateralism whereby all the world's nations share responsibility for development” (European Commission, 2006, para. 13). The 2016 Global Strategy characterises the United Nations as “the framework of the multilateral system and a core partner for the Union”, expresses a commitment to support reform efforts with respect to the UN and International Financial Institutions, and notes an intention to invest more resources in the work of multilateral organisations. The Strategy also calls for the EU to “strengthen its voice and acquire visibility and cohesion” across arenas for multilateral engagement (European Union, 2016). In 2017, a New Consensus was adopted, which

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22 There are exceptions, though, such as considerable direct institutional support to the African Union and various Regional Economic Communities. The nature of EU engagement with international organisations varies due to differences in the legal competences that it possesses in particular policy fields, and due to differences in the governance arrangements of international organisations themselves (Jørgensen, Oberthür, & Shahin, 2011).

reaffirmed the EU's support and stated that the implementation of global development agendas "must be founded on a rules-based global order, with multilateralism as its key principle and the United Nations at its core" (European Union, 2017b, para. 3).

The European Commission's DG for International Cooperation and Development (DEVCO) holds primary responsibility for the management of EU contributions to multilateral organisations, whereas the DG for European Civil Protection and Humanitarian Aid Operations (ECHO) plays an important role with respect to the administration of humanitarian assistance. A broad range of DGs manage some contributions to multilateral organisations, given their global mandates and thematic specialisation (Medinilla et al., 2019). The FAO lists eight DGs as sources of funding in its 2016-2017 report on its partnership with the EU, for example, including DGs DEVCO, ECHO, Neighbourhood Policy and Enlargement Negotiations (NEAR), Health and Food Safety, and Maritime Affairs and Fisheries (Food and Agriculture Organization of the United Nations [FAO], 2018). Other DGs may engage with multilateral organisations primarily on policy issues in their areas of expertise rather than overseeing funding (interview MS 40).

### *Motives for earmarking*

Core rationales for distributing funding through trust funds are in line with broader justifications for the EU to delegate implementation to multilateral organisations. Such pooled funding mechanisms may offer a scale and efficiency that the EU itself cannot match in responding to crisis situations. Trust fund support can also provide a means of tapping into the expertise of UN agencies and the World Bank or taking advantage of their neutrality vis-à-vis national or local governments in challenging political contexts (European Commission, 2016). For example, EU support for World Bank trust funds reflects an acknowledgement of the bank's competences in the areas of economic governance, banking reform and financial inclusion (interview B 7). In recent years, the EU has initiated trust funds in its own right – the largest of which is the EU's Emergency Trust Fund for Africa. Through this trust fund, projects are implemented by various actors, including multilateral organisations.

Michaelowa et al. (2017a) argue that one main reason for the EU to provide earmarked multilateral support are capacity constraints in the European Commission, which lead to a greater reliance not only on multilateral

implementation channels but also on general budgetary support or support for private actors. Capacity constraints can relate not only to aggregate staffing resources or the size of the administration but also to the expertise that staff possess (Michaelowa et al., 2017a). One consequence of reforms in the organisational set-up for EU external action was the reduction of staff at DEVCO, whereas staff levels increased in DG NEAR, DG ECHO and the European External Action Service. The loss of staff and specialised expertise at DEVCO in favour of staff with diplomatic or generalist profiles has raised questions about the EU's ability to engage effectively with partner organisations and respond to complex crises (OECD, 2018b).

Administrative procedures may contribute to multilaterals being preferred implementation channels in some contexts, as there are circumstances in which it is easier for the European Commission to enter into contracts with international organisations than to deliver funding through civil society organisations, for example (CONCORD, 2016). Cooperation with UN organisations has a basis in the Financial and Administrative Framework Agreement between the European Community and the United Nations from 2003, which outlines expectations concerning reporting and monitoring practices and provides guidance on maintaining the visibility of EU contributions in pooled funding contexts. The framework agreement presents clauses to be included across cooperation agreements to promote consistency in the EU approach in partnerships with UN entities (European Commission & United Nations, 2014).

Cooperation with multilateral organisations takes place within both geographic and thematic programming. In the EU, the initiative for geographic programming lies with the EU's delegations abroad, which determine cooperation priorities with in-country counterparts, whereas thematic programming is initiated at the HQ level in Brussels. Like other donors, the EU's main focus is on geographical (bilateral) cooperation, whereas thematic cooperation plays an important but secondary role. Thematic programming is emphasised as a flexible complement to geographic programmes in the Programme on Global Public Goods and Challenges, which is funded through the Development Cooperation Instrument. Its priority areas (environment and climate change, sustainable energy, human development, food and nutrition security and sustainable agriculture, and migration and asylum) reflect issue areas where strengthened global governance is considered necessary to advance core development goals. Although examples such as the Strategic Cooperation Agreements between



the EU and United Nations Environment Programme (UNEP) supporting knowledge generation and advisory activities to strengthen multilateral environmental governance are named within the overview of programming priorities, the thematic programme indicates that the Commission can make use of numerous modalities to advance its objectives.

The delegation of management responsibility to multilaterals via indirect management is one option alongside direct management, delegation to member state implementing entities, funding via calls for proposals and blended finance modalities.<sup>23</sup> A preference for multilaterals may be emphasised when programme objectives relate to influencing structural issues within partner countries that limit their support for policy agendas; however, specific guidance for choosing among modalities is limited due to the context-specific character of decisions, where a general commitment to selecting partners that are best able to deliver results with respect to given objectives informs EU choices (European Commission, 2014).

#### **Box 4: The Spotlight Initiative**

The Spotlight Initiative is a prominent example of thematically focussed EU support to the multilateral system. This partnership between the EU and UN was launched in September 2017 and pursues the core objective of eliminating violence against women and girls. An extension of a longstanding EU policy commitment to gender equality and women's empowerment and a reflection of the interest of the Commission's political leadership to strengthen the multilateral system, the initiative was started with a €500 million commitment that represented a "visible political and financial investment in multilateralism" (European Union & United Nations, 2018, p. 15). Administered via the UN's multi-donor trust fund office, the initiative seeks to draw on the competencies and implementation capacities of multiple UN entities, with UN Women, UNFPA and UNDP designated as the main organisations to carry this agenda forward. Although the initiative was politically supported internally with the aim of strengthening multilateralism, the organisational modalities for the trust fund mean that it is delivered in parallel to the multilateral system through the trust fund office in a structure resembling a designated project implementation unit, limiting the extent to which the initiative can take advantage of expertise from the broader UN system (interview MS 41).

23 These modalities are referred to in EU jargon as "management models" and are discussed in more detail in European Commission (2019).

**Box 4 (cont.): The Spotlight Initiative**

The scale of the EU commitment to the Spotlight Initiative distinguishes it from other EU earmarked contributions to UN organisations, however it highlights issues that may be relevant across a broader spectrum of EU funding to the UN, and reflective of challenges related to voluntary contributions that extend to other donors. Although the initiative is set up to attract additional funding from other sources, as of 2018 the EU was the only contributor to this multi-donor trust fund. The pooled funding approach is framed as a means of promoting cross-agency action, but the funding will ultimately be disbursed through different organisational channels, suggesting that even a pass-through funding model can raise concerns about adding an additional layer of administration. In spite of the delegation of responsibility to the multi-donor trust fund office, the volume of funding directed to the initiative implies a need to retain administrative capacity in Brussels to shape the initiative's policy direction and maintain oversight (interview MS 41). In relation to the size of the fund, only limited human resources are available in Brussels and in the EU delegation in New York to engage with the trust fund. Finally, within the EU context, the delegation of management responsibilities to the global level has been a source of debate, as civil society organisations prefer more direct support to advance the thematic priorities funded instead of adding UN organisations as administrative intermediaries (interview Ex 1).

As an extension of the increased emphasis on EU support for multilateralism after the turn of the millennium, an evaluation of Commission funding to UN organisations covering the period 1999-2006 mapped trends in funding flows, outlined the rationales for the Commission to use UN organisations as an implementing partner and identified challenges with respect to the administration of partnerships (Aide à la Décision Economique [ADE], 2008). The scope of the evaluation covered more than 1,600 interventions, indicating that already at that time, Commission funding for UN organisations supported a wide range of activities, though larger projects represented a disproportionate share of the overall funding.

The evaluation points to several justifications for relying on UN organisations as implementing partners, such as their added value in working in contexts where cooperation with governmental actors had been interrupted, reinforcing a specific UN mandate or engaging in politically sensitive situations. Political neutrality, logistical advantages and specialised thematic experiences are similarly emphasised in the assessment as perceived strengths of UN organisations.

*Administrative challenges*

At the same time, the evaluation questions whether the selection of UN organisations as partners followed the systematic assessment of alternatives within given settings and indicated that decision-making was characterised as following a pragmatic rather than a strategic approach. Constraints on adopting a more systematic approach included the lack of centralised guidance on how funding should be channelled and the limited consolidation of information on funding to UN organisations within the Commission (ADE, 2008). EU engagement with UN partners was nevertheless also described in positive terms, with the predictability of its funding seen as a means of strengthening multilateralism, for example. The evaluation report did not distinguish the effectiveness of different forms of funding UN partners, but it noted that the consequence of funding through the Financial and Administrative Framework Agreement was a mode of cooperation that was not considered to be a strict form of earmarking (ADE, 2008).

A European Court of Auditors (ECA) report reviewing decision-making procedures and monitoring of EU support to UN organisations reinforced the conclusion from the earlier evaluation that there was a lack of clarity concerning the selection of UN implementation partners. This assessment took its point of departure in a 2001 policy document indicating that decisions on channelling funding through UN organisations should be determined by an organisation's capacity to deliver effectively and efficiently, and that the Commission's approach should follow a systematic rather than piecemeal orientation (European Court of Auditors, 2009).

The report noted that although decisions were justified retrospectively, the country delegations did not make adequate use of reports of past performance to inform choices on implementing partners. This reflects a challenge related to the consolidation of relevant knowledge within the Commission and its conveyance back to the field offices, which hold an important decision-making role. The ECA report also expressed concern that monitoring structures did not adequately uphold EU standards (European Court of Auditors, 2009). Challenges highlighted in this context included the tension between the EU and UN organisations concerning the Commission practice of carrying out additional verifications of project results and concern that EU accounting standards did not extend to UN partner organisations. In its response to the ECA findings, the Commission referenced ongoing efforts to balance accountability requirements with the use of UN reporting systems,

encouraging donor collaboration around more common and detailed reporting approaches (European Court of Auditors, 2009).

As a follow-up to this assessment, the ECA analysed the effectiveness of Commission support to UN organisations in the conflict-affected states of Afghanistan, Iraq and Sudan (European Court of Auditors, 2011). The focus on these country contexts reflects the fact that 7 of the 10 top country recipients for EU funds channelled through the UN were conflict-afflicted states in the period 2006-2008. Overall, the audit report pointed to positive project impacts in challenging operating environments where it otherwise would have been difficult for the EU to engage. However, it also emphasised shortcomings in EU-funded projects, such as the lack of clarity in the definition of objectives and deficits with respect to criteria to measure project performance. The report underscored previous findings that monitoring information from UN reports did not meet EU standards with respect to the quality or timeliness of information. In its response to the ECA's findings, the European Commission emphasised its dependence on reporting information generated from UN organisations in these difficult settings, indicating that improving organisational reporting efforts would be an important area for continued action (European Court of Auditors, 2011).

The most recent DAC Peer Review of the EU noted that general questions about the EU's approach to multilateral engagement remain relevant. In particular, the peer review observed the lack of an overarching strategy for identifying partners and recommended that the rationale for funding multilateral organisations should be outlined more clearly. EU aid stakeholders have, for example, raised concerns about the transaction costs involved in relying on the disbursement of funding through multilateral channels (OECD, 2018b). Although the EU is an important partner for many UN organisations, there appears to be limited overarching guidance or systemic reflection on how to work effectively through the UN system.

Although the EU delegation to international organisations may be justified as a means of relieving capacity constraints, earmarked funding has administrative costs, both for the Commission and for the organisations funded. The EU has a reputation of being an onerous donor with respect to the reporting requirements it imposes on recipient organisations, and the degree of its administrative control increases along with the rigidity of earmarking. The limited harmonisation of EU reporting standards with other donors reinforces this administrative burden. The greater alignment of EU

funding with organisational systems for planning and reporting represents a possible solution to this problem (interview UN 42). Resistance in the Commission to pursuing more flexible approaches results from concerns about the management of multilateral organisations, as support may be provided selectively to organisations due to an interest in directing funds to more functional parts of an organisation (interview MS 42). Thus, those behind the efforts to make EU partnerships need to take into account both how EU procedures can constrain multilateral effectiveness and what multilateral management reforms can pave the way for more flexible funding and oversight approaches.

### 3.3 Conclusions

This section reviews the main findings from the donor studies with a view towards informing the report's overall conclusions.

#### 3.3.1 Decision-making context

The dispersed character of decision-making related to multilateral earmarked aid choices is a common theme across the donor settings examined in this analysis. For DFID, Sida and DEVCO, the delegation of decision-making responsibility to country offices represents an important influence on earmarking choices, as it is at this level that the assessment of appropriate implementing partners for bilateral contributions takes place. In the EU and UK contexts, there have been concerns about the clarity of the rationale for selecting multilateral implementing partners at the country level. The context-specific character of earmarking decisions suggests that the assessments of tradeoffs of using different channels – whether different forms of earmarking or reliance on alternatives such as support for civil society organisations – are often not very explicit.

The German development policy system differs from the others profiled due to the varied ministerial responsibilities for multilateral engagement on policy and financing questions. The dispersion of authority across government for engagement with multilaterals is not unique to the German case, however (Greenhill & Rabinowitz, 2016), given the organisational specialisation in the multilateral system, which parallels sectoral specialisation at the domestic level. The autonomous character of budgetary allocation across ministries can lead ministries to adopt varied approaches to

multilateral support. Although this characteristic has the potential to increase fragmentation in funding to the UN system, the German system differs from the other donors profiled, given its limited delegation of decision-making responsibility to the country level. For Germany, there is thus potential to improve the coherence of its engagement with multilateral actors through efforts taken at the HQ level. At the same time, Germany's challenges in this respect provide a cautionary tale for the United Kingdom, which is increasingly opening up its ODA budget to ministries beyond DFID through cross-governmental funds, given that the dispersion of funding roles across line ministries has the potential to diminish the consistency of approaches to multilateral engagement.

Whether divisions of responsibility for multilateral funding exist at the HQ level or between the HQ and field offices of development agencies, the analysis of the organisational context for earmarking decisions underlines that bilateral donors themselves cannot always be considered unitary actors. The dispersion of authority can create different avenues for engagement with multilateral entities and potentially undermine consistency in donor objectives within the system.

Consistency in donor approaches to multilateral engagement is also influenced by the strategic or policy frameworks that guide funding decisions. In an analysis of donor decisions to delegate to multilateral organisations, drawing on evidence from donor settings not examined in the present analysis, Greenhill and Rabinowitz (2016) highlight variations among donors in the existence of a strategy guiding allocation decisions and the extent to which donors rely on evidence on the performance of multilaterals as a basis for funding choices. The ability of donors to make informed decisions on how to effectively fund multilaterals depends on the extent of data availability, and individuals working within national administrations may themselves have a limited overview of the scope and character of earmarked funding (Reinsberg, 2017a).

Among the donors analysed in this section, Sweden stands out due to the multiple strategic frameworks guiding both multilateral development cooperation in general and its engagement with specific organisations. Its current multilateral strategy emphasises the importance of aligning earmarked support with organisational strategies. Although it acknowledges that earmarked support can be appropriate in certain circumstances, the focus on alignment highlights a perception of varied effectiveness of

funding, depending on how it is provided. In contrast, the absence in the EU of overarching guidance for the allocation of funding to multilateral organisations has raised concerns about the rationale for relying on multilaterals as channels for implementing EU funds.

Decisions to provide earmarked funds are not a simple choice between providing core or earmarked resources. They are scattered across donor systems and reflect some combination of thematic agendas, development needs in specific contexts, the availability of alternative funding channels and other considerations, such as the perception of performance and effectiveness. To understand the proliferation of earmarked contributions, it is useful not only to consider advantages and drawbacks in relation to multilateral core funding but also in relation to other forms of assistance that present implementation alternatives, such as budget support or aid channelled through civil society organisations.

### 3.3.2 Motives for earmarking

The donors analysed differ in terms of how explicitly motivations for pursuing cooperation through specific forms of multilateral finance are outlined. Sweden and the United Kingdom appear to be comparatively more mission-driven than Germany and the EU (see also Gulrajani & Calleja, 2019). Justifications specific to earmarked funding are difficult to separate from common rationales for supporting multilateral organisations. Across the cases, an ability for multilateral entities to operate in difficult country contexts was one common rationale for channelling support through multilateral funds, both for development and humanitarian purposes. Earmarked support also reflects considerations of administrative expediency across the donors studied, as bilateral funds may be channelled through multilateral organisations that have a greater capacity to absorb and disburse funding while living up to donor accountability demands. Last but not least, earmarking also grants more political visibility for specific thematic engagement, which might be perceived as valuable by decision-makers.

Donor interests in maintaining visibility and influence while relying on multilateral implementation strengths offer another justification for providing earmarked funds. There are mixed indications on whether donors use earmarked funding channels to secure greater influence. On the one hand, donors have good opportunities to shape the strategic direction of

organisations through participation in governance structures associated with core contributions. On the other hand, decentralised decision-making and limited capacities for oversight can mean that multilateral organisations maintain initiative at the implementation level. Overall, the prospects for influence may relate more to the reinforcement of certain thematic priorities (i.e. climate or gender equality) than to exercising greater control over multilateral operations (Reinsberg, 2017a).

**Table 5: Donor comparisons along key dimensions of analysis**

	<b>Germany</b>	<b>Sweden</b>	<b>United Kingdom</b>	<b>European Union</b>
Decision-making context	Foreign Office, BMZ, BMU, and various line ministries	Sida Country offices	DFID Country offices	DEVCO and other Directorates  Divided responsibilities between Brussels and delegations
Motives for earmarking	Scaling-up of thematic initiatives  Implementation capacities of multilateral partners  Quick disbursement of funds in crisis situations  Shaping work programme of multilaterals	Reinforcing particular thematic priorities  Scale and efficiency of multilaterals as implementing partners  Engagement in fragile and conflict-affected states	Support for specific countries and themes  Implementation capacities of multilateral partners  Enables engagement with governments in difficult country contexts	Political commitment to multilateralism  Profit from political neutrality of multilaterals  Take advantage of scale and efficiency of multilaterals  Response to capacity constraints



**Table 5 (cont.): Donor comparisons along key dimensions of analysis**

	<b>Germany</b>	<b>Sweden</b>	<b>United Kingdom</b>	<b>European Union</b>
Administrative challenges	<p>Fragmentation of decision-making across ministries leads to different approaches to engagement</p> <p>Lack of consolidated overview or strategy</p> <p>Efficiency questions regarding delegation of management to GIZ and KfW</p>	<p>Achieving consistency in approach to engagement between MFA and Sida and HQ and field level</p> <p>Maintaining visibility of contributions in face of narrow approach of other donors</p>	<p>Alignment of HQ and country-level engagement with multilaterals</p> <p>Maintaining an overview of the extent of earmarking practice and its consequences for donor priorities</p>	<p>Lack of explicit criteria for funding decisions</p> <p>Absence of consolidated overview of funds</p> <p>Ensuring administrative capacities are available on donor side to manage funding</p> <p>Harmonisation of reporting requirements</p>

Source: Authors

Earmarked contributions from bilateral donors have been portrayed negatively as a vehicle for undermining the effectiveness of the multilateral system. However, the case studies covered in this section underline that a significant volume of earmarked contributions reflects additional funding to the multilateral system from actors that already provide substantial core multilateral support. As illustrated in the cases of Sweden and the United Kingdom, the provision of earmarked contributions to UN organisations or the reliance on World Bank trust funds does not necessarily come at the expense of core support. Given high overall ODA/GNI ratios, these donors disburse more funding through bilateral and multilateral channels than many other donors. Thus, discussions on the earmarking practices of individual donors should be contextualised within a debate on international burden-sharing. Strengthening the commitment to core contributions among already significant contributors to the multilateral system might help to

address the challenges of fragmentation associated with the increases in earmarked funding. However, it presents a dilemma because increasing core contributions from large aid providers raises additional questions related to the legitimacy of the governance of multilateral organisations.

This section has focussed on motives for earmarking from the perspective of bilateral donors. It has devoted limited attention to the role of multilateral organisations themselves as agents in contributing to the proliferation of certain forms of funding. However, the demand-side for earmarked funding was acknowledged in both the UK and EU cases (ADE, 2008; ICAI, 2015). For example, EU funding increases for UN organisations have been driven not only by EU interests but also as a response to the creation of multi-donor funding platforms by the UN (ADE, 2008). The nature of entrepreneurship in country offices and at the headquarters of multilateral organisations is a relevant dimension to explore further in the study of multilateral funding trends and is discussed elsewhere in this report.

### 3.3.3 Administrative challenges

As noted above, one justification for bilateral donors to delegate implementation responsibilities to multilateral actors is that they have superior capacities for implementation in specific contexts (crisis situations) and enable bilateral donors to disburse large amounts of funding quickly, while satisfying donors' domestic accountability requirements through well-developed reporting systems.

This perceived justification for delegation raises multiple questions. One relates to the extent to which channelling bilateral funds through multilateral funds supports the goal of increasing administrative efficiency. On the donor side, the delegation of implementation responsibilities to multilaterals through earmarked funding channels requires continued engagement and administrative oversight on the part of the donor and involves an administrative cost on the side of the donor. On the side of the implementing organisation, rigid earmarking in particular also presents administrative burdens. Debates on issues such as cost recovery reflect the perception that earmarked funds do not entail the same administrative efficiency as core support. If funding to MDTFs is redirected to additional implementing partners, an extra layer of administration may be added in the distribution of aid. In assessing the tradeoffs involved in selecting multilateral funding

approaches, it is important for donors to have realistic perceptions of the administrative costs on both sides of the cooperation relationship.

A related question concerns whether the delegation to multilaterals through earmarking takes advantage of existing organisational reporting systems or instead leads to the development of donor-specific reporting channels, which create additional administrative costs for multilateral organisations. There are differences among the donors in terms of prioritised oversight practices, with Sweden advancing a view that it is important to rely on consolidated reporting from organisations, and the United Kingdom favouring more individualised results reporting. Although the donors agree on the necessity of supporting continued organisational reform efforts, these different approaches highlight that limited harmonisation among relatively like-minded bilateral actors complicates the promotion of a multilateral reform agenda. Further analysis of the differences among funders in terms of reporting practices and the consequences of these practices for multilateral effectiveness would be valuable in identifying the potential for greater harmonisation.

## **4 Analysis of selected funding instruments**

This section provides an overview and a comparative assessment of the most important instruments of earmarked funding, both in the context of the UN Development System and MDBs. For the UNDS, we follow the official categorisation of funding instruments into 1) programme/project funding, 2) multi-partner trust funds, 3) joint programmes and 4) agency-specific thematic funds. For the MDBs, we analyse project funding of bilateral donors through the co-financing of MDB projects, global/vertical funds administered by the World Bank, and trust funds.

We first describe the key characteristics of each instrument, elaborating on how each instrument works, how relevant it is in terms of funding trends for the organisations, as well as with regard to its usage by the EU, Germany, the United Kingdom and Sweden. We subsequently assess and compare each instrument's general properties according to two criteria: 1) donor influence and 2) development effectiveness.

We understand *donor influence* to be the degree to which the design and operationalisation and implementation of an earmarked funding instrument can be shaped by a donor according to its interests. Sections 2 and 3 have shown that one salient motive for providing earmarked funding is the wish of donors to shape the behaviour of multilateral agencies and other donors according to their own priorities. Different instruments allow for different degrees of influence, which can range from weak to strong. Donor influence often comes with trade-offs concerning the work of multilateral agencies and their multilateral assets, ownership and alignment with partner countries. At the same time, donor influence can also mean more buy-in and support for the work of multilateral agencies.

The second criteria that we use to compare instruments with each other and assess their strengths, weaknesses and typical trade-offs is *development effectiveness*. There is a broad academic debate about aid and development effectiveness (Bigsten & Tengstam, 2015; Booth, 2012, p. 62; Dietrich, 2016; Holzapfel, 2014). For our purposes, we draw selectively on this debate and define development effectiveness as the potential of an instrument to contribute to sustainable development on the ground. Although other motives for development cooperation certainly exist, helping to bring about sustainable development in developing countries can be considered the prime *raison d'être* for development interventions from the perspectives of donors, developing countries and multilateral agencies.

Of course, we are aware of the difficulties in establishing clear causal relations, from funding practices to development impact – the more so when looking at an aggregate level of instruments that may, in fact, comprise very different concrete examples. We therefore chose to look for important prerequisites that may translate into actual development effectiveness, namely efficiency, coordination and ownership by the host government. These three subcategories of development effectiveness are scrutinised by analysing typical relations and interactions between relevant stakeholders (donors, multilateral agencies and developing countries, respectively implementing agents) in the context of funding instruments.

<b>Table 6: Criteria for analysis of earmarked instruments</b>	
<b>Key characteristics</b>	
	<ul style="list-style-type: none"> <li>– How does the instrument work, and what are its key features?</li> <li>– Which significance does it have for multilateral organisations?</li> <li>– How do Germany, the United Kingdom, Sweden and the EU make use of it?</li> </ul>
<b>Donor influence</b>	
	<ul style="list-style-type: none"> <li>– How are donors represented in the decision-making arrangements of a funding instrument?</li> <li>– How is control shared or contested with implementing agencies?</li> <li>– How well do accountability mechanisms typically work (e.g. transparency, reporting)?</li> </ul>
<b>Development effectiveness</b>	
Efficiency	<ul style="list-style-type: none"> <li>– What are the transaction and implementation costs of an instrument compared to practical alternatives of softer/tighter earmarking?</li> <li>– How do transaction costs vary between donors, recipients and organisations?</li> </ul>
Coordination	<ul style="list-style-type: none"> <li>– What is the potential of coordination within and among organisations with a view to a more coherent approach to the 2030 Agenda?</li> <li>– How can different external stakeholders (donors, host government ministries) be coordinated?</li> </ul>
Country ownership	<ul style="list-style-type: none"> <li>– To what extent does the instrument depend on, or offer, a meaningful involvement to host governments and local partners?</li> <li>– Are its modalities conducive for alignment with host government policies and mechanisms?</li> </ul>
Source: Authors	

The analysis will show the difference between individual instruments, and also identify some typical problems surrounding specific instruments and respective potential for improvements. In this regard, it lends itself to informing decision-making on earmarked funding. Yet, the analysis cannot be easily translated into practical guidelines on how or when to employ specific instruments. First, we found important differences within instruments. As shown in Section 3, instruments often tend to be customised and vary along dimensions such as duration, overheads and disbursement modalities. Sometimes, softer earmarking instruments also allow for tighter forms of earmarking within them. Second, this analysis neglects indirect and more systemic consequences of earmarked funding on multilateral organisations, which will be covered in Section 5.

#### 4.1 Main funding instruments in the UN Development System

This section starts with a brief introduction to the UNDS and how it is funded, before the discussion turns to the four main funding instruments.

The UNDS comprises 43 UN funds, programmes, specialised agencies and other entities in the wider UN system that play a role in sustainable development.<sup>24</sup> At the centre of the UNDS are the “funds and programmes” UNDP, UNFPA, WFP, UNICEF and UN Women, which are organs established by the UN General Assembly, and the more independent “organisations” FAO, WHO and ILO, which are linked to the UN by cooperation agreements (we address them as “UN agencies” in this report). The total revenue of the UNDS in 2017 was \$33.6 billion,<sup>25</sup> which makes it the world’s largest (collective) development actor (OECD, 2018a, p. 31). It has a field presence in 165 developing countries and territories around the globe<sup>26</sup> and supports member states in the areas of sustainable development, climate mitigation, humanitarian aid and peacebuilding.

The legitimacy and political relevancy of the UNDS is based on its principles of universal membership, ideological neutrality, sovereign equality, commitment to the UN’s norms and values, and its convening function. It would be hard to conceive that a global framework such as the 2030 Agenda

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24 According to the understanding of the UN Secretariat (UN Secretary-General, 2019a, p. 3).

25 UN Secretary-General (2019a, p. 3)

26 See <https://undg.org/about/undg-global/>

could have emerged outside the UN. In addition to these “given” factors, the UNDS has developed certain assets over time that further underline its essential role for member states: respect for ownership, presence in difficult country contexts, longstanding experience and thematic expertise.

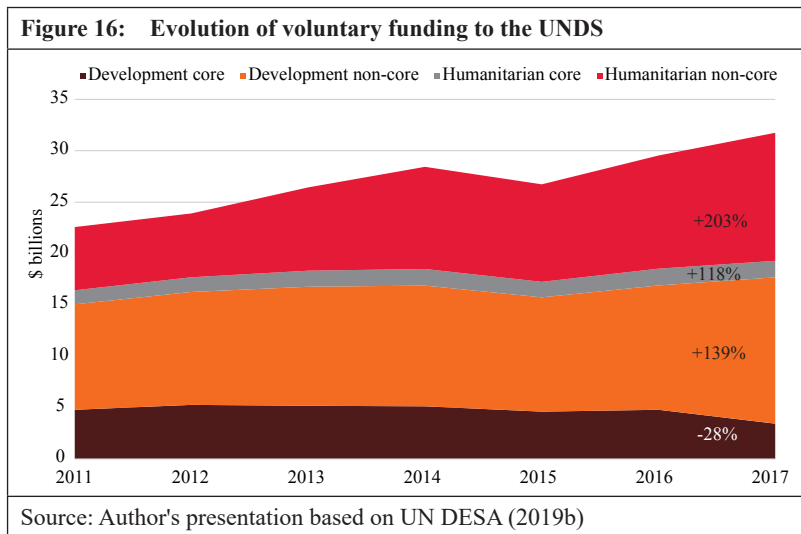
The UNDS is governed at the system-wide level through the UN General Assembly and the Economic and Social Council (ECOSOC), while at the level of agencies, governing boards with a more limited membership provide mandates and oversight. A downside of the large number of participants is that decision-making tends to be cumbersome and often polarised. UN governance often pits the industrialised, or “Western”, countries against the Group of 77 and China (Baumann, 2018a; Swart & Lund, 2011).

The UN has three sources of funding:

- Assessed contributions, where member states pay an obligatory fee according to a scale of assessment (essentially based on the wealth and size of their country). Only the specialised organisations and those entities that are attached to the secretariat receive a portion of their revenue through this modality.
- Voluntary core contributions, which are contributions that go into the budget of an agency. The allocation of these resources to specific programmes and projects is decided autonomously by the agency as matters of delegated responsibility, within the limits set by boards. These resources are supposed to be the financial backbone for the funds and programmes. They are referred to as “regular”, “core”, “flexible”, “unrestricted” and “multilateral” resources.
- Voluntary earmarked contributions are restricted by donors to specific purposes, typically projects in specific countries. They are received and handled without board supervision and are thus also referred to as “extra-budgetary” resources, although attempts to align them with board-approved strategic plans and budgets are made.

Since the UN and many of its development agencies were established in the two decades after the Second World War, there has been a steady shift from assessed and core contributions towards earmarked contributions. When UNDP was founded in 1966, it almost immediately gave in to some member states’ pressure to allow for earmarked contributions (Graham, 2016, p. 377). Until the 1990s, however, the bulk of revenue was still received as core funding (or assessed for the specialised organisations).

From the 1990s onwards, a stagnation – and sometimes also decline – in core resources set in, whereas earmarked contributions rose markedly (Weinlich, 2014b). By the turn of the millennium, the majority of all contributions to the UNDS was made in the form of earmarked funding. As Figure 16 shows, there has been steady growth in funding for the UNDS over the last decade, but the increases have mostly been driven by earmarked contributions, in particular the funding for the world's increasing number of (and increasingly protracted) humanitarian crises. In 2017, the share of core funding fell to an all-time low of 20.6 per cent (UN Secretary-General, 2019a, p. 4).



Behind these system-wide figures lie significant differences between UN agencies, as Table 7 shows. Agencies vary not only in their size, but also in their revenue stream. Smaller, more monothematic and development-focussed agencies such as UNFPA, UNRWA and UN Women have maintained higher levels of core funding than the larger and humanitarian-oriented agencies. UNDP's core share has dropped to a critical 14 per cent, UNICEF's to 19 per cent and WFP has only 7 per cent. Another, less distinct difference is that specialised organisations have on average 36 per cent core resources (including assessed), the funds and programmes 25 per cent.



<b>Table 7: Funding data for selected UN funds, programmes, and specialised agencies (\$ thousands)</b>				
	<b>Total</b>	<b>Core</b>	<b>Earmarked</b>	<b>% earmarked</b>
WFP	6,064	401	5,663	93%
UNODC	375	35	341	91%
UN OCHA	1,032	106	926	90%
UN-HABITAT	153	16	137	89%
UNDP	4,840	655	4,184	86%
WHO	3,166	549	2,617	83%
UNHCR	4,163	751	3,411	82%
UNICEF	6,372	1,227	5,145	81%
FAO	1,071	249	822	77%
UNIDO	331	81	249	75%
UNEP	767	200	566	74%
UNFPA	1,038	350	688	66%
UN Women	354	151	202	57%
OHCHR	125	54	71	57%
UNESCO	429	196	233	54%
ILO	507	232	274	54%
UNRWA	1,135	587	548	48%
IFAD	409	306	103	25%
UNAIDS	221	173	48	22%
Source: Authors, based on UN Secretary-General (2019b)				

On the side of donors, the field is similarly uneven. The three largest donors of the UNDS (United States, Germany, United Kingdom) accounted for around half of all government contributions to the UNDS (UN Secretary-General, 2019a, p. 8). This has raised concerns not only about the reliability of funding (the ups and downs of these few donors can be disruptive for agencies), but also about the potentially undue influence of this small group and its “power of the purse”. Regarding the “quality” of funding, whereas the Scandinavian countries provide 30-50 per cent of their voluntary contributions as core resources, the number is much lower for other big donors such as the United States (8 per cent), Germany (6 per cent) and the EU (5 per cent). Japan (17 per cent) and the United Kingdom (20 per cent) are somewhat average in that field.<sup>27</sup>

The rising share of earmarked funding to the UN has been a constant feature in recent reform discussions, second only to the UN evergreen issue of coherence and coordination. Resolutions of the General Assembly have consistently demanded a return to greater shares of core funding (UN General Assembly, 2013, 2017); developing countries see their ownership at risk (both at the country level and globally) through high levels of earmarked funding, whereas donors take issue with cross-subsidies from core to earmarked funds (see Section 5.1). Over the years, a number of adjustments have been made to curb earmarking and mitigate its detrimental effects, and this includes initiatives such as “integrated budgets”, “structured funding dialogues”, new instruments for pooled – and thus softly earmarked – funding, and better visibility for donors regarding their core contributions. To date, it appears that these efforts have not yet borne fruit, as the levels of earmarking have continued to rise, though they might have prevented worse. The latest initiative to address the imbalance of core and earmarked funding in the UNDS is the Funding Compact, which was adopted in July 2019 when ECOSOC declared that UN member states welcomed the Funding Compact, and encouraged all states and UNDS entities to contribute to its full and effective implementation (see Box 5).

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27 Calculated on the basis of UN Secretary-General (2019b).

**Box 5: The UN's Funding Compact (2019)**

The Funding Compact was initially proposed by the UN Secretary-General in 2017 as part of his recommendations to make the UNDS fit for contributing to the 2030 Agenda implementation. For the first time, the Funding Compact represents a systemic approach that brings together both UNDS entities and member states, with the aim of making the UNDS more strategic, coherent and agile. Both sides made measurable commitments: UN entities are to increase coherence, cooperation and transparency and make full use of efficiency gains. Member states have pledged, inter alia, to collectively provide 30 per cent of their resources as core funding, double their contributions to pooled funding (from 8 per cent to 16 per cent of earmarked resources) and increase multi-year commitments by 2023 (UN General Assembly, 2019). The commitments refer only to the development-related contributions to UN operational activities; humanitarian contributions are left out and dealt with separately under the umbrella of the Grand Bargain. The Funding Compact's implementation will be periodically discussed and reviewed. Both member states and UNDS entities can foster (or tarnish) their reputations as reform champions by upholding commitments.

*Main funding instruments*

The UNDS disposes of a plethora of funding constellations in which (one or several) member states as well as UN agencies can come together, with notable differences in the tightness of earmarking, the governance arrangements and other modalities. This necessitates a selective approach. In the following section, we pick the four most common instruments, or rather “families of instruments”. These are:

1. agency-specific programme and project funding, which accounts for the bulk of earmarked resources in the UNDS;
2. inter-agency pooled funds, both global and country-based;
3. joint programmes, which are a well-defined cooperation modality in the UN;
4. single-agency thematic funds.

Notably, local resources are not included in our analysis.<sup>28</sup> Table 8 summarises the analysis provided in this section on the four UN funding instruments. It also needs to be pointed out that, typically, the softly earmarked pooled or thematic funds are intermediaries from which programmes and projects are funded. The characteristics of programme- and project-specific funding are therefore discussed in more detail and partially serve as the basis for assessing and contrasting the other instruments. However, funding cannot only be assessed at the operational level. The analysis shows that, both for donors and agencies, the choice of instruments has important implications – some of them of a more systemic nature – for aid effectiveness and multilateralism.

<b>Table 8: Assessment of the four UN funding instruments at a glance</b>				
	<b>Programmes and projects</b>	<b>Inter-agency pooled funds</b>	<b>Joint programmes</b>	<b>Single-entity thematic funds<sup>29</sup></b>
Volume (2017)	\$24.5bn (92% of total earmarked)	\$2bn (7% of total earmarked)	n/a	\$0.6bn (2% of total earmarked)
Donor influence	*** Projects can be customised content-wise; direct accountability of agencies to donor.	* Weak frameworks and reporting, but political benefits (policy dialogue, convening).	** Donors often not part of steering committee, but reasonable informal control.	* Low for thematic funds, no results reporting (but good, if a board exists).

28 “Local resources” is the UN’s term for funds that are received from host governments for the implementation of their own country frameworks. In 2017, local resources accounted for 7 per cent of total non-core contributions (\$1.8 billion) to the UN General Assembly (2019, p. 8). They are most common in Latin America.

<b>Table 8 (cont.): Assessment of the four UN funding instruments at a glance</b>				
	<b>Programmes and projects</b>	<b>Inter-agency pooled funds</b>	<b>Joint programmes</b>	<b>Single-entity thematic funds<sup>29</sup></b>
Efficiency	* High transaction and monitoring costs for all stakeholders, including donors.	** Generally efficient, but country-based pooled funds can be demanding.	** Good for donors and government, but less so for participating agencies.	*** Very low transaction and monitoring costs for donors.
Coordination	* Difficult coordination within agency, among agencies and for host governments.	*** Global pooled funds often stipulate coordination; country-based funds are good conveners.	*** Effective inter-agency collaboration, though still potential to do better.	** Good global coordination through agencies' ability to allocate fairly autonomously.
Ownership	** Generally good, but depends on size, duration and political fit of projects.	** Generally good as per trust fund requirements; guaranteed through UN and agency policies.	*** Very good, as host governments have the say in steering committees.	** Generally good; guaranteed through UN and agency policies.
<p>Notes: The numbers refer to earmarked resources and do not include core allocations to these instruments.</p> <p>Source: Authors; numbers based on UN Secretary-General (2019a)<sup>30</sup></p>				

29 This includes the 14 development-related thematic funds of UNFPA (2), UNDP (4) and UNICEF (8).

30 The UN provides a mix of absolute and relative numbers that are not fully consistent. The numbers in the table might therefore differ slightly from numbers provided in the reference document.

#### 4.1.1 Programme and project funding

Programme and project funding comprises “grants earmarked by the contributor to a specific programme or project” (UN CEB-HLCM, 2019, p. 9). This sort of funding is typically negotiated and implemented at the country level, and it is the most common form of funding in today’s UNDS. It is the subject of longstanding criticisms and reform discussions, such as the ongoing Funding Compact. Earmarked bilateral grants are a colourful practice. The attractiveness for donors stems from the ability to restrict their resources to specific countries and purposes in line with their own strategies for international development, while also keeping implementing UN agencies in a direct accountability relationship. However, it is also full of trade-offs that pertain to the multilateral qualities of the UN and its development effectiveness. Many observations on tight earmarking discussed in this section also apply in one form or the other to the instruments of softer earmarking, discussed in the following subsections.

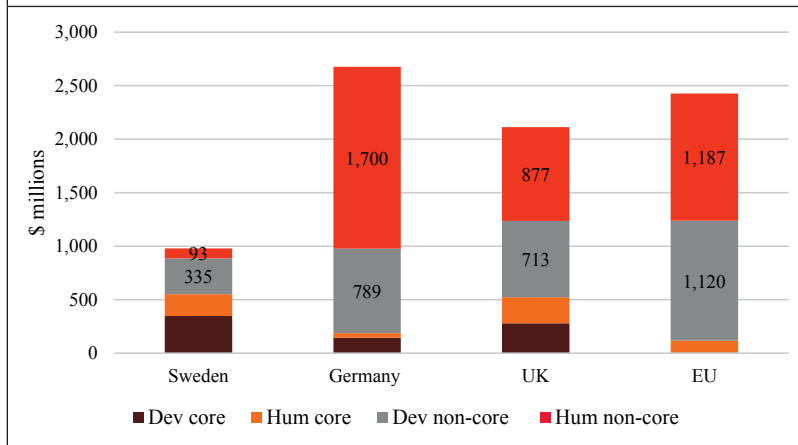
##### *General characteristics*

Earmarked programme and project funding is the means of choice when a donor wishes to support purposes that are more specific than agencies’ development plans and/or when more direct involvement and accountability is desired. Typically, these are grants from one donor to one agency. Project proposals can originate either from agencies seeking donor support, or from donors seeking implementers for their planned development interventions. In the latter case, projects may also be tendered. Either way, the project is then designed by the agency, negotiated with the donor (typically in consultation with the host government) and implemented with varying degrees of autonomy. Some donors are satisfied with annual and final reports, whereas others prefer a more hands-on approach through close involvement in all aspects of implementation.

Programme- and project-specific funding has evolved along with the overall level – and also share – of earmarked funding to the UN. Of the \$24.5 billion in earmarked funding in 2017, the lion’s share (92 per cent) was contributed to specific programmes or projects (UN Secretary-General, 2019a, p. 10). This type of funding thus constitutes the bulk of earmarked income of the UNDS. Figure 17 gives an overview of the funding structure of the

United Kingdom, Sweden, Germany and the EU for 2017.<sup>31</sup> On average, these donors provided 82 per cent of their development-related earmarked funding to the UN as programme- and project-specific funding (Germany: 87 per cent, Sweden: 69 per cent, United Kingdom: 79 per cent; EU: 92 per cent). It is important to note that although humanitarian resources constitute almost (United Kingdom) or more (Germany, EU) than half of the respective earmarked contributions, our study focusses mainly on development-related funding.

**Figure 17: “Tightly earmarked” programme and project funding by donors**

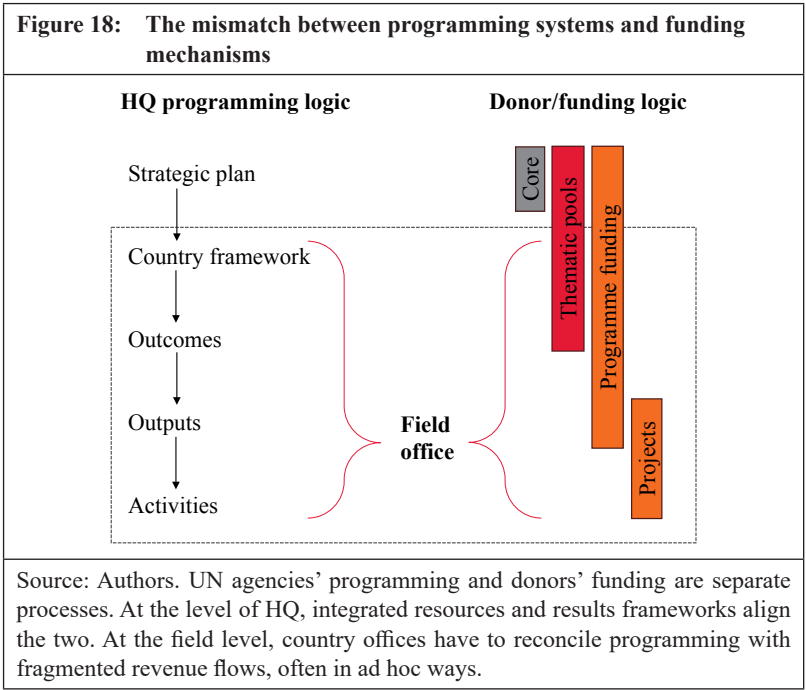


Source: Authors, based on UN Secretary-General (2019b). We subtracted contributions to pooled instruments (see below) from overall earmarked contributions.

The term “project” is bound to cause confusion, as UN HQ, field offices and donors may understand different things by it, and the general trend is to move away from an overly projectised way of working. In general, there is a well-established programming logic in many UN agencies. A development agency’s strategic plan is usually operationalised into country frameworks, which are then further broken down into outcome areas. At the level of outcomes, more specific outputs and/or activities are defined (terminology

31 These numbers also include non-core contributions to the instruments discussed in the following sub-sections.

varies between agencies). Earmarked funding mobilised at the country-level supports, or “co-finances”, one or several elements of these plans. Monitoring and reporting systems are built on this programming logic. For HQ, the term “project” is thus not relevant and tends to be equated with “output”. Donors, however, negotiate and fund projects that, from their point of view, are programmatically free-standing or fit within their own programmes and have their own timeframes, targets and reporting requirements. UN agencies’ programming frameworks are typically not their concern. It is then the job of the field office to link the two worlds and make sure that projects are aligned with and support coherent country frameworks. The extent to which this exercise is successful is hard to assess and will vary between agencies and offices, mostly depending on the available share of core resources. From our research, we can state with some certainty that the struggle to build coherent programmes from scattered projects is real and labour-intensive (see Section 5).



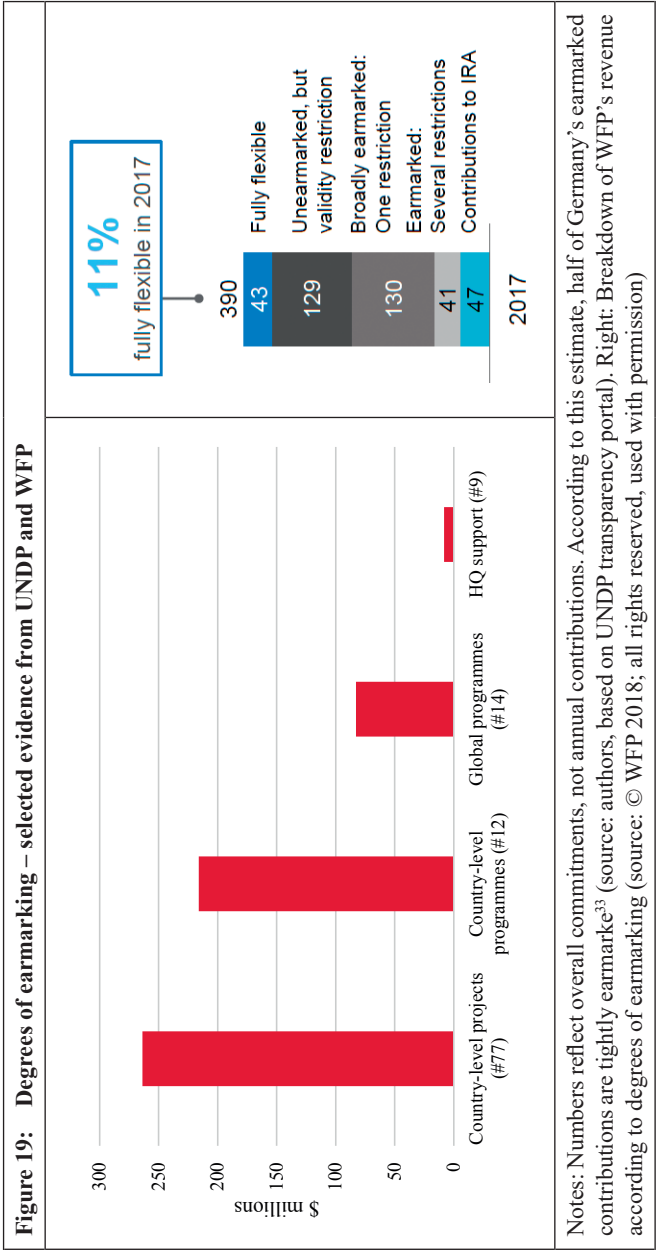


We start the analysis by highlighting four findings regarding the general characteristics of programme- and project-specific funding. All four findings point both to problems associated with earmarking, but also to best practices. Together, they provide a more nuanced picture of earmarking and its consequences for both effectiveness and the multilateral quality of UN development cooperation.

First, one important differentiation pertains to the level of earmarking. By “programme” we understand the country framework or outcome level, whereas “projects” refer to the outputs and activities through which programmes are implemented. Typically, there are several projects under one programme. The UN collapses project and programme funding into the category “tightly earmarked” funding, which constitutes the above-mentioned 92 per cent of extra-budgetary resources. This can lead to an inaccurate assessment of the UN’s revenue stream. Sweden, for example, has the practice of funding the country framework of an agency, or at least a thematic section thereof. Arguably, this provides high-quality funding to a UN country team (UNCT). The UN, however, reports it as “tightly earmarked”, even though this programme funding can essentially be used in a similar way as core funding.<sup>32</sup> Unfortunately, we are not able to further break down the respective programme and project shares of this category of earmarked funding, as agencies do not record or share these numbers. However, an analysis of German earmarked contributions provides some first approximations. As Figure 19 illustrates, German earmarked contributions to UNDP are earmarked at all organisational levels, with more than half of them (in terms of volume) being softly earmarked to country and global programmes. The breakdown of the numbers for WFP, a mainly humanitarian UN entity, also underlines the point that sizeable portions of programme and project funding are softly earmarked. This finding challenges the narrative that emanates from official UN documents, such as the Secretary-General’s annual Quadrennial Comprehensive Policy Review (QCPR) report, that all programme- and project-specific funding is tightly earmarked.

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32 An example here is Sweden’s engagement with UN Women in Uganda, to which Sweden provides programmatic funding (interviews MS 3, UN 4).



33 The country-level categories of projects and programmes are difficult to separate. We applied a conservative approach in the sense that unclear projects were classified as projects rather than programmes.

Second, the duration of projects is an important and somewhat neglected aspect in UN development cooperation. Although the 2030 Agenda provides a long-term planning horizon, consciously adopted to deal with the complex challenges of sustainable development, we detected in interviews with UN field staff a concern regarding the insufficient duration of many UN development projects. It is difficult to quantify project durations – the UNDS does not currently compile and analyse data on the length of its development projects.<sup>34</sup> In addition, data might still not adequately capture the common practice of extensions. Data from UNDP’s transparency portal shows that the average length of projects started in 2018 was a little more than two years. This was also the estimate offered by a number of interview partners of various agencies, and it reflects the average duration of Germany’s funding commitments (28 months for UNDP projects, 30 months for UNICEF, based on data shared by BMZ). According to our interviews, the shorter a project lasts, the more the following risks to development effectiveness apply:

- Short-term projects create disbursement pressure that tends to dominate the implementation, at the cost of a more pragmatic, flexible and longer-term approach in the spirit of problem-solving (interviews UN 5, UN 12, MS 12).
- They drive agencies to focus on more tangible results, or the “low-hanging fruit”, rather than tackling more complex development challenges (interviews UN 2, UN 6, UN 8, UN 19, UN 33, UN 39, MS 12, B 1).

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34 The aid effectiveness literature has concerned itself with project duration, but mostly under the slightly different aspect of predictability, and typically regarding bilateral aid and budget support (Celasun & Walliser, 2007; Dodd & Lane, 2010; Pauw, Klein, Vellinga, & Biermann, 2016). In the UN, there are some passing remarks: A UNFPA evaluation demands that “To support sustainable change [...], UNFPA and partners should plan and programme for the long-term and recognise and address the powerful role of socio-cultural attitudes in the struggle for gender equality” (UNFPA Evaluation Office, 2017, p. 22). An evaluation of the UN Women Fund for Gender Equality noted “that projects need more than two years to be effective in these areas and where transformative change is sought, at least four years is needed” (Bishop, Vaca, & Barnes, 2016, p. 27). There certainly is a debate about multi-year funding commitments in the UNDS, but this is more often framed as an administrative issue rather than a development effectiveness issue.

- They undermine agencies' ability to ensure ownership and form trusted and responsive partnerships with local partners, including host governments (interviews UN 17, UN 21, UN 26, UN 52, MS 12).
- They are inefficient, given the fact that transaction costs are roughly the same for projects, independent of their duration, and that short-term arrangements often incur additional costs in procurement (interviews UN 16, UN 19).

It is important to note that short-term interventions may be fully justified when specific technical solutions need to be developed, or host governments have precise requests in the context of full ownership. Yet, if the UN aims at more encompassing reform paths and wants to have an impact on norms, policies and socio-economic structures, this should require longer-term engagement. According to our interviews with UN development practitioners and others, the ideal life span of development projects is approximately three to five years, or even longer (interviews MS 2, UN 5, UN 19, UN 26, UN 34, UN 39). UN Development Assistance Frameworks (UNDAFs), the UN's main programming tool at the country level, last for four years.<sup>35</sup> The German guidelines for technical cooperation envision a project duration of three years, with the option of a one-year extension (BMZ, 2017). The Swiss foreign ministry stands out for its policy of designing projects with long-term horizons of around 10 years, with the first project phase lasting for three to four years, while consecutive phases allow for adjusting the approach (interviews MS 12, MS 46). One interview partner suggested that the same amount of money is significantly more effective if spent over a longer period (interview UN 39). There are such longer-term projects that can be considered best practice, but they are not the rule. In sum, if the rationale for having multilateral organisations such as the UN includes checking member states' appetite for quick political results in favour of long-term goals, then quick-fix projects indicate a failure of multilateralism.

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35 In 2019, UNDAF was renamed the UN Sustainable Development Cooperation Framework.

**Box 6: Example of a UNDS development project for which medium-term duration is essential**

*The need for extended project timeframes: Example of “alternative development” in Colombia*

In Colombia, the UN Office on Drugs and Crime (UNODC) offers an example on how extended timeframes enable transformative work. The UNODC supports local communities in the transition from coca production to coffee and other legal plants as part of the peace process. The project is set to last four years. Certain plants, such as rubber trees, would require an even longer transition period but would also generate income for a longer period. Although the focus of the project is on technical assistance, its sustainability hinges on creating strong local ownership, addressing socio-economic challenges, human rights and environmental aspects (interviews UN 6, UN 53) – challenges that require a generous timeframe. Previous attempts, orchestrated by the United States, to substitute coca production within 12 months by offering farmers financial incentives largely failed (Europe Against Drugs, 2015, p. 13).

Third, another potentially novel insight into earmarked programme and project funding is that such interventions often have multiple donors, as an analysis of UNDP projects sponsored by Germany reveals. Of the 115 German UNDP projects in 2018, all but nine were multi-donor projects. The average number of donors in Germany’s UNDP projects is seven.<sup>36</sup> Reasons for this include co-financing requirements by donors and the overlap of donor interests. However, and more problematically, it might also reflect agencies’ own adept resource mobilisation efforts. Technically, the presence of several donors does not mean that resources are pooled, but rather that donors fund specific aspects, or “outputs”, of a larger project. Nevertheless, if multilateralism is “a coordinated approach among three or more states” (Milner & Tingley, 2013, p. 62), then these kinds of multi-donor projects constitute a rudimentary, or accidental, form of multilateral burden-sharing and coordination at the country level (Milner & Tingley, 2013). We emphasise “accidental” since relevant German officials were not necessarily aware of co-donors in their projects, who can also enter projects later with their own contracts, as UNDP informed us.<sup>37</sup> But if done in a conscious way, such

36 We received written information from WFP regarding which three WFP projects in Nigeria had received 156 grants from 2016 to 2018, which also points to multi-donor projects (email 27 Dec. 2018).

37 Email 4 Feb. 2019

multi-donor projects could help to reduce fragmentation at the country level and bring donors and agencies together on relevant issues that enjoy high degrees of ownership from the host government.

Fourth, earmarked and core resources are typically mingled in project funding. Data for UNDP (Table 9) shows that the agency in the four countries analysed for this study on average contributes approximately a third to project expenses. There are virtually no UNDP projects that are exclusively funded by either core or earmarked resources. The reasons for this donor–agency cost-sharing can be matching/co-financing requirements by donors, the use of core resources as seed money for setting up projects or active efforts by UNDP to leverage earmarked resources. Whatever the reason, this finding suggests that the dichotomy of core and earmarked as well as of multi- and bilateral activities does not reflect the reality on the ground, and that there is some practice of integrating earmarked funding into the agencies’ multilateral mechanisms. This contains the chance for “multilateralising” earmarked funding, but also a risk regarding the “bilateralisation” of core funding.

<b>Table 9: Co-financing by UNDP of all projects active in 2018</b>				
<b>Country</b>	<b>Colombia</b>	<b>Kyrgyzstan</b>	<b>Nigeria</b>	<b>Uganda</b>
Country status	Upper-middle income	Lower-middle income	Lower-middle income	Low income
Total project expenses (\$ millions)	429.2	131.6	195.3	75.3
Co-funding UNDP (\$ millions)	7.1	13.6	51.6	42.3
Co-financing UNDP (%)	1.65	10.3	26.0	56.1
Notes: Numbers include previous and planned expenses. It is not clear to what extent co-funding reflects the leveraging of earmarked through core funding, or vice versa. Source: Authors, based on UNDP project data for 2018 (UNDP Transparency Portal, s.a.)				

These four findings make clear that earmarked programme and project funding is a variegated, often ambiguous phenomenon. We can therefore neither recommend not to use it at all, nor can we advocate for its use.

Being an “instrument”, the more important question is how the instrument is applied. This needs to be borne in mind for the following pages, which discuss features and trade-offs of programme and project funding regarding donor influence, efficiency, coordination and ownership.

### *Donor influence*

Among all funding instruments, bilateral programme and project funding gives donors the most direct control over their resources. Their ability to exert control stems from the “power of the purse” on the one hand, and the (lack of) institutional checks of agencies, such as policies for accepting contributions, on the other. Control pertains to 1) the negotiation of customised contracts, 2) the sometimes hands-on involvement in the implementation and 3) reporting requirements. Control is reinforced in subtle, but effective ways by the asymmetrical relationship of donors and agencies, given that agencies depend on ongoing donor contributions, whereas donors usually have the choice between several agencies. If donors discontinue a funding commitment when unsatisfied with an agency’s performance, there is usually no possibility for agencies to seek legal redress.

Concerning the negotiation of contracts, most UN agencies work with standard contracts, with the opportunity being made for donor-specific adjustments regarding earmarking along the lines described above, as well as payment, refund and reporting modalities. Regarding implementation, interviews suggest that donors feel the need to keep an eye on the projects, be it to monitor spending, influence project decisions, ensure success or just stay informed (interviews MS 4, MS 12). Agencies provide standard reporting in line with their policies that donors proudly claim to accept; however, it is commonplace that donors add extra requirements regarding the frequency and detail of reports or, if not already agreed in contracts, insist on informal updates to that effect (JIU, 2017).

There appears to be a wide gap in expectations of reporting. A number of donor representatives expressed dissatisfaction with sluggish reporting by UN agencies and with what they perceived to be non-responsive behaviour. They considered monthly updates as appropriate, or even necessary, from the viewpoint of sound development management (interviews MS 2, MS 3, MS 4, MS 6, MS 7). Agencies typically provide annual reports and final reports in line with board decisions and consider this sufficient.

More donor control and/or less delegation restricts agencies' ability to manage their administrations in the spirit of development effectiveness. The rigidity of project contracts and the pressure to achieve agreed results orients agencies towards the donor rather than towards addressing development challenges in the most suitable and sustainable way (interview UN 29). One UN representative commented in writing:

[Earmarked funding] ends up focussing on the process ("how much spent for whom/what") rather than the results (outcome/impact). This leads, more often than not, to the already severely limited time/resources spent on justifying every dollar/euro spent, leading then to an activity-based approach rather than freeing up the time and space to focus on the actual legacy (impact) of the project/programme. (Interview UN 52)

A study by the UN's independent Joint Inspection Union on results-based management concluded that "the focus on reporting on results and accountability, while important, has proven to have a disempowering effect", creating "leadership that is responsive, but not responsible", and reducing "trust, as well as creativity and innovation" (JIU, 2017, p. viii). Payment by results – a mechanism by which payments to implementing partners are tied to the achievement of agreed goals – is particularly problematic in that regard. Intended to shift accountability from processes to results, it appears to have the opposite effect. It intensifies the "tyranny of the urgent" (interview UN 8), can lead to "tunnel vision" and "measure fixation" (Holzapfel, 2014) and make agencies more risk-averse at the cost of a more holistic, long-term engagement, as required by the 2030 Agenda. As one interviewee put it, the tighter the earmarking, the greater the risk that donors, making decisions themselves, get it wrong at the cost of a reduced level of impact (interview UN 52).

However, there are also positive trends. Across the four countries visited for this research, there appear to be efforts to change the role of agencies from service providers to development partners. This can also change the nature of control. When donors and agencies work together closely, based on dialogue and consultations, earmarking can either be softer as agency and donors become better aligned (interviews UN 11, UN 28), or it might just not matter as much if donor and agency can make decisions on the spot (interview UN 26). Agencies also benefit from the expertise and political support of donors (interviews UN 14, UN 18, UN 24). The partnership modality is particularly suitable for Nordic countries and other donors that



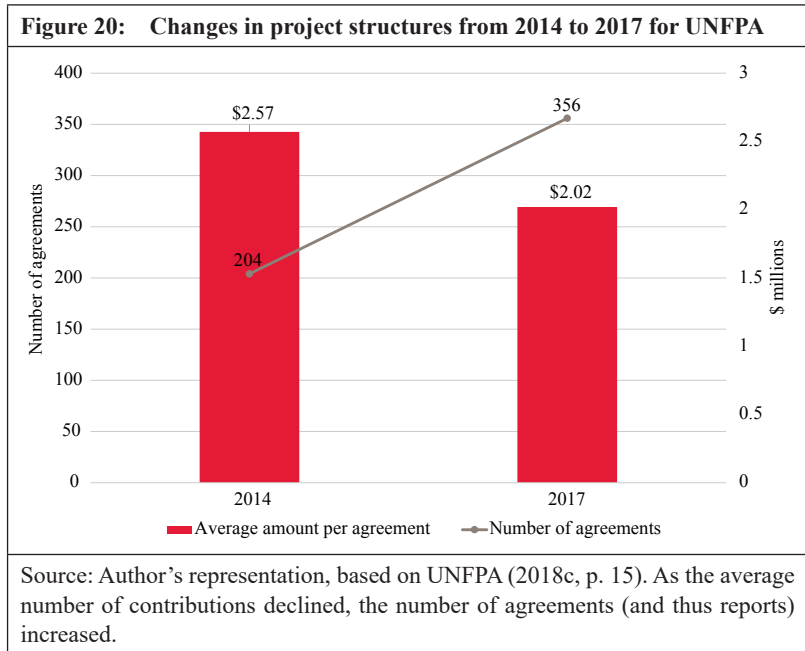
have a highly decentralised aid system, but it would be more complicated for Germany's centralised aid system.

### *Efficiency*

Earmarking has a number of direct and indirect efficiency implications. It can affect stakeholders differently, as short- and long-term cost effects may not be the same. This seems to be the case for project funding. It requires a complex assessment of efficiency, and although costs cannot be quantified in the context of this study, by comparison it appears to be the less efficient way of conducting development work than softer forms of earmarking.

The immediate cost structures might look favourable. The 8 per cent overhead costs of UN funds and programmes – or 5 per cent in the case of so-called local contributions, where host governments fund UN activities in their own countries – are competitive relative to overheads with the UN specialised agencies, the development banks or the German implementing agency, GIZ (they are all above 10 per cent). However, comparisons are not easy. The 8 per cent mostly supports HQs, whereas projects also incur management costs at the country level (staff, offices). These costs, according to interviews, range between 4 and 30 per cent and are subject to negotiations. According to interviews, donors have increased the pressure in recent years to reduce staff costs (interviews UN 19, UN 26, UN 29, UN 52). Another source of efficiency are the matching requirements mentioned above, by which donors demand that the agency co-funds a project or mobilises other donors to do so (matching requirements do not apply for humanitarian aid).

Whereas, in the case of donor co-funding, the efficiency savings can be mutual, the fragmentation of earmarked project funding results in avoidable extra costs for the system, donors and recipients. As the transaction and monitoring costs are roughly the same for projects, independent of their size, the fragmentation from small and shorter-term projects increases inefficiencies. Figure 20 shows how the average value of agreements has declined by 21 per cent, whereas the number of agreements increased by 75 per cent from 2014 to 2017 for UNFPA. Purely core-funded projects, which appear to be rare, are not free of administrative costs either, but at least there are no transaction costs for dealing with contributors. On the side of donors, fragmented ways of engaging the UN also consumes bureaucratic capacity. In the case of Germany, this seems to be one of the reasons for using GIZ/KfW as a go-between.



The greater efficiency donors may derive from earmarked project funding also comes with costs for development effectiveness. Section 5 discusses, among other issues, how shrinking administrative budgets reduce agencies' ability to deliver change. Implications include insufficient application of "managing for results" practices (including establishing base lines, theories of change), a lack of intra- and inter-agency coordination, and a lack of qualified and trusted staff.<sup>38</sup> This shows how efficiency pressures can affect an agency's capacity.

<sup>38</sup> On the latter point, one country director suggested that it is possible to carry out a \$1 million project with relatively unexperienced person, but for a \$10 million project, an internationally experienced expert would need to be involved (interview UN 20).

Finally, yet importantly, efficiency has implications for multilateralism. Cross-subsidising earmarked-funded projects from regular resources can, on the side of donors, lead to some sort of “cross-subsidisation” from donors that provide relatively high shares of core funding to those with comparatively low shares (see Section 5). Matching requirements may amend core resources, if projects are well-aligned with agencies’ country frameworks, but to the extent they are not, they amount to potentially massive cross-subsidies that deplete agencies’ core resources (interview UN 30). This may pit donors with different shares of core/earmarked contributions against each other, reinforcing their impulse to earmark themselves, lest they inadvertently fund the priorities of other donors.

### *Coordination*

Earmarked project- and programme-specific funding fragments agencies’ country programmes into a number of separate projects, which then creates the need for additional coordination. In the ideal scenario, programming follows the sequence or hierarchy of government plan, UNDAF, agency country plan, and finally, project portfolio. However, the practice of donor-driven earmarked project funding creates a movement in the opposite direction, complicating coordination. Based on our field research, several ways in which project funding strains UN coherence are apparent.

1. *Intra-agency coordination*: Even within agencies, project managers compete for donor resources (interview UN 7). Anecdotal evidence suggests that, in some cases, senior leaders struggle to maintain an overview of the ongoing project portfolio as different donors pull staff in different directions (interview UN 29). Concomitantly, UN staff complained that it requires time-intensive programming acrobatics to combine scattered earmarked contributions into a somewhat consistent whole (interviews UN 20, UN 28).
2. *Host government coordination*: A donor-driven project approach can also strain host government unity. Each UN project has counterparts in ministries or other government units. As these counterparts compete for resources and authority, they are disincentivised to coordinate within the government. The smaller the project volumes are, the lower the chance of convening different agencies under top leadership.

3. *Inter-agency coordination*: The practice of earmarked funding brings agencies into competition for resources, undermining coordination. Inter-agency coordination practices such as joint fundraising under the Resident Coordinator (RC) system, mutual adjustment of programmes and the exchange of information often end at the point where they affect agencies' fundraising autonomy (Baumann, 2018b). The occasional donor practice of tendering projects reinforces the competition for resources. Cross-cutting work becomes more difficult when donors stipulate exactly what they want (interview UN 21).

Yet, earmarked project funding is not detrimental to coordination per se. It has at least some potential for fostering coordination if prudently applied. Aware of the benefit of coordination, donors also use the power of the purse to require that agencies work together in “consortiums”, where participating agencies bring in their special expertise to form cross-sectoral approaches (interviews UN 30, MS 18). These multi-agency consortiums can be described as “light” joint programmes (see Section 4.1.3 on joint programmes). Donors expressed positive experience with consortiums but also remarked that bringing agencies into close coordination reveals their challenges to deliver as one. Additionally, as multi-donor projects appear to be quite common – definitely for UNDP, as our analysis has shown, but likely also for other agencies – even tight earmarking can contribute to integrating a multitude of bilateral contributions into a more consistent whole. UNDP explained that this “increases collaboration among partners in the field”.<sup>39</sup>

Furthermore, earmarking can strengthen the nexus between a government's bi- and multilateral development cooperation, as it brings donors and agencies closer together (based on host government development plans). This aspect was not the focus of our study. However, it appears safe to say that for such bi-multi coordination to be effective, an ongoing strategic dialogue, some form of mutual adjustment and the UN actively participating in donor coordination forums would be required, which, according to our experience, does not occur. Many UN actors seem not to be proactive in coordinating themselves with donors at the country level, including with the respective donor coordination groups (interviews MS 3, MS 18).

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39 Email, 4 Feb. 2019

### *Ownership*

Ownership is an essential factor for effectiveness (Keijzer et al., 2018). It provides the political support and enabling environment without which projects can easily falter. In the ideal case, UN projects support host government activities or establish solutions that are then continued or scaled up by host governments. Only through strong ownership can the UN hope to contribute to the formulation of national policies and laws. According to the literature, earmarking is not conducive to ownership. It has been argued that earmarking “explicitly takes power away from the recipient countries in terms of controlling their own development programs” (Adugna, 2009; Gulrajani, 2016, p. 17). Unfortunately, we could not secure more than one interview with host government representatives to discuss this crucial issue from the recipient side, and we also did not speak with local partners.

Based on our field research, it appears that the relationship between earmarking and ownership is less clear-cut in the UNDS than the literature suggests. In general, the recognition of the need for ownership is deeply ingrained in UN development work, reflected, among other things, by the fact that UN field staff typically spends considerably more time with the host government than with donors. There is the criticism that earmarking results in a distortion of UN country agendas, which are to be owned by the host government. Such a risk exists (see Section 5), in particular when the initiative for a project comes from donors, but UN surveys confirm that, from the perspective of host governments, earmarked-funded activities are almost as well-aligned to the needs and priorities of programme countries as core funds (UN DESA, 2018a, p. 9). The strengthening of UN programming (through UNDAF and country frameworks) has certainly helped to make the UN less susceptible to bilateralisation (interview UN 3).<sup>40</sup> Having said this, some nuances are in order.

First, the problem of ownership might be less in the distortion of programme priorities than the insufficient involvement of governments in donor-driven projects. According to country programme evaluations, the “downstream” projects that focus on infrastructure and service delivery, including those designed as “pilots” for testing innovations, have a high risk of delivering no sustainable impact, as the government lacks the political will or the resources to replicate/scale-up projects or absorb lessons learnt. This is a consequence

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40 However, the bilateralisation can already be in the country framework, as agencies draft their frameworks based on an analysis of donor priorities (Section 5).

of planning projects with an eye to donors, rather than on the basis of close exchanges with the government and local partners.<sup>41</sup>

Second, ownership varies across agencies and implementing modalities. With UNDP, approximately 90 per cent of its projects are implemented by the host government, an arrangement which almost, by definition, guarantees government ownership (but not necessarily the local ownership of affected communities and beneficiaries of a project), similar to the ownership afforded by budget support (interviews UN 33, UN 34). Staff from other agencies also held the opinion that the government had more influence over earmarked-funded activities compared to activities funded through regular resources (interviews UN 3, UN 4),<sup>42</sup> though this observation surprised experts that commented on the draft of this study and could also be a reflection of insignificant levels of core resources. Some agencies, such as UNICEF, never implement through the government and appear not to involve governments as closely in the project development (interview UN 39). The question of ownership presents itself in a very different form in the case of “local resources”, which host governments provide to the UN for services in their own country.<sup>43</sup>

Third, ownership is also a function of the size of a project. In general, the relatively small amounts of bilateral earmarked projects are not conducive to government ownership. To the contrary, the fragmentation of external

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41 Problems around ownership and sustainability are consistently pointed out in evaluations, for example Majoor and Manda (2017, p. 29); Multilateral Organisation Performance Assessment Network (2017, p. 36; 2019, p. 46); UNDP Independent Evaluation Office (2018b, p. xiii); UNDP Independent Evaluation Office (2019, p. 36); UNFPA Evaluation Office (2016, p. 27); UNICEF (2018c, p. 57).

42 This might explain why low-income countries, in which agencies have higher shares of non-core resources, report lower levels of alignment (UN DESA, 2018a).

43 Almost by definition, local resources afford excellent ownership, as they are fully initiated and controlled by the host government with no involvement of donors. In terms of earmarking, local resources cover the entire spectrum: from extremely tight earmarking (where the UN serves as a channel only for purchasing goods and services, sometimes outside of any project) to very soft earmarking at the programme level (interviews UN 9, UN 11, UN 32). Interviews revealed a problematic aspect about local resources in that, according to three individuals (interviews MS 9, UN 12, Ex 7), they are often, if not mostly, given to circumvent bureaucratic and legal requirements for contracting. They thus allow the government to bypass parliament and other oversight bodies, which undermines the UN's goals to strengthen democratic governance, the rule of law and local capacities in host countries (see also Browne, 2011, pp. 45-46).

support seriously burdens the administrative capacities of host governments. The larger the project, the more likely it is to get policy buy-in from political leadership. As one interviewee pointed out, it may be easy to sell a project to a district officer, but pitching it to the president's office requires a more concerted effort, larger volume and alignment with host governments' political interests (interview UN 39).

Fourth, ownership can be influenced by the duration of projects. A WFP evaluation points out that a project-based approach in which projects and planning processes are usually short "affect WFP's ability to partner in a manner that increases government ownership" (WFP, 2012, p. 16). Some interviewees admitted that, at times, the UN had to abandon partners abruptly when projects ended, without having established the ownership needed for sustainability (interviews UN 17, UN 20, UN 21). Others, however, denied such practices. Evaluations of country programmes consistently criticise that UN projects often do not have exit strategies and that they lack a focus on sustainability.

Fifth, donors may engage the UN in cases where they want to avoid a direct relationship with host governments because of politically fraught relations, lack of trust or high levels of corruption (Keijzer et al., 2018). Given its generally sound policies on the prevention of fraud and its trust with governments, the UN can often facilitate better ownership than donors can bilaterally (interview MS 3).

#### 4.1.2 Inter-agency pooled funds

In the context of the UN, the terms "pooled funding" or "trust funds" typically refer to "inter-agency pooled funds". This instrument, or rather category of instruments, is central to efforts in the UN to bring both agencies – but also member states – together in a more collaborative and multilateral approach, as compared to project and programme funding. The UN defines inter-agency pooled funds as follows: "co-mingled contributions to multi-entity funding mechanism, not earmarked for specific UN entity; funds are held by UN fund administrator and fund allocations are made by UN-led governance mechanism" (UN CEB-HLCM, 2019, p. 30).

Important features of such trust funds are, first, that funding decisions are made on a continuous basis that sets trust funds apart from bilateral earmarked contributions and joint programmes, which both have a well-

defined budget at inception (however, a joint programme can also be supported by a trust fund where the steering committee makes decisions on project work). Second, these trust funds are typically multi-donor pooled funds that co-mingle resources from donors; in rare cases, they may be supported by only one donor, but this is usually because other donors prefer not to contribute. Most UN inter-agency pooled funds (71 in 2018) are administered by MPTFO, which is part of UNDP, and less than a handful are administered by agencies themselves. Though all inter-agency pooled funds are trust funds in the literal sense of the word, the UN does not have a definition of trust funds and prefers “inter-agency pooled funds” as the umbrella term (JIU, 1972).<sup>44</sup> Central administration by MPTFO creates some organisational consistency and generally very good transparency for those funds under its responsibility. Pooled funds that are attached to specific entities are covered in the next subsection.

### *General characteristics*

The category of inter-agency pooled funds (in the following “pooled funds”) comprises various instruments (see Table 10). Broadly speaking, there are global and country-based pooled funds, and this distinction is important in terms of overall characteristics. Examples for global funds include the Peacebuilding Fund (PBF), the Joint SDG Fund, Scaling Up Nutrition Movement Multi-Partner Trust Fund (SUN Movement Trust Fund), and in the humanitarian realm the OCHA-administered Central Emergency Response Fund. Global funds provide rather unpoliticised forms of support, if compared to the more political nature of country-level processes. The majority of pooled funds in the UNDS are country-based. Among them, the One UN Funds, which support coordination in the RC system, and the humanitarian CBPFs are well-defined instruments and need to be evaluated on their own terms. The rest could be described as ad hoc funds, such as the UN Multi-Partner Trust Fund for Sustaining Peace in Colombia (“Colombia Peace Trust Fund”), the majority of which are set up in post-conflict and transition contexts. These latter pooled funds generally provide good political functions.

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44 In the past, the term “trust fund” was used interchangeably with “grants” and “voluntary contributions” or “extra-budgetary contributions”, and this confusion in the terminology persists.



<b>Table 10: Categories of multi-partner trust funds in the UN development system</b>			
Global UN inter-agency pooled funds	Country-based inter-agency pooled funds		
	One UN Funds	Humanitarian funds	Other ad hoc funds
Peacebuilding Fund	Kyrgyzstan One UN Fund	Yemen Humanitarian Fund	Multi-Partner Trust Fund for Sustaining Peace in Colombia
Joint SDG Fund	Malawi One UN Fund	Afghanistan Humanitarian Fund	Mali Climate Fund
CERF	Pakistan One UN Fund	Nigeria Humanitarian Fund	Nigeria Safe Schools Multi-Donor Trust Fund
UNPRPD	etc.	etc.	etc.
Disability Fund			
etc.			
#25, total contributions: \$768m (2018)	#22, total contributions: \$47m (2018) (UN MPTFO, 2019a)	#17; total contributions: \$953m (2018) (OCHA, 2019)	#31, total contributions: \$243m (2018)
Source: Authors, based on UN MPTFO data and UN OCHA data, as available on the respective websites: <a href="http://mptf.undp.org/">http://mptf.undp.org/</a> and <a href="https://www.unocha.org/">https://www.unocha.org/</a>			

This section will not go into the details of these types of funds, but rather discuss common features. As a multi-donor structure, pooled funds bring participating states into a form of international cooperation. The academic literature focusses almost exclusively on World Bank trust funds (e.g. Milner & Tingley, 2013; Reinsberg et al., 2015, 2017), but key insights can also be applied to UN pooled funds, as confirmed by our research. Their benefits derive directly from their multilateral nature: Pooled funds allow risk-sharing among donors, which is particularly important in fragile and conflict-afflicted contexts (Bezerra et al., 2010; Reinsberg et al., 2015); they provide a mechanism for burden-sharing and incentivising contributions from other donors (Milner & Tingley, 2013, pp. 317-318); they increase the political weight of contributors, which can help to push policies (interviews UN 7, UN 13, MS 7, MS 8); they serve as platforms for policy dialogue and coordination; they can improve efficiency through lower transaction costs; they can disburse money relatively quickly, if the alternative is

making bilateral contracts with a government or implementing organisation (interview UN 7); they can provide donors access to and visibility in contexts where a bilateral presence might be difficult. Donor interviews suggest that declining interest in direct budget support has also been a motivation for joining pooled funds as a viable alternative.

Regarding global policy, pooled funds can also be set up with the purpose of filling gaps in the mandates of the multilateral system (Reinsberg et al., 2017) or advancing policy priorities that agencies and their boards are reluctant to take up (Graham, 2016). This bypassing of established organisations through temporary permanent mechanisms situates pooled funds as hybrids between multilateral and bilateral approaches. One downside of this flexibility is that pooled funds are set up without central control, which can result in fragmentation from a large number of insignificant pooled funds that fail to bring either UN agencies and/or donors together.

On a more technical note, the typical operational principle is that pooled funds sponsor programmes, projects and activities that fall within their strategic framework. The trustee might issue calls, and participating agencies – in some cases also civil society organisations and governments – can apply for grants. The selection process is a factor in raising the quality of funded projects. The governance arrangements vary. Funding decisions are typically made

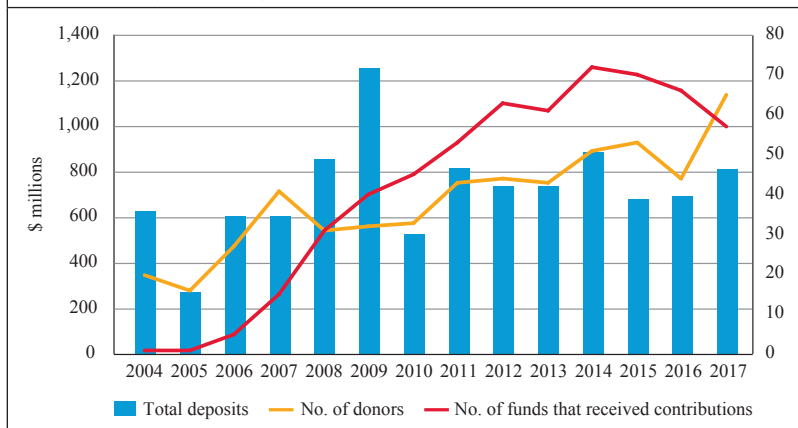
- by the secretariat in the case of global funds (an advisory body with member state representation typically provides some oversight);
- by the board (or “steering committee”) in the case of CBPFs;
- by the RC in the case of the humanitarian country funds (again, an advisory board only advises).

Although the added value of pooled funds is more on the political side, these funds are pretty conventional regarding disbursements. From an agency perspective, they are usually just another source of funding, though there are some differences between global and country-based pooled funds, as discussed below. According to our interviews, we did not find hints that pooled funds would provide more long-term funding or greater volumes than is typical in earmarked project funding (interviews UN 3, UN 7, MS 8, MS 9). On the contrary, an early study on MPTFO-administered pooled funds found that “there is generally less predictability and flexibility than under other earmarked mechanisms” (Downs, 2011, p. 5) because of the

decision-making in steering committees and tighter monitoring (OECD, 2015a, p. 100). Donors also do not provide more multi-year commitments to UN pooled funds than for more tightly earmarked contributions.

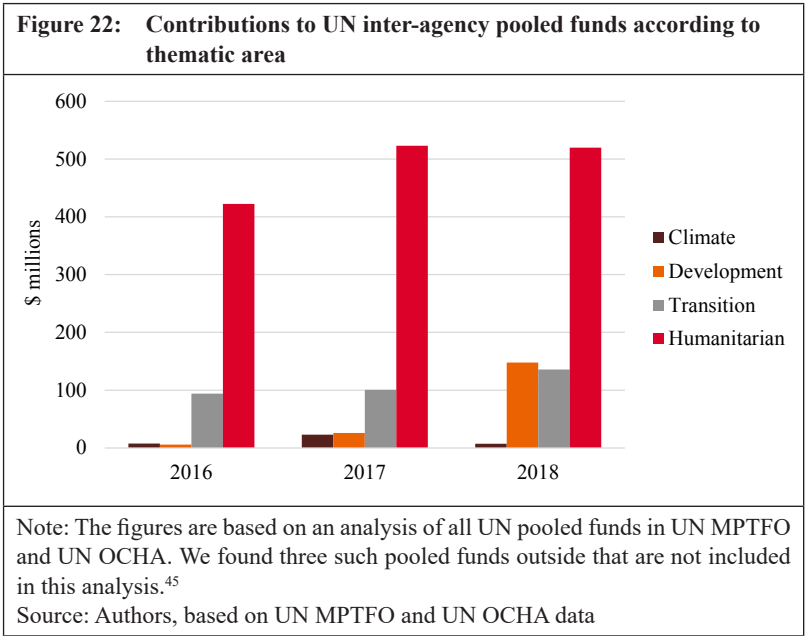
Although pooled funds have been around for a long time – in fact, most of the UN’s “funds” and “programmes” themselves originated as pooled funds – their ascendancy to a more central funding instrument came later. MPTFO was created in 2004 to provide administrative services for and promote this category of instruments, which the current head of MPTFO characterises as being “core to the system”. In recent years, the total deposit to inter-agency pooled funds in the UNDS has been around \$700 million annually (Figure 21). In relative numbers, only 5 per cent of earmarked funding to development-related activities were channelled through inter-agency pooled funds in 2017 (for humanitarian activities, the share was higher, with 10 per cent of the respective resources going through pooled funds). It is envisioned that under the UN’s Funding Compact, the share of development-related inter-agency pooled funds will be doubled to 10 per cent of earmarked revenue by 2023 (see UN General Assembly, 2019).

**Figure 21: Donors, funds and contribution trends of the MPTF Office (2004-2017)**

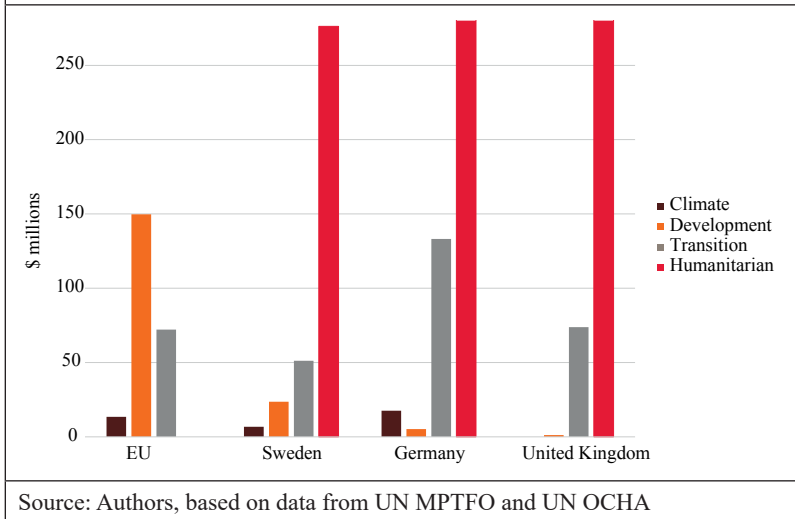


Source: UNDP Independent Evaluation Office (2018a, p. 14); all rights reserved, used with permission

Contributions to UN pooled funds have been uneven across thematic areas. As Figure 22 shows, pooled funds have been popular in the humanitarian sector, where the ability to disburse resources quickly – and in the case of the global humanitarian funds, without undue interference of affected governments – can be crucial. Contributions to development-oriented pooled funds (including climate and transition) have been miniscule, both in absolute and relative numbers. The rise in development-related pooled funding in 2018 is caused by the newly created “Joint SDG Fund”, which exclusively funds Joint Programmes and collaborative activities. This underuse of pooled funds in the development sector stands in stark contrast to the need for well-coordinated, cross-sectoral approaches under the 2030 Agenda. Regarding the sample of donors analysed in more detail for this study, the United Kingdom clearly stands out as a contributor to UN pooled funds, with Germany on its heel. Sweden provides smaller amounts, though in absolute numbers only.



45 These are the Reproductive, Maternal, Neonatal and Child Health Trust Fund, the Codex Trust Fund and the UN Water Interagency Trust Fund.

**Figure 23: Contributions by major donors to UN multi-partner trust funds according to thematic area**

### *Donor influence*

Reinsberg et al. (2017), in their study on World Bank trust funds, posit that any pooled fund comes with a trade-off between the benefits of delegation and the ability to assert individual preferences. In the UN, it appears that donor influence is even more complicated, given the greater number of agencies involved and, as far as country-based pooled funds are concerned, the greater emphasis on host government ownership, which can undermine accountability to donors (interviews MS 9, MS 10, UN 35).

Global pooled funds generally provide donors with good chances for influence on the general policy and strategic direction, but not operational issues. The biggest influence probably comes from donors' commitment to set up and support pooled funds on specific thematic issues in the first place. In that vein, donors will always have a role in adjusting the strategic direction of fund policies. The (advisory) board usually comprises the biggest contributors and other stakeholders, including developing countries, host agencies and non-state actors. Allocation decisions are typically delegated to the secretariat or non-intergovernmental advisory bodies. The "UN Trust Fund to End Violence for Women", for example, relies entirely on experts

for the allocation of resources, which eliminates all forms of politicisation (interview UN 37). Donors have no direct recourse to implementing agencies at the country level, and often a national steering committee exercises oversight of implementation at the country level. The lack of direct recourse to implementing agencies is sometimes compensated for by rather rigid frameworks on how to spend resources, often driven by donors' concerns relating to fraud and corruption (OECD, 2015a). This can reduce agencies' flexibility and host government ownership, but it can also help to provide clarity on what needs to be done and keep governments at arm's length on sensitive issues (interviews UN 9, UN 25, UN 33). According to one UN interview, donors occasionally renegotiate multilateral decisions made in New York with implementing agencies bilaterally at the country level (interview UN 3), which is a form of backdoor control.

For country-level pooled funds, the governance is a bit messier due to the more direct involvement of donor, government and agency stakeholders. Steering committees are usually co-chaired by the host government and the UN, and although donors are represented in the steering committee, they are never in the majority, as far as we can see. Regarding the humanitarian country funds, donors are represented in an advisory board only, whereas decisions are taken by the Humanitarian Coordinator. In three of the four countries we visited, donor representatives had issues with the perceived lack of influence. They complained that the fund secretariat, hosted by UNDP, had "totally" succumbed to the influence of the host government (interviews MS 7, MS 10). They also lamented that a Humanitarian Coordinator had taken an allocation decision on a humanitarian country fund against their will and their warning (interviews MS 14, MS 15). Where local resources were in play, a rather direct line was drawn from government control to the grey zone of corruption and nepotism (interviews MS 7, MS 11, MS 9, MS 12, UN 12). Agency staff have also noted in interviews the strong role of the host government, which can be helpful but can also delay project approvals (interviews UN 10, UN 40). Donors expressed dissatisfaction with the perceived level of reporting and cited this as a reason for the reduced level of funding of One UN Funds (interview UN 2).

Nevertheless, donors usually manage to retain appropriate influence through consultations and, perhaps more importantly, through their informal networks and relationships with participating UN agencies (interview MS 4). A key benefit of pooled funds is that they allow donors to engage the host government at a high level (interview MS 7). The wish to earmark

towards more or less broad topics can often be accommodated, but it should not be considered good practice (interview UN 7). Lack of donor influence over resource allocation can also be functional. One donor representative described how the Colombia Peace Trust Fund was much quicker to support projects than his country was comfortable with, given the lack of feasibility studies and a clear evidence base (interview MS 7). The representative acknowledged that such urgent action was probably needed to secure the peace process and worth the risk of losing some investments in the course of the process.

Pooled funds have been said to often have weak strategic results frameworks. The need to find compromises among the “federation of stakeholders” (interview UN 35) involved in them can make it difficult to give pooled funds the strategic focus needed to create significant added value compared to a more fragmented approach. This problem has been noted in a number of evaluations and reviews, and it appears that the Colombia Peace Trust Fund is an example of this problem (interviews MS 7, MS 10) (United Nations, s.a., p. 20).<sup>46</sup> We wish to add that any such criticism needs to be balanced against the more political functions of trust funds. It was suggested to us that the results frameworks of global trust funds, almost by necessity, need to be sufficiently abstract in order to allow for country-specific interventions that support agency-specific frameworks (interview UN 40). Also, these funds support activities that are contributing to, and are thus covered by, agency-specific results frameworks.

### *Efficiency*

Bundling projects under an overarching structure can reduce transaction and oversight costs for both donors and governments. One reason for setting up the Colombia Peace Trust Fund was precisely the Colombian government’s desire to reduce the administrative burden of dealing with multiple donors separately. Donors, in turn, do not need to negotiate funding contracts and appreciate the lighter bureaucracy of pooled funds. The Nigeria Humanitarian Fund was cited as an example to that effect (interviews MS 13, MS 14). A pooled fund can reduce agencies’ workloads, as they allow participating agencies to operate based on their rules and regulations rather than having to adjust them to bilateral donors.

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46 The evaluation of the Colombia Peace Trust Fund criticised its insufficient monitoring and evaluation system.

However, efficiency gains are often elusive. Shared project selection in the board (or its working groups) can turn out to be extremely cumbersome and time-consuming for donors (interviews MS 7, MS 8). For agencies, evaluations have suggested that pooled funds can also, contrary to the expectation, significantly increase their workloads, in particular if the volume is comparatively small (Downs, 2011). In such cases, they require plenty of coordination and time spent in meetings for relatively little return for participating agencies (interview UN 3). For that reason, the UN adopted a threshold of at least \$2 million annually for simple trust funds and \$5 million for more complex ones, where each agency can run more than one project (UNDP Independent Evaluation Office, 2018a, p. xi; UN Development Group [UNDG], 2015b, p. 12). However, there is a fine line to walk, as bigger and more fragmented pooled funds can also create a disproportionate amount of project selection and monitoring work. Some countries, such as Colombia, where the conditions are conducive (middle-income country, post-conflict context, functioning government, strong donor interest), seem to be trust fund darlings. A UN report notes that “if there are too many such funds and they do not attract resources to generate adequate economies of scale, these funds can actually contribute to decreased efficiency and further fragmentation of resources, defeating one of their primary purposes” (UN Secretary-General, 2018, p. 17). This is an assessment that we also heard from practitioners in Colombia.



**Box 7: The new Joint SDG Fund, an example of a global development fund that supports country-level coordination and innovation**

*“Core to the system”*: The new Joint SDG Fund

Duration: June 2017 – December 2030

Total commitments (2019): \$96.6m

Top donors: Sweden (\$35.1m), Netherlands (\$28.4m), Norway (\$15.1m), Spain (\$10m), Switzerland (\$3.1m)

The Joint SDG Fund was established in response to the 2030 Agenda. It aims to stimulate and support the kind of policy-oriented, cross-sectoral and innovative interventions at the country-level that are deemed critical for accelerating progress towards achieving the SDGs. Institutionally, the Joint SDG Fund backs up UN coordination mechanisms. It only funds joint inter-agency approaches (either joint programmes or initiatives by UNDAF Results Groups). Applications have to demonstrate close alignment to the UNDAF and can only be submitted through RCs. Funds are awarded on a competitive basis, which increases the value proposition. The Joint SDG Fund is controlled by an Operational Steering Committee, which makes allocation decisions and consists of representatives from five UN agencies (UN MPTFO, 2017, p. 8). The committee is supported by a Strategic Advisory Group, which also includes donor and programme country representatives. Donors can earmark grants for regions and countries. They receive consolidated reports through MPTFO, which manages the fund, taking a fee of 1 per cent.

Source: UN MPTFO (s.a.-a)

### *Coordination*

Pooled funds centralise funding decisions, which creates an opportunity for coordination among stakeholders and for consolidation of an otherwise more fragmented approach. There are different coordination modalities. Large funds, such as the Joint SDG Fund for the 2030 Agenda (\$43 million in 2018) or the Colombia Peace Trust Fund (\$42 million), mostly support joint programmes (see below), which are themselves instruments for coordination. Others have criteria for inter-agency coordination in the projects or activities they fund, or may place special emphasis on creating coherence and multi-stakeholder integration at the country level (e.g. the PBF and SUN Movement Fund). CBPFs often act as convening platforms for agencies, but also for government stakeholders (e.g. prime ministers' offices, line ministries and other state bodies) and can thus promote coherence in the host government. The 2015 OECD report on multilateral funding highlighted that CBPFs

“tend to perform better on average than other multilateral earmarked funding mechanisms in promoting ownership and coordination” (OECD, 2015a, p. 111). The bigger the volume of a pooled fund, the more gravity it will have and the better it can coordinate stakeholders. Donors to the Colombia Peace Trust Fund liked its ability to bring different government stakeholders to the table, but they also pointed out that fierce inter-agency competition has worked against coordination (interviews MS 7, MS 8, MS 10). Evaluations confirm that there is room for improvement on coordination (United Nations, s.a., p. 20). In general, although pooled funds are an instrument to improve coordination, the reverse is also true that weak coordination mechanisms in the UNDS reduce the effectiveness of multi-agency pooled funds (interview UN 18).

### *Ownership*

Any pooled fund that operates with a national steering committee, and in particular the One UN Funds with their “highly consultative process” (OECD, 2015a, p. 26), gives host governments a strong role in decision-making and oversight. As with coordination, the fund architecture can stipulate ownership and make policy dialogue and capacity-building an integral part of their funding activities. The UN Partnership on the Rights of Persons with Disabilities (the UN Disability Fund, or UNPRPD), for example, strictly requires that its work is demand-driven and country-specific. With the PBF, funding applications must be signed off by the government, which also holds the majority of seats on the national steering committee (interview UN 17). The SUN Movement Fund requires that the government name a focal point, have strategies and platforms in place, and co-finance its activities (Scaling Up Nutrition (SUN) Movement, 2012, p. 11). In general, middle-income countries (MICs) with greater government capacities are expected to provide greater ownership, whereas in poorer and/or weaker states, more attention to capacity-building is required (OECD, 2015a, p. 117). Ownership can be so strong that donors might feel sidelined, as described above (interviews MS 7, MS 10). Global pooled funds are less afflicted by this problem, but from the country perspective, they are a funding source that supports agencies’ programmes, for which ownership is guaranteed through the UN’s rules and regulations (project approvals, consultations, reporting etc.).

### 4.1.3 Joint programmes

Joint programmes represent an inter-agency cooperation modality in the UN Development System. By definition, a joint programme comprises 1) two or more participating UN agencies, 2) a steering committee consisting of participating agencies and the government (rarely donors) and 3) a joint work plan and a common budgetary framework for the participating UN agencies (UNDG, 2014, p. 3). Not every joint programme involves a pooling of donor resources, and joint programmes can even be funded from the core resources of participating agencies (see UNDG, 2014, for an overview of three different joint programme modalities). As such, joint programmes are primarily a cooperation modality, and not so much a funding instrument. However, the pooled funding modality<sup>47</sup> is the most common one (UNDG, 2014, p. 12), and this – together with a clear definition of joint programmes and respective guidance on them from the UNDG – justifies treating them separately as a funding instrument. A joint programme differs from a trust fund in the sense that it typically has an agreed budgetary framework, a specific work plan and a limited duration, whereas trust funds receive resources continuously, only have frameworks and are usually open-ended.

#### *General characteristics*

Joint programmes are the instrument of choice when closer coordination, or rather collaboration, between UN agencies is needed than is commonly provided for by inter-agency coordination mechanisms, such as the RC system or “Delivering as One”. In a joint programme, the participating agencies jointly develop a programme that brings together agencies’ individual but complementary contributions towards a shared goal. In the ideal case, there is also collaboration in the implementation phase, and the joint programme provides consolidated narrative and financial reporting.

If, as the 2030 Agenda emphasises, today’s complex development problems require cross-cutting solutions based on the special expertise of different agencies, then joint programmes as a sort of “inter-agency super project” have an important role to play. Interviewees in all four countries visited and at HQs recognised the demand for closer cooperation. Joint programmes are simply seen as necessary to achieve agencies’ own development goals, as the

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47 In the context of joint programmes, the UN’s technical term is “pass-through fund management modality”, whereas the “pooled funding modality” refers to the constellation where agencies themselves pool resources (UNDG, 2014).

work of one agency often depends on the complementary work of another agency (interview UN 38). Against this backdrop, one interviewee suggested that ideally 50 per cent of all UN development resources should go into joint programmes (interview UN 21). With a typical duration of three to five years (UNDG, 2014, p. 13), joint programmes also provide a significantly longer timeframe for delivering change than the average UN project.

Host governments also rate joint programmes well. They attest improved coherence (85 per cent of government respondents with relevant experience surveyed), effectiveness (78 per cent) and efficiency (70 per cent) (UN DESA, 2018a, p. 49). However, the potential for improved effectiveness has not yet been fully exploited. Though field staff confirmed that there has been a substantial learning curve on how to work together in recent years (interviews UN 8, UN 9, UN 13, UN 21), joint programmes are still feared due to the bureaucratic challenges associated with them. Real and perceived differences in agencies' administrative systems still hamper smooth collaboration. Regarding the political economy of collaboration, small agencies are constrained by the lack of staff capacity to participate in joint programmes, and bigger agencies have a reputation for not wanting to share resources with smaller ones (interviews UN 23, UN 35, UN 43). In practice, joint programmes, despite their lofty rhetoric, often involve few "joint" activities, but are rather implemented separately (interviews UN 10, UN 13).

**Box 8: Example of a joint programme***Joint programme SAFE Bangladesh*

Full title: JP to Address Cooking Fuel Needs, Environmental Degradation and Food Security for Populations Affected by the Refugee Crisis in Bangladesh

Period: November 2018 – August 2021

Donors: Canada (\$15.1m), Norway (\$5.7m), United Kingdom (\$2.6m)

UN Agencies: UNDP (Administrative Agent), International Organization for Migration (IOM) (convener), FAO, WFP

This joint programme is an example of an inter-agency collaboration that is driven by geographic proximity and thematic linkages. It aims to support Rohingya refugees and host communities in Cox's Bazar, a district in Bangladesh. The objectives are: 1) reduction in cooking fuel costs (IOM/WFP), 2) increased income through better livelihood and agricultural practices (IOM/WFP/FAO), 3) empowerment and better skills (IOM, WFP) and 4) mitigation of negative environmental impact (FAO). IOM is the convening agency, MPTFO manages the pooled fund and acts as interface for donors, who receive consolidated financial and narrative progress reports. The steering committee provides oversight and holds decision-making authority. It is composed of participating agencies, the government of Bangladesh, the RC, and donors and meets twice a year. MPTFO receives a fee of 1 per cent, the participating organisations 7 per cent.

Source: UN MPTFO (s.a.-b)

The joint programme instrument saw a boost in the 2000s through UN reform processes that aimed at greater system-wide coherence and effectiveness through the MDG Achievement Fund, which promoted the instrument, and through the role of MPTFO, which provided administrative services (Downs, 2013, p. 5). However, it appears that the joint programme instrument has not grown or has even shrunk over the last years. In 2018, the UN Development Group (UNDG)<sup>48</sup> reported 339 joint programmes, down from 371 in 2017 (UNDG, 2017, p. 44), and a far cry from the 526 joint programmes in 2013 (Downs, 2013, p. 5). However, these numbers should be interpreted with care. We were given a comprehensive list of joint programmes by the Development Operations Coordination Office (DOCO) but chose not to consider it for this report, as we had serious doubts about the quality of data provided in that list. Of the alleged 371 joint programmes currently, only 21

48 In 2019, the name of the UNDG was changed to the UN Sustainable Development Group (UNSDG).

are administered by MPTFO, which provides reliable data. The remainder are either too small to qualify for MPTFO administration, do not have the pooled funding modality or participating agencies have concerns about the role of UNDP, which hosts MPTFO.

Interestingly, joint programmes are almost entirely a country-level phenomenon, with very few exceptions, such as the UNDP-DPA Programme on Building National Capacities for Conflict Prevention, which deploys peace and development advisers to support integrated action on conflict prevention (UNDP, 2018c). Joint global programmes represent the opportunity for donors to bring agencies together at the HQ level for global initiatives. They could play a much bigger role in system-wide coherence and in bringing some of the UN's development funding back to the global level.

### *Donor influence*

Like any pooled fund, joint programmes complicate donors' ability to exercise direct control over the use of their resources. Donors are often not formally represented in the steering committee, and as they have to share informal control with other donors in cases of pooled funding, it is difficult for them to establish direct accountability on the use of their resources. However, these considerations are mostly theoretical. UNDG guidelines for joint programmes stipulate that agencies and donors consult "at least annually, as appropriate, to review the status of the Programme" and also "discuss any substantive revisions" where necessary (UNDG, 2015a, p. 8). This seems to work well (interview UN 13). We have not heard complaints by donors on the issue of accountability, which indicates that donors usually find ways to maintain sufficient influence, probably owing to the fact that they do not support joint programmes in the first place if the country context is not favourable for this instrument. For agencies, the less direct involvement of donors is a chance to work more pragmatically towards sustainability.

### *Efficiency*

Joint programmes in the pooled funding modality represent an efficient way of engaging multiple UN agencies for cross-cutting work if setting up separate projects is the alternative. Donors can deal with only one agency, from which they then receive consolidated reports. As a form of soft earmarking, a reduced overhead cost of 7 per cent applies. From the UN's side, however, the experience with joint programmes appears to be mixed.

Earlier studies have found that transaction costs are reduced “only slightly if at all for UN agencies” (Downs, 2013, p. 23). In this and previous research, we heard a pretty consistent message from UN practitioners that joint programmes are “bureaucratic nightmares”, as planning, implementation and reporting can become time-intensive in the minefield of inter-agency collaboration (Baumann, 2018b). One interviewee remarked that, for smaller agencies, the ability to participate in joint programmes is a luxury because of limited staff capacity, and that they can only be considered once they have their main programmes in order (interview UN 23). This contradicts the widely shared opinion cited above that joint programmes are essential to achieve agencies’ development goals.

### *Coordination*

Coordination, or even collaboration, is the *raison d’être* of joint programmes. Yet, there has been no systematic evaluation regarding the question about the extent to which joint programmes actually improve UN coherence. The joint programme evaluation from 2013 only mentions factors that help or hinder success, and the bi-annual DESA surveys on UN coordination test opinions on joint programming in general, but not joint programmes specifically. From our own field research, the answer is not clear-cut. UN practitioners generally held the opinion that joint programmes are worth the extra effort, implying that coordination works and yields results. Joint programmes create some continuity against the more short-term planning cycles of agencies (interview UN 9). Yet, almost equally as often, we heard that, due to the challenges of inter-agency collaboration and agencies fighting over resources, joint programmes are more often still implemented in parallel without meaningful practical coordination after their launch (interviews UN 9, UN 10, UN 13, Ex 6). Two factors that generally improve coordination are sound planning processes and the pooled funding modality. If joint programmes are assembled in a rush for the sole purpose of accessing donor resources, they are bound to run into difficulties. Without a pooled funding modality and a lead agency, joint programmes suffer from a lack of internal accountability and buy-in from the RC (see also UN Women, 2013, p. 36). For donors, this implies that they should carefully vet joint programmes, use the pooled funding modality, and ensure sufficient volume and long-term duration.

### *Ownership*

Joint programmes create favourable conditions for ownership. Host governments are represented in steering committees that give them, as with trust funds, a direct say in programme implementation. As platforms, joint programmes are conducive for bringing together various government stakeholders. From the UN's side, government buy-in is essential for joint programmes to operate effectively and have sustainable impact, since UNDG guidelines emphasise the need for involving national governmental partners (UNDG, 2014, p. 5). Where the government is not involved because it lacks political will, sound development plans or prefers to engage agencies separately, joint programmes are at a much higher risk of faltering (interview UN 23). This – along with the quality of the personal relationships in the respective UNCTs – may explain why joint programmes appear to be distributed quite unequally across developing countries.

#### 4.1.4 Thematic (and other) agency-specific pooled funds

The UNDS represents a broad spectrum of agency-specific trust funds. To bring some conceptual order in this field, we distinguish between the rather prominent “thematic funds” and then a rather undefined basket of “other funds”. Single-entity thematic funds are defined in the UN as: “Co-mingled contributions to single-entity funding mechanism designed to support high-level outcomes within strategic plan; single UN entity is fund administrator and takes the decisions on fund allocations” (UN CEB-HLCM, 2019).

Thematic funds are closely integrated in agencies, both programmatically and in terms of decision-making. They are managed semi-autonomously by agencies (although typically there exists an advisory committee with member state participation that provides strategic guidance), which gives them a core-like quality. As pooled funds, they collect and co-mingle resources. The UN lists 14 development-related thematic funds (see UN General Assembly, 2019): UNDP has four, UNFPA two and UNICEF eight. However, the UN Industrial Development Organization's (UNIDO) regional Trust Fund for Latin America and the Caribbean as well as the Innovation Funds in several agencies also share features of thematic funds, as do UN Women's Flagship Programme Initiatives.

The second type are more conventional, ad hoc trust funds that typically emerge when one donor, or a group of donors, wants to advance specific



priorities. These trust funds usually have a board or steering committee, so they are more detached from the parent agency and its multilateral governance. We can distinguish three categories: 1) thematic trust funds (e.g. UN Women’s Fund for Gender Equality), 2) donor-specific trust funds (e.g. the UNDP-India Partnership Trust Fund), (3) country-based trust funds (such as the UNDP’s environmental funds). The line between single-agency trust funds and projects can be murky. An example in that regard is the UNDP Stabilisation Facility for Libya (see Box 9), which has several features of a trust fund but appears to be run more like a project. Agency-specific trust funds often have little transparency – a feature they share with bilateral grants. For this reason, the analysis in this section mostly focusses on the thematic funds. Annex 3 contains a (probably incomplete) list of agency-specific trust funds based on our own analysis.

**Box 9: Hybrid funding instrument: The Stabilisation Facility for Libya**

Initiated by Germany, UNDP in 2016 set up a \$40 million “facility” for post-conflict work in Libya. Its main areas are light infrastructure and capacity-building. The facility currently has 16 donors, but Germany provides the largest contribution with \$6.76 million. To us, the facility operates like a “light” trust fund; the primary purpose appears to be to have a fund that can quickly disburse resources, often outside established projects. Like a trust fund, it operates at the programme level, with projects and activities decided on a continuous basis, is open for multiple donors and has a steering committee. Unlike the typical UN country-based trust fund, donors that contribute above \$1 million are represented in the “project board” and have one vote each, which collectively gives them a majority over the co-chairs (prime minister, UN Deputy Special Representative of the Secretary-General). As with a project, donors can impose restrictions on their resources, and there is no standard reporting on the level of the facility. Although the facility appears to be tailored to the specific needs of a post-conflict situation where rapid action and donor coordination are essential, in a development setting, a greater emphasis on ownership and strategic focus would be recommendable.

Source: UNDP (2016a)

*General characteristics*

Both types of agency-specific trust funds attract donor contributions through the same logic: The closer the preferences of donors and a specific fund are aligned, the more that donors will be inclined to delegate responsibilities for implementation (Milner & Tingley, 2013). A narrow thematic scope gives

donors clarity about how their contributions are used, and thus eliminates at least one reason for earmarking. Historically, thematic funding emerged from the attempt to consolidate agencies' fragmented funding channels and to mobilise resources for specific themes.<sup>49</sup> In the context of the earmarking debate, agencies have started to mark thematic funds as the better alternative to tight bilateral earmarking. They claim that thematic funds offer benefits for effectiveness, efficiency and innovation – aspects that derive from their core-like features. The more conventional trust funds typically come with the promise of more direct donor control (in particular, the donor–agency trust funds).

To date, there is no system-wide reporting on thematic funds in the UNDS, other than the contributions to them, which totalled \$557 million in 2017 (UN Secretary-General, 2019a, p. 16), a number that is down from \$726 million in 2014 (UN Secretary-General, 2018, p. 34). According to our own analysis from annual reports, the thematic funds of UNFPA, UNICEF and UNDP constitute between 1 per cent (UNDP) and 5.5 per cent (UNICEF) of agency revenue, which makes them relatively miniscule instruments. Table 11 shows the contributions of Germany, Sweden, the United Kingdom and the EU. Unfortunately, none of the agencies offers a breakdown so far of the revenue according to the level of earmarking (global, regional, country).<sup>50</sup>

We cannot present an overview on all agency-specific trust funds, nor specify the numbers. To date, there is no central data repository for such trust funds, and those trust funds that have a web presence typically do not provide information on donors and their contributions. This lack of transparency suggests that such trust funds are subject to the same constellations of interests as tightly earmarked contributions. It remains to be seen how the recently introduced UN reporting standards, as well as the imposition of a levy on all earmarked funds but pooled funds, will lead to better data.

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49 The UNFPA Maternal and Newborn Health Thematic Fund was created in 2008 out of the Maternal Health Fund and the Obstetric Fistula Trust Fund; UNPD's four funds were created in 2016, integrating a number of other funds.

50 In addition, we were made aware of practices on the side of agencies to boost contributions to thematic funds in unorthodox manners. One donor representative said that UNDP reported earmarked project funding under a thematic window, although the money was not specifically given into that channel. From other agencies, we heard that in some cases donors and agencies agreed to administer a project that was agreed at the country level through a thematic fund, which comes with an overhead of 7 per cent, in contrast to the standard rate for tightly earmarked contributions of 8 per cent.

<b>Table 11: Thematic funds, contributions 2017 (\$ millions)</b>							
	<b>Germany</b>	<b>Sweden</b>	<b>UK</b>	<b>EU</b>	<b># donors</b>	<b>Total</b>	<b>Share of revenue</b>
UNDP funding windows	34.5	3.7	–	–	8	62.5	1.3 %
UNICEF 10 thematic funds	(32.4) <sup>51</sup>	42.1	(21.0)	?	>10	363.0	5.5 %
UNFPA, Maternal and Newborn Health Thematic Fund	1.1	3.6	–	–	4 (+2) <sup>52</sup>	6.9	0.6 %
<b>Total</b>	<b>66.0</b>	<b>49.5</b>	<b>21.0</b>	<b>–</b>		<b>432.4</b>	

Sources: The figures are compiled from various sources: UNDP (2017c, pp. 36-37); UNDP (2017b, p. 2) for share of revenue; United Nations Children's Fund [UNICEF] (2018b); Executive Board of the UN Population Fund (2017, p. 29), donor contributions for both thematic funds; for share of revenue: Authors, based on own calculation of total revenue in 2017 of \$1.068 billion (UNFPA, s.a.).

51 Contributions from Germany and United Kingdom are received from the respective UNICEF National Committees, which collect private resources, and thus do not reflect a donor preference for pooled funding.

52 Four state donors plus the "Friends of UNFPA" and "GE Healthcare" (Executive Board of the UN Population Fund, 2017, p. 19).

Focussing on thematic funds, their value proposition is not so easy to pin down. This is, first, because the UNDP, UNICEF, and UNFPA thematic funds work quite differently. UNDP's funding windows support projects with funds arriving at the country level, much like earmarked donor funding. UNICEF allocates resources to country offices, which then enjoy wide-ranging discretion in how to use the money to support implementation of its programmes (UNICEF, 2018b, p. 1; also interviews UN 8, UN 29). The UNFPA thematic fund, apart from funding fieldwork, is also a global programme with global functions, such as knowledge exchange and advocacy (UNFPA Evaluation Office, 2017, p. 10).<sup>53</sup>

Second, the alleged benefits of thematic funding according to agency documents is nearly identical with core resources (see UNICEF, 2018b, p. 3). Compared to tightly earmarked resources, the greater flexibility of thematic pools allows agencies to select the most innovative projects/programmes, to target the neediest, scale-up solutions and close essential funding gaps. This can indeed improve overall effectiveness. The major thematic funds in the UNDS (those of UNFPA, UNICEF, UNFPA) are all presented as "catalytic", but annual performance reports do not, or only through anecdotes, provide evidence on that. In general, reporting on thematic funds is narrative-based or, if statistics are provided, identical with agency reports.

Third, from a country-office operational point of view, the parameters of pooled funding vary. UNICEF claims that their thematic pools help to improve long-term planning (UNICEF, 2018b, p. 3), and UNFPA's Maternal and Newborn Health Thematic Fund also has a policy of supporting multi-year work plans at the country level to improve "strategic vision" (UNFPA, 2018b, p. 49). In light of the considerations above on project duration, this could be considered a real added value. The UNDP funding windows restrict support to periods of 12 months only. The size of allocations can also be an issue: Evaluations have noted that UNDP funding window allocations were too small and rather fragmented (UNDP, 2017c, p. 34). For UNFPA and UNICEF, there is information available.

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53 The older UNDP trust funds spend 20-50 per cent of resources on global programmes (UNDP, 2016b), but the funding windows do not report on supra-national levels (and qualitative analysis also does not yield such functions). The same is true for the UNICEF thematic funds. Only the UNFPA Maternal and Newborn Health Thematic Fund dedicates around a quarter (19 per cent) of its resources to global causes at the HQ level (see UNFPA Evaluation Office, 2017, p. vii).

From the viewpoint of donors, the unclear value proposition, the differences among the agencies and the perceived lack of strategic focus reduce the attractiveness of this instrument (interview MS 19). Thematic pools have certainly been a difficult sell so far, politically. However, the final assessment of thematic funds very much depends on the yardstick that is applied: If they are to be simply a version of core funding, serving the same functions as core resources in their respective thematic areas, then they also need to be evaluated like core funding. If, however, the idea is that thematic pools are a unique instrument that fill a certain niche in the UN's arsenal of funding tools, offering functions not covered by either core or tightly earmarked contributions, then there would indeed be room to strengthen and better communicate their value proposition.

### *Donor influence*

Thematic funds offer comparatively little room for direct donor control. Whereas the agency board provides policy guidance, the thematic funds are managed rather autonomously by the agency. However, thematic funds usually do allow for some funding restrictions. With UNICEF, donors can earmark contributions to regions and countries. UNDP's four funding windows each have "sub-windows" and also allow for targeting specific regions and countries. The ability to earmark was introduced in response to strong pressure from donors.<sup>54</sup> Donors need to be aware that although earmarking makes thematic funds more palatable for them, it also undermines flexibility, which in turn reduces the overall level of effectiveness of the instrument. As with any pooled fund, thematic funds bring participating member states into cooperation. If one donor starts earmarking, or presses for informal influence, this could spur others to safeguard their interests by also earmarking. Perhaps the strongest drawback from a donor perspective is the lack of visibility, a result of co-mingling contributions. Agencies try to remedy this by making the contributions of large donors visible in the annual reports of their thematic funds. Regarding the second category of trust funds – those with boards – donors enjoy much more influence, in particular in country-based trust funds. However, the influence of individual donors will still be limited by the constraints of multi-stakeholder cooperation and other aspects discussed above regarding country-based trust funds.

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54 Initially, the plan was not to allow earmarking to countries and sub-windows (UNDP, 2017c, p. 34).

### *Coordination*

On coordination, thematic funds also operate similarly to core funding. At least for UNICEF, where resources are allocated to regional or field offices, thematic funding gives the agency and field offices the flexibility to quickly adjust to changing circumstances while also improving temporal financial flexibility (UNICEF, 2013, p. 1). Thematic funds can also be utilised for advancing cross-sectoral approaches or for adding normative components to more operationally oriented donor-funded projects (interview UN 8). The project approach practiced by UNDP does not facilitate greater coordination – to the contrary, the rigidity of global funding may even limit the foot space that country offices need for coordination. Regarding the agency-specific trust funds, as long as they disburse relatively small amounts, the assessment of coordination will be the same as for global multi-agency trust funds. For country-based trust funds, the potential for improving coordination will generally be a function of their volume, but the typical limitations of UN inter-agency coordination apply.

### *Efficiency*

A major benefit of thematic funds are the reduced transaction costs, “leaving more resources for [...] programmes” (UNICEF, 2013, p. 1). Funding negotiations can be brief, as the parameters are firmly set, and reporting is conducted at the level of the pooled fund rather than for individual projects, reducing transaction costs for both sides (donors and agencies). However, UNDP staff described a cumbersome internal bureaucratic process of project selection, where a number of criteria are to be met (interview UN 34). But such self-imposed administrative discipline can also help to achieve other efficiency benefits. UNDP emphasises the leveraging function as “all [funding window resources] mobilize additional resources and partnerships, reinforce efforts by other development actors and processes for greater impact”. It also advertises the “catalytic impact by supporting small-scale actions intended to initiate, expand, multiply or accelerate sustainable results” (UNDP, 2017c, p. 1). Such rhetoric should be taken with a grain of salt, as the same might be argued with regard to all other forms of resources. Annual narrative reports can help member states to hold agencies accountable for their claims.

### *Ownership*

Agency-specific funding mechanisms are generally ownership friendly.<sup>55</sup> As quasi-core funding, these mechanisms are subject to the UN's policies for respecting and ensuring host government ownership, which were discussed above in relation to programme and project funding. There are differences in how agencies deal with ownership, but this is not relevant in the context of this study. For country-based trust funds specifically, the normal trust fund governance mechanisms described above apply. They give host governments extensive control over allocation decisions through their representation in steering committees.

#### 4.1.5 Conclusion

The section looked at the main UNDS funding instruments available to member states and evaluated them according to their general characteristics, the chance for donors to exert influence and development effectiveness criteria. Programme- and project-specific funding constitutes the lion's share of earmarked contributions to the UN, but it is also an instrument with many variations. Although the UN considers this instrument as "tightly earmarked", it also contains some more positive uses of earmarked funding, for example funding to programmes (which could be considered quasi-core) and the use of earmarking to bring agencies together in cross-sectoral approaches. Nevertheless, there is an inherent tension, if not trade-off, in programme and project funding, namely that the more direct control and visibility a donor claims, the greater the risks regarding development effectiveness, including efficiency and ownership. One particular concern that demonstrates the current limits of UN development multilateralism involves short-term interventions that aim for low-hanging, tangible goals.

Pooled funding in its various forms are still, and significantly, underused in the UNDS, in particular in the area of development. Regarding inter-agency pooled funds, a distinction needs to be made between global and country-based pooled funds: The former can help to depoliticise aid and promote coordination; the latter provide good political functions such as convening of stakeholders and policy dialogue among stakeholders and with host

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55 With the possible exceptions of funds such as UN Women's Peace and Humanitarian Fund, which funds civil society organisations only and does not aim to establish host-government ownership.

governments. Joint programmes are also remarkably rare. They represent a challenging form of inter-agency cooperation and often do not live up to their promise, but there is consensus that, under the 2030 Agenda, there exists a real need for them, that UN agencies have gone through a positive learning curve in recent years and that they can, in fact, be successful if applied well. Thematic pooled funds offer benefits that derive from their core-like quality (better efficiency, more effective allocations, longer-term engagements), but they have been a difficult political sell so far, as they allow donors little influence.

## 4.2 Earmarked funding instruments in the multilateral development banks

### *The rationale for earmarked funding in the MDBs*

Compared to the UNDS, the MDBs have a significantly different funding structure and operating model. Their core funding consists of capital contributions by their members, which constitutes their equity capital. The volume of a country's capital contribution is based on a formula that reflects the size of a country's economy. On the basis of this equity capital, the MDBs issue bonds in the capital markets, which are the funding source for their ordinary lending resources (IBRD loans in the case of the World Bank). These ordinary resources are lent mainly to MICs. They are not considered to be concessional loans because their interest rates are close to market rates, although close to the lowest market rates with a markup to cover the administrative costs of the MDBs. Nevertheless, MDB loans from their ordinary resources are still favourable for MICs, although in times of low market interest rates, the difference to commercial loans or capital market sources can be rather small, depending on the risk rating of a country.

Low-income countries can obtain loans or grants from the concessional funds of the MDBs (the IDA in the case of the World Bank; African Development Fund in the case of the AfDB; Asian Development Fund (ADF) in the case of the Asian Development Bank), for the IDB concessional funds are not relevant anymore, due to the “graduation” of most low-income countries in the Latin America region to middle-income status.<sup>56</sup> Contributions to

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56 The remaining low-income countries in Latin America can obtain concessional loans by blending ordinary resources of the IDB with grants that are set aside for this purpose.



concessional funds of the MDBs are considered as core funding here and not as earmarked funding. Although they are reserved for the currently 75 low-income countries, 39 of which are in Africa, they are not earmarked for any specific purpose. They are part of the core operations of the MDBs and are allocated according to the MDBs' country allocation models and their country-assistance strategies. However, the governance of the concessional windows of the MDBs differs from the governance of the MDBs, as it gives more weight to contributing countries and developing-country members in decision-making. As a rule, the concessional funds of the MDBs are replenished every three years.

The core funding from equity, capital markets and voluntary contributions of members to concessional funds determines the business strategy and the lending policies of MDBs. Their management and lending business is controlled by their governors and boards of directors, with voting rights allocated according to the equity shares and concessional contributions of members. Capital increases are carried out from time to time depending on the political will of members to keep or increase the lending power of the MDBs over time. In principle, the MDBs do not need additional earmarked funding to fulfil their mandates. In case there is a need for additional concessional funding for low-income countries, they could ask donors for an increase in replenishments to their concessional funds. With the consent of their governing bodies, they can also use part of their net income (profits) as a source of concessional funding.

Thus, earmarked funding for MDBs is clearly complementary to their core funding and does not, in principle, affect their policy goals or their business strategy, which is determined on the basis of their core funding and the related governance processes. Therefore, in the case of MDBs, earmarked funding has a considerably lower impact on the organisations as well as on policy and country-strategy designs, as compared to the UNDS.

Why are MDBs interested in additional earmarked funding in the first place? There are three major rationales.

1. In times of limited provision of grants and concessional loans, the supplementary grants from earmarked funding help MDBs to render their own lending from ordinary resources more palatable for their borrowers. This refers particularly to MICs, which often hesitate to borrow on non-concessional terms from MDBs, particularly when they have alternative funding sources. To an increasing extent, supplementary earmarked grant

funds are used by the MDBs to buy down interest rates of loans, and thus increase their concessionality. A higher degree of concessionality is also warranted in situations where developing countries face crises that are driven by external shocks (natural catastrophes, pandemics, refugee movements) and require rapid and targeted financial interventions. It is also warranted when significant co-benefits for third countries are expected from lending, and thus a higher degree of concessionality appears to be justified.

2. Borrowers expect more than just loans from MDBs. Technical assistance and capacity-building are usually part of lending operations, but MDBs only have limited own funds for TA and capacity-building. Supplementary grants from earmarked funds are a welcome source for TA and capacity-building activities.
3. Stakeholders expect innovative solutions and first-rate knowledge from MDBs. This can be provided on scale only on the basis of additional grant funding and partnerships with donors and other stakeholders. Earmarked funding, particularly for innovative approaches related to global challenges, is a major source for new financing approaches – often attempting to leverage funding from private sources – as well as for financing additional staff for analytical work and knowledge products in the MDBs.

As a response to the debate on how to mobilise the large sums that are needed for financing the SDGs, the MDBs have adjusted their strategies towards a higher degree of leveraging public and private funds beyond their own resources (“From billions to trillions”). In this perspective, the use of supplementary grants from earmarked funds for leveraging their own as well as external resources has become even more relevant for the MDBs. The MDBs have committed to contribute significantly to SDG financing and climate finance (Development Committee, 2015). They are under pressure to prove their role in this context by showing a significant and continuous increase in funding over time, including leveraged public and private funding.

From a donor’s perspective, earmarked funding through MDBs is a way of piggybacking on the MDBs’ operational model and competences: The MDBs offer well-established lending operations; country and sector knowledge; access to governments in developing countries; a degree of political neutrality as multilateral institutions; and – particularly in the case

of the World Bank – a proven track record of knowledge work as a public good. Furthermore, over the years, the World Bank has developed into being a trusted holder of somebody else’s money through its longstanding experience and established fiduciary processes with regard to trust funds. Working with earmarked funding through MDBs is not necessarily a consideration of allocating funds bilaterally or multilaterally, but rather of using the multilateral channel for bilateral development policy goals as a way of pooling funds with other donors and the MDBs in specific areas in order to create leverage – in terms of achieving specific goals, in terms of agenda-setting and innovation, or in terms of impact on the ground through the pooling of funds – that could not be created otherwise.

In this section, we consider three instruments of earmarked funding in the MDBs:

- project funding of bilateral donors through co-financing of MDB projects
- global/vertical funds administered by the World Bank
- trust funds

For an overview of the significance of individual instruments as well as our assessment thereof, which will be elaborated on in the next sections, see Table 12 below.

<b>Table 12: Assessment of the three MDB funding instruments at a glance (disbursements in \$ millions)</b>				
	<b>Co-financing</b>	<b>Global/vertical funds</b>	<b>Trust funds</b>	
Volume (2017)	WBG: <sup>57</sup> 5,000 ADB: 5,570 IDB: 607 AfDB: 940 <sup>58</sup>	WBG: 6,200 (80% from four FIFs: GEF, GFATM, CIF, GCF)	WBG: 4,200 ADB: 311 IDB: 89 AfDB: 100	
Donor influence	** Project development, procurement and safeguards follow the rules of bilateral donors in the case of parallel co-financing. In the case of joint financing, the MDBs' rules apply and the project is designed and administered by the MDB.	** Donors exercise control through specific governance arrangements of global funds.	** Varies according to donor engagement in trust fund governance bodies and reporting efforts of MDBs. In general, more donor influence in RDBs than in the World Bank.	
Efficiency	* High transaction costs in the case of project-by-project approach. Less so in programmatic approaches based on long-term thematic collaboration among partners.	** Relatively high degree of efficiency through trusted implementation and fiduciary processes of the World Bank.	* Efficiency challenges through proliferation of a large number of small trust funds.	

Table 12 (cont.): Assessment of the three MDB funding instruments at a glance (disbursements in \$ millions)			
	Co-financing	Global/vertical funds	Trust funds
Coordination	* Difficult coordination due to the need of aligning project cycles between bilateral agency and MDB in a project-by-project approach.	** Coordination challenges between vertical approaches and more systemic country strategies.	** Coordination gains mainly in country-specific trust funds.
Ownership	** Generally good, due to the strong involvement of host governments in co-financed projects.	* Global funds are not represented in-country. Conflicts with horizontal country strategies may arise.	** Strong host country involvement in World Bank/recipient-executed trust funds, less so in other trust funds.
Sources: Asian Development Bank [ADB] (2018), ADB (2019), African Development Bank Group [AfDB] (2017a), AfDB (2017b), Inter-American Development Bank [IDB] (2018), World Bank (2017).			

57 Currently, the WBG does not report on co-financing, which is mostly managed at the country level and difficult to keep track of as long as there is no systematic internal reporting structure. In an ongoing review of co-financing, the WBG is tracking the data and will come out with a report shortly (interview B 32). Based on anecdotal evidence, the annual volume is estimated here at \$5 billion.

58 Estimation, on the assumption that 20 per cent of the current volume of co-financing agreements are disbursed annually.

## 4.2.1 Earmarked project funding – co-financing MDB projects

### *How co-financing works*

Co-financing MDB projects by bilateral donors can come in three ways:

- concessional loan and equity<sup>59</sup> co-financing
- grant co-financing for investment projects
- grant co-financing for technical assistance

The major rationale for co-financing MDB loans with bilateral grants or concessional loans is 1) the increase of lending volumes by pooling bilateral and multilateral resources in large investment projects, and 2) the buy-down of non-concessional interest rates, rendering the core funding of MDBs more attractive to borrowers. From the perspective of both partners in a co-financing arrangement, there is additional impact through scale, that is, a larger investment volume. There may be cases where an investment can only be financed through co-financing due to its large minimum scale. In this case, only co-financing would make an investment happen. Through the collaboration of two banks, there may also be synergetic impacts through the combination of knowledge and expertise.

In many cases, potential borrowers would back off from taking a loan for specific purposes that will lead to a higher fiscal burden in the future, for example for rural water supply or other commercially unviable infrastructure investments. Co-financing through grants can act as a sweetener to make loans more affordable for borrowers. In the example below (Box 10), the ADB would probably not take the risk of providing a free-standing loan for the stated purpose, and the government of Punjab would probably not borrow at a non-concessional interest rate from the ADB. The United Kingdom's contribution encourages both sides to take risk and helps to build capacity to mitigate the risk with potential leverage effects in terms of future private investments in public-private partnerships (PPPs). It supports an innovative approach that the bank would probably not have attempted in its own capacity. The bilateral funds are earmarked for a specific country and

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59 Equity financing in the case of private-sector projects carried out by the IFC or the private-sector arms of other MDBs, which do have equity as financing instruments at their disposal.

region (Pakistan/Punjab) and a specific purpose (mobilising private funding for infrastructure) on the basis of the United Kingdom's development policy goals.

**Box 10: Grant co-financing: Enhancing public-private partnerships in Punjab/Pakistan**

ADB: \$100 million (loan from ordinary resources); the United Kingdom: \$23.63 million (grant). Punjab does not have the public funding for the infrastructure and services that its people need. To address this, the Punjab government introduced the Punjab Public-Private Partnership for Infrastructure Act in 2010 to encourage private-sector participation in infrastructure through PPPs. The loan from the ADB finances a viability gap fund to help attract private-sector participation in PPPs. The United Kingdom's co-financing funds a dedicated project development facility to support engaging transaction advisors and supports technical assistance. Project duration: 2017–ongoing.

Source: ADB (2018, p. 10)

Through co-financing, borrowers can obtain larger volumes of resources than would otherwise be possible; bilateral partners can rely on MDB funding and knowledge in an area where they would like to be engaged; and the MDB increases its development impact and shares risks with the bilateral donor.

Co-financing may derive from official or private sources, and it may be channelled as either joint or parallel co-financing. Joint co-financing means that the total operation is carried out by the MDB, and the donor would commission the project to the MDB against a fee and channel the funds through the MDB. In most cases, the parallel co-financing mode is used. Donor countries that have an own development bank, such as KfW in Germany, would probably hesitate to commission an MDB with implementing loan projects and prefer the parallel co-financing mode, where separate loan agreements are made with the borrower for one large project. Procurement and safeguard policies follow the procedures of each financing institution. Donors without an own development bank, such as the United Kingdom, are using the instrument of joint co-financing more widely and rather systematically.

Another aspect for the collaborating banks' internal consideration is risk mitigation through co-financing. By sharing the financing of a project, the risks are shared as well, and additional funds in the banks' balance sheets are

freed for other projects. This is a major consideration for the development bank community at large, where co-financing is supposed to be a relevant modality for increasing the overall risk-bearing capacity of development banks. The limiting factor here is the willingness of banks to “share” projects. The size of a loan determines the income of a bank as well as the internal recognition for bank staff. In view of the scarcity of bankable projects, it is a strategic consideration to what extent a development bank would share projects that have been originated through own country and sector work in cases where there is no basic necessity to do so.

For a bilateral donor, co-financing is a way to exercise influence on the project design of MDBs. This can be an opportunity to advance the consideration of specific development policy approaches, encourage the use of loans to further specific goals in selected countries or introduce innovative solutions that an MDB has not yet considered. The co-financing with MDBs allows for implementing new solutions on a larger scale in partner countries, influence the MDB through potential mainstreaming of new approaches in the MDB and also benefit from cross-learning.

#### *Numbers and evolution of the instrument*

The regional development banks are particularly active in co-financing. In 2017 total ADB operations reached \$32.22 billion, including \$11.92 billion leveraged in co-financing, of which \$5.57 billion is from public sources (ADB, 2018). Interestingly, the ADB has only recently introduced the measure of “total operations”, which includes co-financing. This is supposed to show the efforts of the ADB to mobilise additional resources; however, it tends to inflate figures as long as the measure is not used as a standard internationally. If one would add up the lending data from international banks (MDBs, development finance institutions, bilateral and national development banks), including their claimed mobilised funds, there would certainly be a degree of double counting, and it would be unclear at times who has leveraged whom.

The RDBs have established co-financing framework agreements with cooperating donors – mostly represented by bilateral development banks (KfW, AFD, China Development Bank, Japan International Cooperation Agency (JICA), etc.) or by development agencies (e.g. DFID) – for the co-financing of a number of individual projects. The frameworks define priority sectors or countries, the division of labour between the partner



agencies in terms of project preparation and implementation, and a financing framework for a specific period. Partners are informed of bank-wide pipelines in need of co-financing. Sometimes co-financing also evolves from the country level, where borrowers opt for multi-donor financing of projects.

China has established co-financing agreements with the IDB and the AfDB,<sup>60</sup> each one for a total volume of \$2 billion. This is to be understood against the background that China is unable to contribute to the equity capital of the MDBs according to its wishes, since a significant increase in the proportion of China's equity shares and its respective voting rights are being blocked by the majority shareholders.<sup>61</sup> Particularly the voting shares in the IDB and the AfDB, where China is a non-regional member, are rather small. China does contribute to the concessional funds of the MDBs and could possibly increase its contribution. However, co-financing may offer more direct influence and a higher degree of visibility in the Chinese perspective. Through the co-financing agreements – which are earmarked mainly for infrastructure projects – China encourages a larger degree of infrastructure lending of the RDBs, which corresponds to its peculiar development philosophy and its priorities (Gasemyr, 2018).

The World Bank manages co-financing projects at the country level and does not report aggregate data. Co-financing with concessional loans of bilateral partners has been slowed down, apparently motivated by the difficulties of aligning with the project cycles of bilateral development banks. Most of the grant co-financing in the World Bank are contributions from trust funds and FIFs, which are blended with own World Bank resources. This shows that co-financing and trust funds can be very similar vehicles in their use of blending bilateral funds with the MDBs' own resources. The World Bank is currently reviewing its reporting on co-financing and will come out with new data in the near future.

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60 See Table 19, which includes the \$2 billion “Africa Growing Together Fund” at the AfDB.

61 With the latest capital increase of the World Bank, effected in 2019, China's voting power in the World Bank (IBRD) has increased from 4.37 per cent to 4.8 per cent, making it the third-largest shareholder behind the United States and Japan. See <http://pubdocs.worldbank.org/en/795101541106471736/IBRDCountryVotingTable.pdf>.

**Box 11: Loan and grant co-financing**

*Bangladesh: Second urban governance and infrastructure improvement*

ADB: \$87 million (loan); GIZ and KfW: \$40.8 million (grant)

The project was funded by the ADB, Bangladesh, municipalities themselves, and Germany. The KfW grant financed improvements in urban infrastructure in 12 secondary cities, whereas GIZ funded improved governance and capacity in all 47 project municipalities. Project duration: 2009-2015.

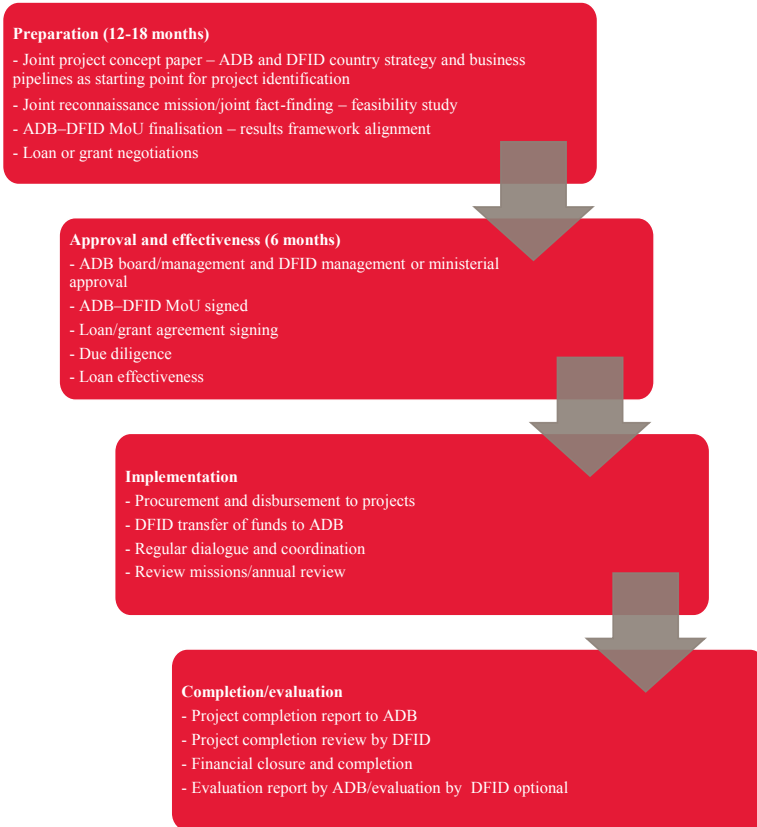
Source: ADB (2018, p. 14)

*Donor influence*

Co-financing is by definition a cooperative approach and leaves control of each participant's part in their own hands. The preferred mode is parallel financing, which means that participating banks follow their own rules with regard to social and environmental safeguards as well as procurement principles and conclude parallel loan contracts with partner countries. However, in the case of joint financing, the MDB would have a greater degree of control and responsibility over the execution since its own rules apply, and project cycles of the RDB and the bilateral development bank would have to be coordinated to a lesser extent.

The co-financing framework agreements between MDBs and donors, and the respective process of the selection of projects to be co-financed present an opportunity for dialogue and for influencing the project design. Furthermore, donor preferences for certain themes or countries can have an influence on overall bank allocations, to the extent that borrowing countries prefer projects with a higher degree of concessionality, which can be achieved through co-financing. The example below of the ADB–DFID co-financing arrangement shows the complexity of aligning the decision cycles of two independent financiers. It also shows the entry points where a bilateral donor can influence project design as long as the donor makes the effort to engage in the relevant decision-making processes. This is an example of joint financing, where DFID funds are channelled through the ADB and are a part of the ADB loan to the borrowing country.

**Figure 24: ADB–DFID co-financing coordination process**



Source: Illustration based on ADB and Department for International Development (2017)

In the case of parallel financing, which is the preferred mode of Germany on the basis of framework agreements of KfW with RDBs, there is potentially a considerable degree of influence on the project selection when a high degree of concessionality of the bilateral part nudges an RDB to engage in a specific country or sector, and on project design during the project preparation phase, which has to be closely coordinated. In later stages, there are parallel loan negotiations and implementation arrangements with borrowers, although with coordinated approaches to project supervision and monitoring.

### *Efficiency*

Co-financing with an MDB has clearly higher transaction costs, as compared to purely bilateral financing. A particular challenge is the coordination of project cycles with a multitude of formal review and approval steps between the initial request for financing and board approval in MDBs as well as in partner agencies. In the case of joint financing, there can be cost savings, as the MDB would carry out most of the planning and implementation work against a fee. Savings can become more relevant when banks engage in a division of labour, whereby each bank engages in the origination of specific projects – where it has a comparative advantage in terms of technical or country knowledge – and invites other banks to co-finance. This modality has been suggested in recent debates about the changing role of development banks (G20 Eminent Persons Group, 2018). However, as mentioned above, it would entail a considerable change in the culture of banks, which is rather challenging. In order to avoid the high costs of developing each tailor-made investment project over a lengthy period, more programmatic approaches have been suggested (e.g. standardised water utility or public transport investments across a region) that would lend themselves to shared development costs, shared risks and shared financing among MDBs and bilateral donors.

### *Coordination*

Systematic and consolidated co-financing, for example across a sector, could possibly contribute to a more harmonised approach of bi- and multilateral banks and donors, reducing duplication and competition for “bankable” projects among banks. Coordination and streamlining through joint project development and co-financing would potentially not only increase the impact of assistance, but also reduce demands on partner countries. However, those considerations have to be balanced with the higher transaction costs of collaboration with and among MDBs. Bhattacharya and Stern (2018, p. 8) suggest common platforms at the country level among development financing institutions

that can engage national stakeholders and the private sector. These platforms are likely to be country and sector specific but there is tremendous opportunity to accelerate learning and create replicable models that can be taken to scale. Such platforms could include shared diagnostics, policy and institutional support and capacity building, project preparation and standardization, and financing structures including for risk mitigation.

### *Ownership*

Country ownership for investment projects financed by multilateral or bilateral development banks is usually not a major issue, because those projects usually require considerable national and local engagement in terms of preparation and financing. MDB-financed projects as well as bilateral investment loans and grants are anchored in country-assistance strategies and bilateral government agreements.

For German development cooperation, co-financing with MDBs is a very relevant channel to increase the imprint of German influence in priority sectors and countries. Through its focus on climate-related investments and sustainable infrastructure in co-financing arrangements with MDBs, KfW has attempted to impact the quality of MDB investments (interview MS 52). However, co-financing could be better coordinated with the engagement in trust funds, using trust funds more systematically as vehicles for project preparation, with ensuing investment (co-) financing through KfW.

## 4.2.2 Global funds – The World Bank’s financial intermediary funds

### *How FIFs work*

FIFs are global programmes with sectoral or sub-sectoral earmarking and with projects to be implemented at the country level through dedicated implementing agencies. They are subject to individual governance agreements as agreed upon by donors at the time of their establishment. In several cases, ad hoc governance arrangements have been built for FIFs set up through the initiative of bilateral donors. Others, such as the GCF, are the result of multilateral negotiations.

Most FIFs are focussed on the provision of GPGs, preventing communicable diseases, responses to climate change and food security. FIFs often involve innovative financing and governance arrangements as well as flexible designs, which enable funds to be raised from multiple sources, both sovereign and private. Funds can be channelled in a coordinated manner to a range of recipients in the public and private sectors through a variety of arrangements.

FIF trusteeship by the World Bank does not involve overseeing or supervising the use of funds. This is the role of implementing agencies that receive funding and are responsible for project or programme implementation. Transfers are generally made by the trustee to external agencies (e.g. United Nations agencies or MDBs) for the implementation of activities.

There are two basic models in the World Bank's trusteeship portfolio (World Bank, 2017).

- In some FIFs, for example the GEF, the World Bank, as trustee, enters into transfer agreements with implementing or supervising agencies and transfers funds to these agencies upon instructions from the governing body. In turn, the implementing or supervising agencies enter into grant agreements to disburse funds to beneficiary recipients. The implementing or supervising agencies appraise and supervise the implementation of projects by such recipients and are responsible for monitoring the use of funds.
- In other FIFs (e.g. the GFATM), the bank, as trustee, makes direct transfers to recipient entities upon instructions from a governing body that has legal, oversight and other essential capacities and assumes overall responsibility for the use of funds.

The World Bank's technical, financial and legal expertise is employed in designing and establishing FIFs. This includes legal and treasury services, donor contribution management, accounting, reporting capabilities, prudent financial management policies, procedures and internal controls. The investment of liquid assets of FIFs is managed by the World Bank's Treasury, with the primary objective being capital preservation. An emphasis has also been placed on IT system infrastructure to support FIFs. The bank uses integrated information systems that provide end-to-end financial transaction processing and support FIF governing bodies, implementing agencies and secretariats with required data and customised financial reporting.

In addition to its trustee role, the bank may also be involved as an implementing agency that is responsible for appraisal and/or supervision of projects or programmes financed by the FIF; by providing secretariat services to the FIF; and as a FIF donor.

The financial modality of most FIFs is to provide grants for decreasing the financial cost of loans for specific investments. The World Bank itself benefits from those grant contributions. For example, the Clean Technology

Fund at the World Bank has reduced the total cost of borrowing for renewable power in developing countries by combining IBRD lending with a Clean Technology Fund grant. IBRD lending, as with the lending from ordinary resources at other MDBs, thus benefits from FIFs' grant resources. Like the trust funds at the World Bank, many of which contribute to finance the bank's own staff time and travel, FIFs enable donors to leverage the MDBs' comparative advantage as financial institutions: the fiduciary, legal and technical infrastructure that supports policy dialogue and lending at the borrowing-country level. The World Bank receives a fee for FIF trustee services, which is supposed to fully cover costs. Revenues received by the World Bank for those services amounted to \$14.5 million in fiscal year 2017 (FY17) (World Bank, 2017).

### *Numbers and evolution of the instrument*

The World Bank has a large and growing portfolio of FIFs. The total cumulative funding to FIFs by the end of FY19 amounted to \$104.4 billion. Over the last decade, the number of active FIFs has more than doubled: from 12 in FY08 to 27 by the end of FY19. From FY15 to FY19, eight new FIFs were established, whereas one FIF was closed during this period.

<b>Table 13: World Bank financial intermediary funds FY15-FY19</b>					
	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Number of active FIFs	22	24	26	27	27
Funds held in trust (\$bn)	20.3	20.4	21.1	21.7	23.1
Contributions (\$bn)	8.6	6.9	7.1	7.7	7.0
Transfers (\$bn)	7.4	6.3	6.2	7.1	5.9
Source: World Bank (2019)					

FIFs have become significant in the international aid architecture. The average amount of annual transfers from FIFs over the FY15-FY19 period was \$7.5 billion, with a peak at \$8.6 billion in FY15. In the period from FY15 to FY19, FIFs supporting the health sector received 43 per cent of the total contributions to FIFs, and the environment and climate change sector received 39 per cent of the total contributions to FIFs (World Bank, 2019). One of the newest FIFs is the Global Concessional Financing Facility (GCFF). The rationale of the GCFF is to make non-concessional loans affordable to MICs (Jordan, Lebanon, and recently Colombia) that have

been hit by refugee crises. Through the use of grants from the fund for subsidising non-concessional loans, their financing terms are made more acceptable for the borrowing countries.

**Box 12: Global facility as rapid response instrument for MICs affected by refugee inflows**

*Global Concessional Financing Facility*

Jordan Emergency Health Project

Implementation support agency: World Bank and Islamic Development Bank (IsDB)

Loan amount: \$115 million (\$100m World Bank; \$50m IsDB)

GCFF concessionality amount: \$34.9 million

Borrower: Government of Jordan

This emergency loan programme was established to maintain the delivery of primary and secondary health services to poor, uninsured Jordanians and Syrian refugees. The programme is initially targeted at helping approximately 2.4 million people (2.1 million Jordanians and 331,000 Syrian refugees), though the number of refugees covered may increase. The access of this population to critical health care is at risk, as the influx of large numbers of Syrian refugees has put severe strains on the delivery of basic health services.

Colombia received a grant from the GCFF amounting to \$31.5 million to buy down the interest rate for a \$750 million IBRD budget loan, which is supposed to be used for covering the costs for refugees from Venezuela.

In two years, the GCFF has approved \$500 million in grants, which, due to the leveraging factor of the facility, has unlocked more than \$2.5 billion in concessional financing for development projects aiming to improve the lives of refugees and their host communities. Donors can earmark their contributions for specific countries.

The GCFF volume is \$580 million (as of February 2019). With \$102 million, Germany is the second-largest donor to the GCFF after the United Kingdom.

Source: Global Concessional Financing Facility (2018)

*Donor influence*

Donors exercise control over FIFs through the specific governance arrangements. This allows donors to buy into the governing body of an FIF through its membership.



FIFs are funded via replenishment cycles. It is at the donor's discretion to what extent they replenish the funds (the Climate Investment Funds have not been replenished since 2008). Thus, there is no accountability mechanism for recipient countries that would allow them to plan for a long-term use of FIF resources. A feature of FIFs is the extent of private contributions from foundations and philanthropic donors, which, due to the flexible governance and administrative arrangements of FIFs, are easier to accommodate, as in the case of trust funds.

FIFs give the donors a certain leverage for earmarking, in the sense that they can determine the use of funds through the governance mechanisms. The World Bank, which is more than only a technical trustee in several FIFs, but also hosts the secretariat and exercises influence as a board member, would like to draw FIFs closer into the World Bank's strategy and processes without any "deeper" earmarking of the use of funds (see Section 5.2). However, it can be assumed that it is the greater degree of influence on the use of funds that is a major incentive for donors to contribute to FIFs. With regard to contributions to global health FIFs, Clinton and Sridhar (2017, p. 330) argue that

it is conceivable that the greater control donors have over their funds and the heightened ability to monitor how those funds are used have led to more funds being contributed, funds that otherwise might not have gone to global health at all.

Thus, there appears to be a close link between donor influence and the volume of contributions – a fact that has to be taken into account in changing the governance mechanisms of FIFs.

### *Efficiency*

Because they can combine funding from several donors and depend less on national political decisions than national programmes do, global funds can optimise the efficiency of their pooled contributions.

On the other hand, vertical funds clearly contribute to the proliferation of aid institutions in certain thematic areas (climate, health), since the horizontal institutions that base their intervention on country strategies do not retreat when a new vertical fund is created. This has led to debates about the effectiveness of this system – for example in the health sector when the GFATM and other vertical schemes were created – and this debate continues until today in the area of climate finance, where even the proponents of the

vertical approach warn about the proliferation of funds: “Large numbers of often inadequately funded global funds – as is the case in the area of climate finance today – are not advisable” (Sustainable Development Solutions Network Secretariat, 2015).

For bilateral donors, the global funds are the major instrument of choice for investing in their specific priority areas in the multilateral system. Adding all the donor priorities in a diverse setting of global funds, however, may result in a fallacy of composition where no clear priorities exist anymore on an aggregate level, or where priorities are set in a way that is crowding out other important themes/sectors. Therefore, there should be a systemic perspective on the global funds, which could be introduced at the occasion of the trust fund (including the FIF) reform efforts of the World Bank (see Section 5.2).

The global funds are generally regarded as effective instruments of aid disbursement. This refers particularly to the good reputations of the GFATM and GAVI, which appear to have spread to the vertical funds as an instrument, in general. Looking at the rankings of multilateral organisations based on different performance assessment methodologies shows that the GFATM and GAVI rank high, at about the same level as the major MDBs (Rogerson & Barder, 2019). It can be doubted that all global funds would pass with high marks at a more thorough level of scrutiny. The GCF, for example – being mainly a refinancing source for the MDBs, which implement more than 90 per cent of its funding along the lines of their traditional lending – belongs to the funds that so far have not added any visible value to the system, also taking into consideration that its funding is not necessarily additional. Their erratic replenishment processes, depending mainly on donor largesse, make the instrument in general a rather ad hoc modality of multilateral funding.

It appears that the World Bank guarantees a high degree of efficiency in implementing FIFs. Whether they are efficient in comparison to other multilateral instruments (co-financing, trust funds) is difficult to determine. The fund modality, with its additional layer of governance as compared to the core funding of MDBs, increases transaction costs, which, however, may be balanced through a higher degree of outcome focus and donor control. Obviously, there is a lack of alternative trustees to the World Bank and a scarcity of appropriate institutions with sufficient credibility. After a long period of being interim trustee for the GCF, the World Bank still remains the trustee, as determined by the governing bodies of the UN Framework Convention on Climate Change (UNFCCC), although other institutional solutions were originally envisaged.

### *Coordination*

Due to their vertical approach without representation in-country, coordination with country strategies and donor programmes is a challenge. A recent case study on the GFATM in Mozambique comes to the conclusion that the “lack of a country office has many negative downstream effects including reliance on in-country partners and ineffective coordination” (Warren et al., 2017). As long as FIFs work through established implementing partners – MDBs or UN organisations – these coordination problems are less significant since they are represented locally, and in most cases have established processes for stakeholder involvement and donor coordination.

### *Ownership*

Recipient countries do have little control, since the “vertical” funds are not represented in-country, although developing-country members are strongly represented in some of the funds. Developing countries hold approximately half of the seats in the boards of three large global funds (Gavi, Global Partnership for Education and the GFATM) and have a say in where and how money is spent. Civil society organisations are also represented at the board level. In this perspective, the global funds represent an alternative governance structure – compared to the World Bank and other MDBs – that attracts funding and increases ownership by stakeholders who feel underrepresented in the MDB system. In the view of a large part of the donor community, global funds have – due to their unique governance arrangements with high levels of developing country representation – a higher degree of legitimacy as compared to the MDBs. This contrasts somewhat with their lack of representation in country processes and their vertical approach of focussing on a narrow set of outcomes.

In several FIFs, particularly the GFATM, the GEF and the CIF, national ownership has been strengthened by working through ministries that have the mandate to coordinate action across the government administration or through national coordination committees (Bird, Cao, & Quevedo, 2019). Furthermore, implementing agencies for FIFs usually have their own rules and processes for strengthening national ownership that are applied when implementing FIF-funded projects.

### 4.2.3 Trust funds

#### *How trust funds work*

There are three types of trust funds in the MDBs:

- trust funds supporting MDBs' core financing through analytical and advisory TA and capacity-building;<sup>62</sup>
- global and regional thematic trust funds with TA and investment funding (mainly grants, in a few cases concessional loans and guarantees) as instruments;
- country-specific trust funds (Afghanistan/World Bank, Zimbabwe/AfDB, Jordan-Lebanon/World Bank & UN) as a means of addressing funding and coordination on the ground in fragile states.

The main types and categories of trust funds are multi-donor and single donor; multi-recipient; single-recipient; and global.

Trust funds are based on tailor-made agreements between the MDBs and a donor or a group of donors. The agreements specify the trust fund governance, which usually consists of a steering committee of donors and the MDB, and the specific purposes for which the funds are to be used. The choice of activities to be financed is determined by the fund management, which is usually integrated into an MDB and endorsed by the governing bodies. The major difference to FIFs is that trust funds are administered and managed by the MDBs themselves, with governance arrangements being streamlined according to MDB rules and regulations, whereas FIFs allow a greater flexibility with regard to governance and management arrangements.

Trust funds are supposed to be set up faster than projects that are managed through the normal programming processes in MDBs. This is relevant particularly for trust funds to be established for fragile situations in which the rapid mobilisation of additional funds is required.

MDBs have made efforts in various rounds of trust fund reforms to provide a framework or platform by which thematically related trust funds are strategically coordinated with the various funding sources, whereas distinct

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62 TA trust funds (consulting funds) used to be tied to procurement in donor countries in the early days of trust funds. Tied funding is not accepted anymore by the MDBs, following the aid effectiveness principles of the Paris Declaration.

governance arrangements are maintained for individual funding windows on the platform (see Section 5.2).

### *Numbers and evolution of the instrument*

There are about 950 trust funds at the World Bank (excluding FIFs), 48 at the ADB, 42 at the AfDB and 50 at the IDB (see Section 5.2 for detailed figures).

The World Bank is disbursing around \$4 billion per year from trust funds. In 2017 the ADB disbursed around \$311 million (loans and equity: \$165 million; grants: \$146 million); the IDB around \$150 million and the AfDB around \$100 million (Table 12).

This large difference in numbers shows that the World Bank trust fund business differs considerably from the RDBs in terms of magnitude. World Bank engagement in trust funds comprises about 10 per cent of its lending business, whereas for the RDBs it is only around 1-2 per cent of their lending. This has major repercussions for the context in which trust funds are discussed: For the World Bank, it is about a major business activity that – in one way or the other – has to be aligned to its core business, whereas for the RDBs, it is rather a side activity that does not interfere to the same extent with their core business, as with the World Bank.

#### **Box 13: CGAP – a global knowledge facility**

##### *Consultative Group to Assist the Poorest (CGAP)*

CGAP is a global partnership of 34 organisations that seek to advance financial inclusion. CGAP develops innovative solutions through practical research and active engagement with financial service providers, policy-makers and funders to enable approaches at scale.

Contributions paid from inception to end of 2017: \$319 million.

Housed at and administered by the World Bank as trustee, but with a separate governance and funding structure, CGAP serves as an independent platform to exchange knowledge and coordinate financial inclusion efforts.

The Council of Governors (CG) is the membership and governance body of CGAP, chaired by a World Bank senior director. Each member appoints a focal point as its CG representative and has one vote on the council. At the annual CG meeting, members discuss CGAP's strategic direction, review and approve work plans and budgets, and share knowledge about new innovations and trends.

**Box 13 (cont.): CGAP – a global knowledge facility**

The Executive Committee (ExCom) operates like a Board of Directors and provides strategic guidance to CGAP's operational staff. To facilitate governance among the 34 member organisations, each member is appointed to a constituency – one for foundations, one for MDBs, one for development finance institutions and two for bilateral agencies. One representative from each of these five constituencies sits on the ExCom. In addition, four at-large representatives – chosen in their individual capacities for their expertise in financial inclusion – serve on the ExCom. There is also one representative on the ExCom from the World Bank as trustee. Finally, CGAP's CEO serves on the ExCom, making a total of 11 ExCom members. The ExCom meets at least twice a year in person, and its members serve three-year terms and are eligible for an additional two years through an election.

Germany is represented in the ExCom through GIZ.

Source: <https://www.cgap.org>

*Donor influence*

The degree of control of donors depends on governance arrangements and the role of the donor in the conceptualisation and steering of the trust fund. There is a high level of diversity with regard to donor engagement. Each trust fund in a way has its own identity and processes vary, although they are determined by trust fund governance arrangements. As Reinsberg shows in his work on trust funds in the World Bank, they are also intended to influence MDBs on a policy level, particularly by introducing new themes in the MDBs via the establishment of trust funds (Reinsberg, 2017c). There are examples of how gender policy or the concept of output-based aid was pushed in the World Bank through the establishment of trust funds by donors.

An avenue for influence is the design of the results framework of a trust fund that reflects the goals and envisaged outcomes as determined by donors. The reporting systems of trust funds are usually based on an agreed results framework. Reports are sent to donors annually or bi-annually, with annual donor meetings as a rule. The IDB and the World Bank have established an online tool for reporting that informs about the status of disbursements from the respective trust funds for contributors. According to expert interviews, the reporting of the World Bank is sometimes less detailed as compared to reporting by the RDBs (interviews MS 51, MS 53). It appears that the RDBs in general put more effort into relationships with donors and are ready to

meet the requirements of donors as thoroughly as possible. Whereas the World Bank hesitates to accept individual results frameworks (outcomes, goals, indicators) that deviate from the agreed framework of the fund, the RDBs are ready to deliver tailor-made reports for donors, accepting their individual requirements (interviews B 14 and B 27).

How is the approval of projects that are to be funded from trust fund resources handled? Usually, there is a formal application process in the banks. In the case of thematic funds, staff from operational departments apply for funding, and the fund management decides, in accordance with the agreed governance requirements of the fund. In some cases, there is a bank-wide call for proposals, and a decision on fund allocation is taken by a dedicated commission (interview B 29). However, informal processes often overlay the official rules, with demand for some funds being high and for others low, also depending on informal relations. The final decision on project selection and fund allocation is taken by the steering committee, which involves the contributors to the trust fund. Depending on the specific governance arrangements, the fund management more or less has the discretion to decide on allocations. In all cases, the projects to be funded have to be endorsed by the steering committee on a regular basis.

Some donors prefer single-donor trust funds to multi-donor trust funds because they assume that they have greater influence and control through this modality. For example, Japan has SDTFs in all MDBs, whereas the United Kingdom is a proponent of MDTFs. Whereas the World Bank attempts to phase out most SDTFs in order to curb the proliferation of small trust funds, the RDBs are more accommodating. There even seems to be a tendency for establishing more SDTFs than MDTFs, since the experience with cumbersome and time-consuming governance processes in MDTFs are largely not positive (see Section 5.2). As long as SDTFs are integrated in a thematic platform and managed by a dedicated thematic team, it seems to be less important as to whether a trust fund is single- or multi-donor. The thematic team has to juggle individual donors' requirements in any case (interviews B 29 and B 14). This can be handled better in the RDBs with around 50 trust funds, rather than in the World Bank with 950 trust funds, where it can lead to a higher degree of diversion of management processes.

### *Efficiency*

It is generally recognised that the large number of small trust funds in the World Bank leads to inefficiencies (IEG, 2011; World Bank, 2017). RDBs are affected by the proliferation issue to a much smaller extent. However, in order to meet donor requirements, each trust fund is tailor-made, and an evaluation of the Japanese trust funds in the IDB came to the conclusion that “it is challenging and potentially inefficient for a trust fund programme like the JTF and an organization like IDB to manage the funding of a very large number of relatively small projects on an individual basis” (IDB, 2014, p. iv). Thus, the efficiency challenge becomes obvious when we look at the large number of activities/projects that are funded by trust funds. The administrative cost that comes with this mode of operation is clearly high, as compared to activities financed by core funds of MDBs. Donors have to pay an extra fee to cover the administrative cost (2-10 per cent, depending on the nature of the trust fund). It is critical to determine that this cost (in the German case, another fee is to be added for the services of KfW or GIZ) has to be justified by the outcomes of a trust fund.

There are no general evaluations that could shed light on the efficiency or effectiveness of trust funds in general. One exception is the Independent Evaluation Group (IEG) evaluation of World Bank trust funds, which is, in a way, inconclusive, but it still confirms the importance of trust funds as an instrument.

The evaluation concluded that “trust funds have not been a consistently effective way of providing financing. They do not necessarily integrate well with countries’ own programmes, nor do they foster coordination on the ground with other sources of aid”. It found “no clear evidence that trust fund resources have added to global ODA”. However, it also argued that, in certain areas, trust funds were important and could be “indispensable in providing coordinated grant financing in response to country emergencies” and might “add value as a vehicle for financing global and regional public goods”. Without mentioning specific cases, the IEG states that “many global funds – including funds that [...] finance the provision of regional or global public goods – involve little or no recipient participation in their initiation and design” (IEG, 2011).

The most convincing value added is thus attributed to trust funds in fragile situations or in the context of emergencies (see the Afghanistan example below in Box 14), or for the provision of global public goods.



The MDBs, particularly the RDBs, emphasise the potential for innovation as a major contribution of trust funds to their business (ADB, 2018; IDB, 2018). Trust funds present a platform for knowledge creation and dissemination (MDTFs more than SDTFs) and for testing new approaches, which is seen as potentially transformative. From a donor perspective, this can be a major motivation for establishing a trust fund.

Another criteria for the efficiency and effectiveness of trust funds would be the degree to which lending by MDBs (and by other public and private lenders) is leveraged through trust funds. However, there is no overall measure on the leverage of trust funds. Individual trust funds do report on their leverage effect, but it requires a common yardstick on what can be counted as leverage before trust funds can be compared with this measure.

**Box 14: Country-specific trust fund**

*Afghanistan Reconstruction Trust Fund (ARTF)*

The ARTF was established in 2002 to provide a coordinated financing mechanism for the Government of Afghanistan's budget and priority national investment projects. It is governed by a steering committee, a strategy group and a management committee composed of donors, the World Bank and the Afghan government. It is the single largest source of on-budget financing for Afghanistan and covers key sectors such as education, health, agriculture, rural development, infrastructure and governance. The ARTF is the major forum for cooperation between donors, the World Bank and the Government of Afghanistan on economic and governance reform issues. The ARTF is supported by 34 donors and administered by the World Bank. The trust fund operates a system of "preferences". A preference is a formal recognition by the ARTF administrator of the donor's preference to allocate a certain portion of a contribution towards a particular project or programme. However, the World Bank cannot always meet donors' requests for preferences since the allocations of the fund are determined through consultation with the Afghan government. Contributions paid from inception to the end of 2017 was \$9.85 billion. With \$374 million in the period 2014-2018, the ARTF represents the single largest trust fund contribution of Germany. Despite some critical aspects regarding the financial sustainability of the ARTF and limited ownership of the Afghan government, it has been generally regarded as an effective instrument of coordinated assistance in a very difficult political setting (Sida, 2015). The 2012 External Review of the ARTF concluded that "[t]he ARTF remains the mechanism of choice for on-budget funding, with low overhead/transaction costs, excellent transparency and high accountability, and provides a well-functioning arena for policy debate and consensus creation" (Scanteam, 2012).

Source: World Bank (2017)

### *Ownership*

The IEG evaluation has identified a relatively low level of involvement of recipient governments in the management of trust funds (IEG, 2011). However, in the meantime, a large part of the World Bank's trust funds are being executed by recipient countries, which is not the case in RDB trust funds. Nevertheless, the World Bank remains in control of fund disbursement, which is the reason why it was entrusted with the funds in the first place. But countries are responsible for the results in recipient-executed trust funds (RETFs), which might be an appropriate way to promote ownership.

New trust fund approaches such as the Global Financing Facility attempt to involve recipient governments to a greater extent, particularly through a greater emphasis on domestic resources as a complement to the contributions of the trust fund.<sup>63</sup>

## 4.2.4 Conclusions

All three instruments of earmarked funding of MDBs are valuable for BMZ's multilateral cooperation. If used strategically and based on sound principles, they are complementary to, not competing with, the core funding of MDBs.

- Selective co-financing of MDB projects, aligned with German priorities, can accomplish greater impact and reduce risk in innovative approaches, as compared to purely bilateral funding.
- Investing in global funds administered by the World Bank can render additional benefits through joint approaches, although a focussed approach that avoids a proliferation of funds in the same thematic areas is warranted.

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63 Global Financing Facility: Leveraging public and private funds through innovative financing models. The GFF provides co-financing and loan buy-down grants that enable governments to catalyse public and private funds for investing in the health and nutrition of women, children and adolescents. A mechanism that uses modest amounts of grant resources catalytically, bringing programmes to scale by leveraging far greater sums of domestic government resources, IDA and IBRD financing, aligned external financing and resources from the private sector; see <https://www.globalfinancingfacility.org>.

- Contributions to trust funds at MDBs are a way of leveraging impact in priority areas and promoting innovative approaches. Multi-donor and programmatic approaches have potentially greater impact. Selectivity is key, particularly in the World Bank, where a more thematically consolidated approach is under way.

The *trade-off* between donor visibility and influence on the one hand, and coherent bank management on the other hand remains (see Section 5.2 for more details on MDB reforms of trust funds). It can only be mitigated through coherent trust fund management on the donor side (regard MDBs as a system, allocate resources strategically across the system, clarify the desired results) and on the bank side (accept donors as strategic partners, manage thematic platforms with strong results-orientation, decline unsolicited offers to establish trust funds).

## 5 How multilateral organisations approach and deal with earmarking

While the previous section focussed on the operational side of earmarking, this section focusses on the role international organisations play in the world of earmarking. Both the banks and UN agencies have been affected by the rise in earmarking. The share of earmarked revenue varies for each organisation, earmarked contributions have become an integral part of business models and ways of working for all major multilateral development organisations. However, the role that international organisations play with regard to earmarking is a colourful one with a number of elements, several of them even contradictory. Benefiting from earmarked resources, organisations have, in a sense, been drivers of the creation and expansion of instruments of earmarked funding. They have done so, both in response to new development challenges, such as the need for GPG funding, but also for more selfish reasons of capturing an appropriate share of the cake of earmarked resources provided by donors. At the same time, earmarking has proven to be disruptive to the administrations of international organisations. Earmarking typically invites donor influence and leads to fragmentation and increased transaction costs. All major international organisations are involved in efforts to better channel, mitigate and control the practice of earmarking.

The section analyses how multilateral organisations have positioned themselves in the field of earmarked development finance in response to changes in their environment. It looks both at their external relations with donors, but also at the internal challenges that earmarking poses for the smooth and efficient running of their administrations. It explains how the current portfolio of earmarked funding instruments has evolved, and how organisations are engaged in efforts both to change donor behaviour regarding earmarking and to reform their own internal handling of earmarked resources, for example through efforts to consolidate the fragmented earmarked funding they receive in platforms or thematic funds. In that regard, there are, despite many commonalities, substantial differences between the UN agencies and the banks. Rather than adopting a rigorous analytical scheme that we could apply to both types of organisations, the analysis orients itself towards the practical reform debates in the respective (group of) organisations. The two sections therefore differ in their approach and structure, but this should only make them more relevant to the respective community of practitioners.

## 5.1 UN agencies

The analysis of UN agencies proceeds in four steps. First, we examine both positive and negative ways in which earmarking affects UN agencies' ability to provide effective support for sustainable development. Second, we explore how UN agencies have themselves contributed to, or even invited, the practice of earmarking and why. Following that, we analyse how agencies mitigate the impacts of earmarking. While much of this mitigation consists of ad hoc responses to practical problems, the last section focusses on the more explicit strategies of UN agencies to push back against donors' tight earmarking practices. The findings from this section contribute to research on the political economy of international organisations (see Dreher & Lang, 2016), which, so far, has largely omitted UN development agencies, with the exception of WHO.

### 5.1.1 Positive and negative aspects of earmarking

The dramatic rise in earmarked funding to UNDS agencies would be hard to explain if not for the constellation of stakeholders on all sides that derive at least some benefits from earmarked funding. This applies to donors and developing countries, but it should also apply to agencies. We start by highlighting some aspects of earmarked funding that are somehow beneficial

to UN development cooperation. Although these benefits come with trade-offs (as discussed below), they also imply that a return to a 100 per cent-core world might be neither feasible nor desirable.

- *System performance*: The close involvement of donors provides a caretaker function for the UN. The entrepreneurial element of having to demonstrate efficiency, accountability, agility and success has shaped UN systems and operations profoundly. Interviewees confirmed that the UN today has less room for complacency than 10 years ago (interview UN 20), and that the working climate is much more dynamic and results-oriented. Stronger UN systems help to position UN agencies as strategic partners to donors (interview UN 28).
- *Responsiveness to governments*: Earmarking establishes accountability to donors, and the tighter the earmarking, the more accountability. This has problematic implications, but may also help the UNDS to evolve fluently – in line with the political interests of member states – and thus stay relevant. Trust funds have been recognised as tools for donors to push thematic priorities, which are later embraced by boards (Reinsberg, 2017c). As host governments are usually involved in establishing earmarked projects (this varies between agencies and countries), they are also not losing influence at the country level per se – in some cases the exact opposite.
- *Higher volumes of funding for the UN*: The ability to earmark – and perhaps also the diversity of instruments in that category of funding – have probably increased revenue streams to the UNDS. Over the last two decades, earmarked contributions have grown significantly, whereas core contributions have more or less stagnated (see introductory section). Earmarking has helped to support specific thematic issues, such as Swedish support for gender issues. In MICs, the UN may increasingly rely on earmarked contributions to maintain its global reach (interview UN 33), although to date these countries receive approximately the same share of core funding (21 per cent) as low-income developing countries.<sup>64</sup> Although the unpredictability of earmarked funding causes problems, the positive flipside of short-term contributions is that member states do not need to commit themselves to sustaining their levels of support, which might make them more willing to give in the first place.

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64 According to data shared by UN DESA

- *Greater political influence:* Although earmarking generally reduces the level of agencies' autonomy, it can strengthen their hands in the implementation of programmes and projects. According to our interviews, earmarking helps provide agencies the direct political support of respective donors – and their respective embassies – during project implementation. This kind of donor support, which replicates the global power (im)balance at the country level, can be particularly valuable regarding normative issues. It is perhaps “no coincidence that activities to enhance good governance, for instance, are often financed through trust funds rather than through core funding. Such programmes would risk lengthy discussions in the boards” (Michaelowa, 2017, p. 120).
- *Scaling-up of activities and driving innovation:* Although straying from mandates and programmes is an issue, earmarked contributions can also serve as a “fountain of youth” for agencies. They bring in new ideas, concepts and approaches from various donors, thus expanding the UN's range of activities and solutions (though always at the risk of diverging agencies' attention away from core mandates) (Browne et al., 2017). Some pooled funds are created specifically to foster change and innovation, such as the Innovation Funds. Annual reports of UN agencies are full of examples in which donor projects drive or scale-up innovation. Sometimes agencies can take more risks with donor support. All four examples of innovative projects presented in UNDP's 2017 Annual Report were co-financed with earmarked resources (UNDP, 2018a). System-wide trust funds such as the Joint SDG Fund or the One UN Funds specifically support the functions and integration of the system, rather than fragment it.

These are generally positive impacts of earmarked funding, but they need to be weighed against the various trade-offs. In the next step, we review the potential negative impacts earmarking (respectively the long-term lopsided ratio of core/earmarked resources) can have on the administrations of UN agencies and their ability to provide effective support to sustainable development. Our findings by and large confirm what has been discussed in the literature on multilateral development organisations, as discussed in Section 2. Based on the review of expert literature, UN entity documents and interviews in HQ and the field, we add various nuances regarding specifically the UNDS, and in that sense contribute to assessing the scope of the negative consequences. Our overall assessment is that the negative impacts of earmarking are currently stronger than the positive aspects.

*Observation 1: A low share of core undermines “core functions” regarding allocation of resources, HQ activities and institutional capacity.*

The imbalance in agency budgets of large amounts of earmarked versus relatively small amounts of core funding creates a number of problems regarding agencies’ ability to deliver effectively. Ideally, agencies have a “critical mass” of core resources, which allows them to absorb any detrimental effects of earmarked funding. Broadly speaking, core resources fund three sets of activities: 1) programme activities, 2) HQ and core-functions and 3) management and administration. With the shift towards earmarked funding, all three areas have come under pressure.

1. *Funding of programme activities:* Allocations according to evidence-based policies are generally recognised as being the most effective because resources are then directed to where they are most needed and have the greatest impact (Bigsten & Tengstam, 2015; Gulrajani, 2016, p. 10; interview UN 39). Core resources are allocated according to criteria set by boards and are generally based on the wealth of a country and the status of development regarding an agency’s mandate. Earmarked funding follows donor priorities, with a risk of creating overfunding in one area and gaps in others (Adugna, 2009, p. 4). In contrast to the World Bank, UN agencies have limited freedom to fill gaps with core resources, which are, as noted above, subject to allocation criteria.<sup>65</sup> Relatively small amounts of core resources would also not be sufficient to cover for unexpected situations or to counterbalance the large amounts of earmarked contributions (interview UN 30).<sup>66</sup>
2. *Lack of core funding translates into defunding of “core functions”:* Project activities should flow from, and be supported by, functions such as knowledge work, advocacy, convening, norm- and standard-setting, and coordination, which could be described as multilateral “core functions”. Agencies may not be able to adequately perform these functions at the HQ<sup>67</sup> or country levels, as donors emphasise more operational activities

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65 The World Bank can compensate imbalances through flexible allocation of core funding (Michaelowa, 2017, p. 117).

66 There are, however, paradoxical effects. As increasingly smaller amounts of core funding still have to be allocated to specific outcome areas, these core resources can arrive at the county level in a form much like tight earmarked donor funds (interview UN 13).

67 A UN Women evaluation (UN Women, 2016a) warns their HQ is already overstretched in its normative functions and needs to become more selective.

(interviews UN 19, UN 20). The result is that agencies focus too much on service delivery without commensurate attention to the root causes, systemic issues and enabling environments (interview UN 30). An example comes from UNDP, where, according to midterm figures presented to its board, the outcome “thought leadership” was only 27 per cent financed, whereas “basic services” was overfunded at 132 per cent (UNDP, 2017a, p. 4). With little to offer because of already depleted HQ and core capacities, agencies may find it difficult to raise money for these activities (Jenks & Jones, 2013).

3. *Constraints on management and administration:* Underfunded administrations translate into insufficient staff capacity, which affects the ability to build and retain expertise, engage in partnerships and innovate. Evaluations show that UNDP is particularly affected by underfunded administrations (UNDP Independent Evaluation Office and Office of Audit and Investigations, 2017, pp. xv, 19). The application of results-based management systems is unsatisfactory across the UNDS, not because of management deficits, but because of a lack of core resources (UNDP Independent Evaluation Office and Office of Audit and Investigations, 2017, pp. xiii, 18, 20; UNICEF, 2016). As a result, theories of change – an integral part of results-based management – are not sufficiently applied. The causality of development interventions remains unclear in project design, a lack of baseline data means that success is hard to demonstrate and comparative advantages of agencies are not clarified. All this has a direct impact on programme quality and development impact.

*Observation 2: The short-term cycles of earmarking generate a trend towards low-hanging fruit rather than addressing complex socio-economic challenges in the spirit of sustainability.*

The UN’s four-year plans (strategic plans, UNDAFs, country frameworks) require equally long funding for their effective implementation. Short-term funding, be it core or earmarked, requires budgetary gymnastics to maintain institutional structures (office space, leadership positions, management systems, etc.) (interview UN 26). On the programme side, it raises additional problems that directly affect development effectiveness, additional to the efficiency issues discussed above (interviews UN 20, UN 26, UN 30). Efforts to build coherent programmes increase potentially with the number of projects under them. Financial losses from unfavourable currency



exchanges and a lack of flexibility in the purchase of commodities result in inefficiencies. As discussed in Section 4, this complicates partnerships with governmental units and civil society organisations, which take time to build if they are to lead to shared values. Regarding effectiveness, it leads agencies to aim for the low-hanging fruit of measurable, more easily achievable results through service delivery rather than tackling more transformative, complex development challenges. This kind of work is achieved through measures such as high-level policy dialogue and advocacy that aim to change longstanding attitudes, norms and policies. That is, in our view, the kind of development cooperation required by the 2030 Agenda. Agencies do not provide analyses of short-term funding, but they have eluded to it in various documents.<sup>68</sup> A lack of more comprehensive approaches has also been noted as restricting the UN's effectiveness (UN DESA, 2018a, p. 20).

*Observation 3: Earmarking drives competition and hinders coordination.*

Compared to core resources, earmarked contributions tend to be given in a piecemeal and unregulated fashion, usually outside relevant planning frameworks. This invites agencies to compete for resources. Although fuelled by fundraising pressure and opportunity, the competition is only possible because agency portfolios overlap in an almost extreme way (Dalberg, 2017). At the country level, inter-agency coordination often ends where it interferes with the fundraising autonomy of agencies (Baumann, 2018b). RCs will be reluctant to enter into joint resource mobilisation in order to avoid encroaching on UNCT members' perceived fundraising autonomy.<sup>69</sup> Modalities of inter-agency collaboration, such as joint programmes, which hold the promise of greater effectiveness through joint approaches, in

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68 UNICEF published a briefing paper on this issue in which it states that earmarking inhibits creating an “enabling environment”, changing public perceptions and building networks – some of the UN's most comparative advantages (UNICEF, 2018a, p. 3). Another publication notes that “[c]ompressed project or program time frames [...] meant resources were withdrawn before sustainability could be achieved;” (UNICEF, 2016, p. 39). UNFPA describes its efforts in line with the QCPR “to shift away from ‘delivering things’ to ‘delivering thinking’, or move more upstream to focus on advocacy and policy dialogue/advice rather than service delivery” (UNFPA Evaluation Office, 2017, p. 46). It also notes the need for “softer interventions, which may be more difficult to quantify than services and training”. For this, the results-based management system would need to be adjusted (UNFPA Evaluation Office, 2017, p. 47).

69 It will be interesting to see if the reform of the RC system results in more powerful RCs that can effectively orchestrate collective approaches in the UNCTs.

practice are often marred by agencies jostling for an appropriate share of resources. Donors heighten the stakes when they tender projects, and this competition reduces the degree of impact when it hinders coordination. The 2030 Agenda advises a coherent approach in the spirit of Delivering as One. In the same vein, the Independent Team of Advisors (2016) and others were clear that coordination is essential for “the UN we need”. From the empirical side, developing countries confirm in surveys that lack of inter-agency coordination restricts the UN’s effectiveness (UN DESA, 2018a, p. 20), and that they have not seen an improvement in UN coordination in recent years (UN DESA, 2018a, p. 43). Competition also takes place within agencies when “freelancing” programme managers engage with donors separately (Browne, 2011, pp. 77, 107; JIU, 2014a, p. 24), rather than aligning themselves behind agency-wide priorities; earmarking can thus reinforce centrifugal tendencies within and between agencies.<sup>70</sup> It is worth noting that, although competition reduces the level of coordination, the reverse logic has also been shown in certain Delivering as One countries, whereby greater coordination reduces the level of competition. Sound coordination can also improve the UN’s role in contexts where it competes against actors that provide similar development services (e.g. non-governmental organisations, consultancies, banks).

*Observation 4: Earmarking creates significant inefficiencies in the UNDS.*

The transformation towards earmarked funding has created the problem of high transaction costs. Each earmarked contribution needs to be negotiated, with a donor contract being signed and reported upon that often meets donor-specific requirements. This is a labour-intensive process that prevents staff from working on development issues. As the transaction costs are the same for all projects, the trend towards shorter and smaller projects increases inefficiencies (interview UN 20). Agencies do not conduct (or share) sound analysis on the quantitative side of this aspect of earmarking. For a Joint Inspection Unit (JIU) report on donor reporting requirements (JIU, 2017, p. 30), only UNICEF and UN-Habitat provided comprehensive numbers, with each mentioning 3,000 reports annually. WFP shared information stating that 239 project reports were provided in 2017, with 425 estimated

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70 This can undermine credibility with donors. Two interviewees reported how in their entities people from different teams approached the same donor, annoyed them and ruined any possible or existing relationship with them (interviews UN 25, Ex 8).

for 2018.<sup>71</sup> UNDP, with its more than 4,000 projects, should have at least as many annual reports.<sup>72</sup> In our field research, some larger offices reported that they had to submit one donor report every week (interview UN 2). Although many donors accept agencies' standardised reporting, they often request additional information more frequently than the agreed reports, and on more indicators (interviews UN 2, UN 25). Agencies, while complaining about the administrative burden of reporting, also pride themselves in being able to meet donor requirements, providing them an edge in the competition for resources (JIU, 2017, p. 30). The flipside of that is that management systems are optimised towards donor satisfaction at the cost of development effectiveness, which donors intend to improve by earmarking (UNFPA Evaluation Office, 2017, p. xi). Not all agencies are affected the same. In our country-level research, we encountered a number of field offices that have only three or four donors to which they have adjusted, so they did not see a problem with the reporting requirements (interviews UN 3, UN 16).

*Observation 5: Earmarking reduces the amount of flexibility and predictability in a way that hurts effectiveness.*

The tighter the earmarking, the more that agencies are restricted in the use of their resources, and this can have a direct impact on effectiveness. Flexibility is mostly a country-level concern, although the allocation criteria for core resources also reduce flexibility at the HQ level.<sup>73</sup> A reduced level of flexibility manifests itself in two dimensions: geographically, whereby resources are not channelled to where they are most needed; and temporally, whereby agencies are restricted in their ability to adjust to new or changing situations. For example, if an agency has planned to provide emergency relief through food distribution, but then a water crisis subsequently emerges, it may be forced to continue with an approach that has become ineffective. In the development sector, a political crisis might necessitate adjusting the assumptions and activities of projects to ensure their continued relevance and effectiveness. A side effect of reduced amounts of flexibility is that earmarking can restrict the responsiveness towards the host government

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71 Per email, 27 Dec. 2018

72 UNDP Transparency Portal, <https://www.globalfinancingfacility.org>.

73 In interviews, we heard that the UN in some small countries does not receive sufficient resources for the fight against diseases that can spread over borders, reducing the impact of interventions in neighboring countries. To address this issue, the UN would need flexibility in core resources and/or at the regional level.

and local communities – a key principle of the aid effectiveness agenda (interview UN 29). The exact scope of the problem is hard to gauge, as contracts usually allow agencies to reallocate 10 to 20 per cent of funds. For larger amounts, they need to request changes with the donor, which costs time (interview UN 26). Regarding temporal flexibility, five out of the nine funds and programmes reported in a DESA survey that multi-year commitments that provide temporal flexibility constituted less than 20 per cent of their revenue (UN DESA, 2018b, p. 9). However, the link between earmarked funding, flexibility and predictability is not free of contingency. Sometimes, and increasingly perhaps, flexibility and predictability are provided through partnerships between agency and donor (see below on partnerships), and in such contexts, tight earmarking is much less problematic.

**Table 14: Summary of the positive and negative aspects of earmarking**

Negative aspects of earmarked funding	Positive aspects of earmarked funding
<ul style="list-style-type: none"> <li>– Insufficient funding for HQ and core functions</li> <li>– Drive towards low-hanging fruit rather than tackling complex challenges</li> <li>– More competition, less coordination</li> <li>– Administrative burdens and inefficiencies</li> <li>– Reduced level of flexibility and predictability</li> <li>– Donor vs. multilateral orientation</li> </ul>	<ul style="list-style-type: none"> <li>– System performance (donors as caretakers)</li> <li>– Responsiveness to host governments</li> <li>– Higher volume of funding for the UN</li> <li>– More political influence for agencies</li> <li>– Expansion of activities, innovation</li> </ul>
Source: Authors	

*Observation 6: Earmarking orients agencies towards donors, and thus undermines multilateral agendas and principles.*

An indirect effect of earmarking pertains to the donor orientation of the UNDS. Many UN entities have invested considerable resources and staff in resource mobilisation and established elaborate institutional structures, which include specialists that know the peculiarities of donors inside out (JIU, 2017). Earmarking establishes accountability for results, and this is consequential not just for the development work on the ground of the UNDS, but also for multilateral cooperation more generally. Agencies are

constantly optimising their management systems for donor priorities. How those systems operate is then driven at least as much by earmarking as by multilateral decisions themselves. This creates divisions between agencies and member states, donors and developing countries. Notwithstanding ceremonial pledges of partnership and trust, we detected a certain level of distrust and distress on all sides in interviews. For field staff in particular, donor orientation can frustrate their commitment to effectively support developing countries. At the HQ level, there appears to be reluctance to share information, fearing undue political influence in administrative processes. Donors, in turn, are frustrated with the lack of transparency (interview MS 21). Earmarking also affects relationships between member states. The issue of cross-subsidies (see below) can disadvantage certain donors, depending on their core/earmarked share as well as the direction of cross-subsidies, which varies between agencies. Finally, yet importantly, earmarking has been a controversial issue in the General Assembly since the 1990s, when G77 countries criticised the constraints on effectiveness, the donor orientation of agencies<sup>74</sup> and the depreciation of agency executive boards. Earmarking is another element that creates mistrust between the different camps (Swart & Lund, 2011), leading both sides to question the multilateral commitment of the other side.

### 5.1.2 Agencies as drivers of earmarking

The general impression from our field research is that UN agencies are eager to accept earmarked grants, even when projects do not fit well into their programmes. UN agencies have a reputation among member states for accepting any money that comes their way, some more than others (interview MS 12). Interviewees from the UN were also frank about this issue, and

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74 There is no clear evidence on how earmarking distorts country programmes. A UNDP evaluation (UNDP Independent Evaluation Office and Office of Audit and Investigations, 2017, p. 20) points out that country programmes are well-aligned with strategic plans, but projects are not well-aligned with country programmes. This cannot only be blamed on donors, as host governments usually (depending on agencies and countries) have a role in UN agencies' practical activities. Country frameworks, even if implemented faithfully, may already be distorted against the genuine development needs of the host government, as they are usually prepared based on donor analysis. Ideally, donors should adjust their strategies to agreed UN frameworks. One UN country director stated that his office, which depends almost exclusively on non-core contributions, basically gave up on a balanced allocation of earmarked resources according to the country framework (interview UN 6).

particularly critical if that behaviour was observed of other agencies (interviews UN 15, UN 19, UN 23). One country director could not recall the specific resource mobilisation target for his office, but said that would not matter, as his fundraising efforts would not stop at the target anyway – indicating that resource mobilisation is a deeply engrained practice at the country level.<sup>75</sup> Three factors explain UN agencies' appetite for earmarked contributions: strategies to decentralise raise fundraising pressure for field offices, weak institutional mechanisms on all levels that do not constrain entrepreneurial fundraising, and the leveraging of earmarked resources through core resources naturally increases the former. These three drivers are not specifically addressed by the Funding Compact, which, nevertheless, by taking a systemic approach to earmarking, provides a good framework for thinking about deeper causes of earmarking and the need for repositioning the UNDS (Baumann, Lundsgaarde, & Weinlich, 2019).

*Observation 1: Strategies for decentralisation increase fundraising pressures for field offices.*

The UNDS has continuously expanded its field presence over the last decades, and although resource mobilisation is not the only motive for decentralisation,<sup>76</sup> there are causal links between organisational decentralisation in the field and earmarking. To start with the trend, Figure 25 shows the increase in the number of field offices (both regional- and country-level offices) since 1985, despite early alarms in the mid-1990s about an increasingly fragmented and inefficient UNDS country presence (JIU, 1997). In particular, the smaller and specialised agencies that in the past had HQ-centric business models have started in recent years to broaden their field presence.<sup>77</sup> The push for decentralisation is also evident in the shifting balance of HQ- and field-level staff (Figure 26). Large funds and programmes already operate in highly decentralised ways now with 80 per

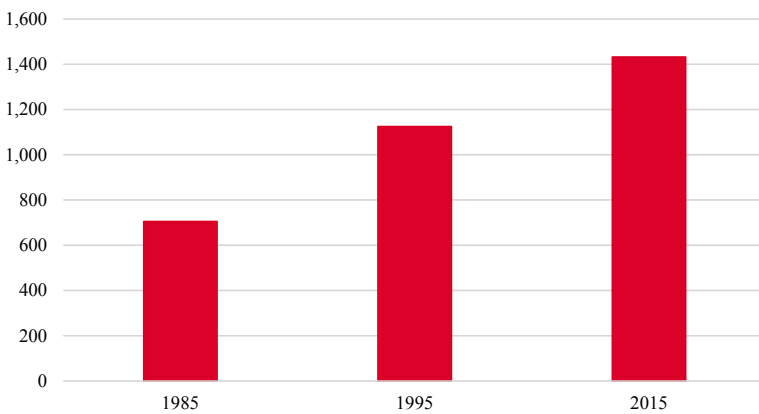
75 This was from previous field research in Pakistan on coordination in the UN system (Baumann, 2018b).

76 Acknowledged drivers of decentralisation are the wish to represent agencies' interests at country level (partially out of distrust against RCs), to expand their activities (JIU, 1997, p. vi) and to strengthen relationships with programme countries. Host governments have generally been supportive, as they welcome better ownership and accountability by bringing the agencies a bit closer.

77 The DESA study, which looks into decentralisation issues, notes that for several agencies the "basic principle is to be present everywhere with the exception of very small states" (UN DESA, 2018b, p. 29).

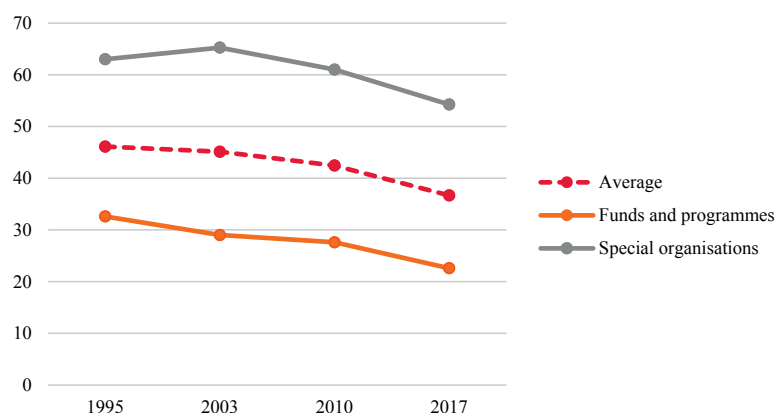
cent of their staff in regional and country offices, with specialised agencies (in particular WHO) following (interview UN 30). HQ field relationships have also changed with the decentralisation. Recent QCPR resolutions (e.g. UNGA 2013, §103) demand greater delegation of authority to country offices regarding programme and allocation decisions. The general tone is no longer about field offices representing agencies, but HQ supporting field offices. In one evaluation of this issue, we found the term “responsiveness of HQ to the field” (UN Women, 2016a, p. 68).

**Figure 25: Increase in number of field offices (both regional and country) of the UNDS**



Source: Authors, based on Independent Team of Advisors (2016); JIU (1997, p. 77)

**Figure 26: Percentage of agencies' staff in headquarters**



Notes: The remainder is stationed in regional or country offices.

Source: Authors, based on Administrative Committee on Co-ordination (1996) and UN CEB-HLCM (2004, 2011, 2018)

There are indications that field offices have been established to grow the agency financially. Although core and thematic funding have always been received at HQs, earmarked contributions are mostly raised at the country level. Therefore, decentralisation can be a strategy to access tightly earmarked resources. A UNIDO evaluation states that “there is reason to assume that UNIDO’s attention to matching the FO [field office] fundraising role with the current aid architecture of increasing availability of country-level funding is bearing fruit” (UNIDO Evaluation Group, 2013, p. 26). A JIU study notes:

WFP and FAO are just two examples of organisations which shifted part of their fundraising efforts to country offices, as the donors have been decentralizing their decision-making to the field. [...] Presence in the field is regarded as the major WFP asset in terms of resource mobilization. (JIU, 2014a, p. 14)

Resource mobilisation strategies of the funds and programmes are based on the role of field offices, although we heard conflicting statements about the existence of explicit fundraising targets for country offices (this might vary between agencies, but it also seemed to be a sensitive issue in interviews). Organisational growth strategies thus translate into pressure for country



offices to expand their revenue. Any resource mobilisation target for a country office, explicitly stated or not, is a target for earmarked programme or project funding.

The link between decentralisation and earmarking is further strengthened when changes in the distribution of global wealth are taken into account. As developing countries graduate to MIC status, they receive fewer allocations from regular resources. In Colombia, a higher MIC, the budget of the UNDP field office had a share of 8 per cent of core resources only in 2017, whereas the rest was earmarked (UN Secretary-General, 2019a). Therefore, the only way to sustain a reasonably sized field presence in MICs – and to keep staff – is through resource mobilisation in the country. Successful fundraising becomes a matter of survival, which explains why resource mobilisation can have a higher priority for these offices than development effectiveness.

*Observation 2: Weak coordination mechanisms within and across UN agencies lead to fragmented resource mobilisation targeting tightly earmarked resources.*

When a number of donors tug and pull agencies, or the system at large, in different directions, this can lead to institutional fragmentation. However, the reverse is also possible in the relations of the UNDS and donors: When neither the UNDS nor individual agencies operate in sufficiently centralised and integrated ways, this becomes an invitation, if not a driver, for earmarking resources to specific agencies and projects.

At the system-wide level, there is no mechanism ensuring that agencies stick to their mandates. We noted above that earmarking allows agencies to expand their mandates (or at least portfolios), and that they appear to have done well in that regard. The 2017 Dalberg study on functions and capacities of the UNDS shows that, on average, each UNDS entity works on 12 SDGs and on 66 indicators (Dalberg, 2017, p. 14). This has a profound system consequence as – in a situation of massively overlapping mandates – agencies have to compete not so much to expand their mandates, but simply to avoid falling behind competitors. We found a practical example in Nigeria, where 10 UN agencies responded to a tender by the UN-EU Spotlight Initiative to eliminate violence against women and girls (interview MS 18). Another illustrative example, also from Nigeria, is that agencies in the country are all eager to work on migration issues, as this is a political priority of European donors in Nigeria, separate from humanitarian work. Mandate proliferation

also creates challenges in terms of transparency, accountability and trust (interview MS 14), and can thus strengthen donors' impetus to earmark.

According to the Delivering as One principles, every UNCT in a Delivery as One country should have a collective fundraising strategy led by the RC. Joint resource mobilisation at the country level is one of the 12 "standard operating procedures", but it is also the one that is practiced the least (UN DESA, 2017, p. 30). When it comes to resource mobilisation, otherwise functional UN coordination can break down, and agencies can turn against each other (Baumann, 2018b). An RC that immerses itself in fundraising may be perceived as a competitor by agencies, and thus risk its standing in the UNCT.

Most agencies have only weak mechanisms to ensure that funding is aligned with country programmes and strategic plans (interviews UN 27, UN 29, UN 30). Agencies have country-specific frameworks, but in interviews these were described as being so broad that they could accommodate almost all activities. UNDP, UNFPA and UNICEF frameworks have a standardised format and length of seven pages, which does not allow for regulating details. Responsibility for thematic alignment rests with country directors, who at the same time are agencies' chief fundraisers (interview UN 29). Projects need to be cleared with regional offices and/or HQs, but unless it is a large project with direct implications on corporate identity, relevant HQ departments only check for ethical and operational correctness and do not see a role for themselves in shaping country programmes (interview UN 39).<sup>78</sup> This is, in part, intentional, as the General Assembly has encouraged delegation of decision-making authority to country offices so that they can respond better to local needs.

Even the organisation of country offices can have an impact on fundraising patterns. In our field research, several country directors described how they were engaged in efforts to gain better oversight of internal project planning and to achieve a balanced allocation across thematic priorities (interviews UN 27, UN 30). One deputy head of a large office explained how she put an end to individual programme managers developing their projects in isolation when she joined the office, and instead tried to bring several smaller projects together into one bigger project (interview UN 29). It seems to be an issue in larger offices that individual project managers cooperate with specific

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78 We did not interview agency staff at the regional level, which might be more involved in overseeing country programmes.

government counterparts (interview UN 7), generally resulting in smaller projects and the fragmentation of portfolios.

It is difficult to assess how widespread and profound the phenomenon of individual fundraising entrepreneurs within offices is, but our anecdotal evidence from different agencies and countries suggests that it exists. Here, too, we can point to a systemic cause since, in a situation where a significant share of staff is funded through project resources (see below on non-permanent staff), individual staff members have a strong self-interest in raising funds for the next project (interview UN 19). Programme managers and country directors feel a responsibility for keeping staff and would not recommend themselves for promotion if they could not maintain the size of the office.

Therefore, so long as there are no strong mechanisms in place – both at the system and agency levels, which balance or even eliminate the fundraising pressures – aggressive fundraising for the survival of the office, the advancement of personal careers and for the reputation of the agency will continue.

*Observation 3: Agencies use programming and regular resources to leverage earmarked contributions.*

Donors and agencies mutually adjust to each other, and it appears that agencies play an active role in that process with the purpose of harnessing earmarked contributions. This is a double-edged thing. Although agencies are supposed to actively raise resources for the implementation of their mandates, doing so orients them towards donors in ways that can result in earmarked funding that undermines the ability to implement mandates. As far as we can see, it is common for agencies at the country level to base their strategic framework and fundraising strategy on the analysis of donors (interviews UN 11, UN 26, UN 27, UN 29). The better they can tailor projects to donor priorities, the higher the chance that funding will be obtained, but also in ways that are more tightly earmarked to exactly these priorities.

The donor orientation does not stop at programming, as agencies also deploy regular resources to leverage core funding. The linkages between core and earmarked contributions are among the less well-understood aspects of UN development funding.<sup>79</sup> Clear semantic distinctions between “multilateral”

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79 See below on the issue of cross-subsidies.

and “other” or between “regular” and “extra-budgetary” resources suggest strictly separate uses. At the country level, the line between the two funding sources blurs, as they are used for the same activities. Agencies advocate for core funding by pointing out its function in leveraging earmarked contributions (UNDP, 2017d, pp. 5, 77). The use of core resources as seed money to design projects and leverage funding for them appears to be a routine practice (interviews UN 27, UN 34). A potential downside is that this money might not be available for directly implementing an agency’s strategic plan, and in particular for providing sufficient attention to normative and knowledge functions (though it is unclear to what extent these functions are embedded in seed activities).

A related practice with potentially equally problematic implications is the co-financing of donor projects from regular resources. According to our analysis in Section 4.1, UNDP provides between 2 per cent (in the case of MIC Colombia) and 56 per cent (in the case of low-income country Uganda) of project budgets, the rest are earmarked resources. In the latter case, these are substantial amounts. Unfortunately, there is no data available for other funds, programmes or specialised agencies. However, as some donors that have matching or leveraging requirements as earmarking tools can require co-financing, we would expect that this also occurs elsewhere. Other agencies confirmed the phenomenon (interviews UN 29, UN 30). As long as co-financing reflects a positive convergence of thematic priorities, in the sense that agency and donor support each other, the practice would be commendable. However, as matching and leveraging requirements are imposed by donors, there is a clear danger that agencies are lured into revenue-generating projects that are not well-aligned with their frameworks. What agencies present as successfully using core resources to leverage non-core contributions might be a case of having been reversely leveraged by donors instead, reducing their available core funding (interview UN 30). We think more clarity is needed on this phenomenon and about how it affects development multilateralism.

### 5.1.3 Mitigating fragmentation

Whereas the previous section looked at how UN agencies contribute to earmarking, this section examines their efforts to handle certain consequences of earmarking. We identify three areas in which agencies have made adjustments to mitigate the negative effects of earmarking: the turn towards

non-traditional staff contracts, which reduces costs, but also creates new challenges; the introduction of financial instruments that bring back some financial flexibility; as well as the issue of cross-subsidies and overheads, which is perhaps driven more by member states, but where agencies have clear interests.

*Staff policies: Reliance on non-traditional contracts*

Earmarking has profound consequences for agencies' workforces. In response to insufficient institutional budgets (but also through pressure by the boards for greater efficiency), agencies have increasingly turned to non-traditional contracts or "non-staff" personnel, that is, employees without a permanent contract who are hired for specific tasks and fixed periods. Agencies provide very little information on workforce composition,<sup>80</sup> and the only major study into this issue, by the JIU from 2014,<sup>81</sup> notes that the dramatic changes in the workforce structure are not so much by design but have evolved from efficiency pressures at the country level.

<b>Table 15: Recent changes in WHO workforce</b>		
<b>WHO</b>	<b>2013</b>	<b>2016</b>
Staff	7097	7916
Temporary appointments	12%	20%
Continuing appointments	61%	54%
Non-staff contracts	528 (7%) (2014)	970 (12%)
Staff and personnel cost	\$899m (40%)	\$911m (37%)
Staff in country offices	44%	46%
Professional and long-term staff	28%	25%
Source: Authors, based on World Health Organization ([WHO], 2017)		

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- 80 Certain staff categories are reported in the Chief Executives Board's annual personnel statistics. However, these numbers do not include non-traditional staff, and even the numbers that are given diverge dramatically from numbers the agencies publish elsewhere. This is possible, as staff categories are not standardised in the UN system.
- 81 An earlier, thematically more narrow study (JIU, 2012) focuses particularly on the use of consultancies in the system and finds an "excessive" use of this non-staff contractual modality.

In our research, we found sufficiently detailed data on workforce composition for only two agencies: WHO and UN Women. WHO data (Table 15) show a change in workforce structure for the comparatively short period between 2013 and 2016. Although overall staff numbers increased, the share of professional and long-term staff decreased and non-staff contracts nearly doubled, while the share of staff costs in the WHO budget went down. UN Women reported that, in 2015, non-staff accounted for 58 per cent of its workforce, noting that “recruitment of non-staff is decentralised to the field with little HQ oversight” (UN Women, 2016a, p. 75). The example of WHO appears to be representative of broader trends regarding the rise of non-permanent staff in international organisations and could be particularly problematic for their ability to operate with the required autonomy and in longer-term horizons – two key multilateral aspects (Ege & Bauer, 2017; Heldt & Schmidtke, 2017).

Based on our interviews and some scattered information from UN agencies, we suspect that WHO represents a broader trend across the UNDS, at least for those agencies that rely on earmarked resources and have a large field presence (JIU, 2014b, p. 12). Interviewees explained that, in recent years, donors have reduced the budgets for staff in projects to maximise the share of resources spent on delivery, including consultants (interviews UN 19, UN 23).<sup>82</sup> In some offices, agencies seem to have replaced international staff with local staff and/or consultants (interview UN 51). UNIDO replaced a number of international country directors with national professionals to achieve cost savings (UN Industrial Development Organization, 2015). UNFPA notes that “the shift [graduation to MIC] has often been paired with a reduction in UNFPA resources and technical staff” (UNFPA Evaluation Office, 2017, p. 46).

According to the JIU (2014b), the main drivers of the transformation in the workforce are lower costs and flexibility. Non-traditional staff are cheaper, not so much because of lower salaries, but because they do not receive social benefits. Agencies can also avoid administratively cumbersome and lengthy hiring (and firing) processes. However, they note that non-traditional staff come at a price for agencies (JIU, 2014b, p. 16), in the forms of a reduced level of motivation, fragmented workforce in offices, loss of continuity and expertise through high turnover, oversight and accountability challenges, as

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82 The interviewee likened this to a situation in football, where the club might have excellent players but reduces the salary of the coach.

well as potential increases in fraud or corruption cases. From our interviews, we would add that particularly local staff – although important for good relationships with host governments – may be less trusted by donors to implement large projects and have less capacity for innovation due to the lack of international experience (interviews UN 20, UN 27). For RC offices, it is particularly important to have international staff that can communicate effectively with donors (or donors with them), according to one interviewee (interview UN 51).

### *New instruments for maintaining flexibility*

Agencies have created HQ-level instruments in recent years to regain some financial flexibility lost through tight earmarking. In contrast to the thematic and pooled funds described in Section 4, which are supposed to incentivise softer forms of earmarking, these lesser-known instruments are designed to deal with the fallout from tight earmarking. Some are purely internal mechanisms, whereas others offer a funding channel for specific core functions. These instruments fall into three categories.

1. *Advance financing.* A frequent problem for agencies is the gap between the initiation of a project and the release of expected funding. Disbursement deadlines in projects introduce a rigidity that creates problems. For these situations, WFP has created two advance-financing modalities that function like credits: The “Internal Project Lending” (created in 2004) and, building on that, the “Macro-Advance Financing” (created in 2016). Both can fill gaps and have to be paid back once resources start to flow. They draw on operational reserves at HQs. On the latter, an evaluation notes that it has “the potential to reduce further the effects of fragmented funding streams, increase the predictability of resources, and maximize efficiency and effectiveness” (WFP, 2017a, p. 4). Efficiency gains can be considerable, as the instruments “open up possibilities for cost savings, for example by taking advantage of seasonal commodity prices” (WFP, 2017a, p. 5). Donors have to accept this modality, but seem to be supportive, as the two modalities are applicable to around half of WFP’s revenue.

2. *Rapid response funds.* This category of funds also provides emergency funding, but it is different insofar as (a) disbursements might be changed into grants, and (b) donors specifically support these funds with contributions. Examples include the UNDP Emergency Development Response to Crisis and Recovery Funding Window for kick-starting projects; the WFP Immediate Response Account (2009), which provides emergency funding that can be converted into grants; the CERF Rapid Response Window, which helps “to reduce the inconsistency and delays humanitarian organisations may experience when receiving voluntary contributions” (Central Emergency Response Fund, s.a.); and the CERF loan facility (\$30 million) “to cover critical funding gaps in humanitarian operations based on indications that donor funding is forthcoming” (OCHA, 2018, p. 1). Other instruments are based on regular resources and include the UNFPA Emergency Fund as well as Humanitarian Response Reserve (UNFPA, 2018a)<sup>83</sup> and the UNICEF Emergency Programme Fund (\$75 million), which provides reimbursable loans to offices that require immediate financing of emergency programmes ahead of the receipt of donor support. UNDP has partitioned its core resources into certain tiers, with one of them – the “TRAC-3” stream – being reserved for emergencies.<sup>84</sup> All these examples come from emergency contexts. In our opinion, it would be worthwhile to explore if similar mechanisms can also increase financial flexibility for development-related activities.

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83 Funds can be accessed if: “a) Regular country programme funds are not available; b) Country programme funds are not immediately available but could be used later for reimbursement with the approval of the government; c) Donor support for a UNFPA appeal or the UNFPA component of Flash Appeal/Humanitarian Response Plan or a dedicated project proposal has been committed but funds have not been received” (UNFPA, 2018a).

84 See Annex B to the UNDP integrated resources plan and integrated budget estimates for 2018-2021 (UNDP, 2017, §42).



3. *Innovation Funds*. These funds provide money for identifying, developing and scaling-up solutions, which could be described as “core functions” of UN agencies. UNDP has an Innovation Facility (created in 2014, funded by Denmark); UNFPA an Innovation Fund (2014, also Denmark); and WFP an Innovation Fund, which is connected to the Innovation Accelerator (WFP, 2017b), which is a unit based in Munich that also supports projects external to WFP (funded by Germany and Bavaria). These funds might in the first place be responses to initiatives by certain member states that want to establish a culture of innovation in the UNDS, but, according to interviews, they also provide vital resources for core-depleted country offices.

There is scope to expand such instruments to improve financial flexibility and support the core functions of agencies. However, these instruments are only the second-best option compared to core resources. Internal lending, for example, means that there must be internal applications, meaning that these instruments create additional bureaucracy and risk further fragmenting administrations.

#### *Cross-subsidies and full cost recovery*

Earmarking has created the issue of cost recovery – an intricate and divisive issue with no easy solution that has occupied agencies and executive boards for more than a decade. The root of the problem is that the implementation of projects funded through earmarking incurs the “indirect costs” of using institutional capacities that are funded by core contributions. On the assumption that the core and earmarked pillars – or the multi- and bilateral realms of the agencies – should be financially separate, such cross-flows are a problem. Without fully recovering the indirect costs, agencies would have to use the regular resources on which both their organisational autonomy and ability to implement mandates depend for implementing donor-driven programmes and projects. At the intergovernmental level, donors with high shares of earmarked contributions would benefit from the institutional apparatus needed for project implementation, which is paid for by donors with higher shares of core contributions. Such a cross-subsidisation from one donor to another can be seen as an abuse of multilateral resources, and it can become an incentive for multilaterally minded donors to start earmarking themselves to protect their contributions.

<b>Table 16: Definitions of direct and indirect costs</b>	
Indirect costs: Costs for running the agency, not directly linked to operational activities	Direct costs: Traceable to programmes/projects
(a) Corporate executive management (b) Corporate resource mobilisation (c) Country office, regional or corporate management (d) Corporate accounting and financial management staff (e) Internal audit function at HQ and unit level (f) Institutional legal support (g) Corporate human resources management	a) Cost of missions and travel incurred specifically to carry out or support project activities (b) Cost of staff and consultants hired for the project (c) Cost of policy advisory services (fully costed: staff cost, share of office rent, utilities, communications, supplies and office security) (d) Cost of processing transactional services (finance, administration, procurement, human resources, logistics) (e) Equipment, including information technology equipment, maintenance, licences and support for the programme/project (f) Programme/project audit and evaluation fees
Source: UNDP, UNFPA, and UNOPS (2018, pp. 3-4)	

Agencies have always charged overhead fees to cover administrative costs, so there has always been some form of cost recovery. However, in the past, these rates were too low to cover all costs of project implementation – partially by multilateral intention in order to incentivise earmarked funding, and partially because of inter-agency competition for resources. In 2014, harmonised cost recovery rates of 8 per cent were established for the New York-based funds and programmes. The harmonised rate was meant to reduce competition between agencies as well as transaction costs (as the new rate is fixed, it is no longer negotiable), and facilitate inter-agency collaboration. Exemptions were created for certain types of contributions.<sup>85</sup> The essential institutional functions that are always funded from regular resources are development

<sup>85</sup> For pooled funding, the rate was fixed at 7 per cent, and for local resources at 5 per cent. These reductions are political decisions with the purpose to incentivise these sorts of contributions.

effectiveness, coordination, cross-cutting management functions and special purpose activities. The remainder are funded through 8 per cent overheads from earmarked contributions and from core contributions.

However, the harmonised rate did not fully resolve the issue, because member states are pursuing two different, mutually exclusive goals. The 8 per cent rate balances the goals of adequate cost recovery on the one hand, and harmonisation in the interest of a functional system on the other. In practice, agencies have different real overhead costs, depending on the size of agencies, their profile, their administrative system and their revenue profile. Overhead costs thus also fluctuate temporally. Table 17 compares the effective cost recovery rates (=actually charged), the notional rates (=required to achieve full cost recovery based on actual costs), and projections for 2018-2019. Across the four agencies, the effective rates are lower than the agreed 8 per cent.<sup>86</sup> Cross-subsidies have not been fully eliminated, but vary in their direction, implying that the current 8 per cent rate is a good compromise. Data from Table 17 suggests that UNICEF and UN Women actually earned money from tightly earmarked contributions, whereas UNDP and UNFPA had to fill gaps with core resources in 2016. According to the projections of notional rates for 2018-2019, UNDP and UNICEF might now be benefiting from overheads on the assumption that 2016-levels in the effective rates can be maintained.

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<sup>86</sup> This is because of the reduced rate for softer earmarking and for local resources. In addition, older contractual commitments and the so-called waivers that agency heads can grant also reduce the effective rates.

<b>Table 17: Effective cost recovery and notional (or factual) cost recovery rates for selected agencies</b>				
	Effective cost recovery (2016)	Notional cost recovery rate (2016)	Projection of notional cost recovery rate (2018-2019)	Waivers 2017
UNDP	6.4%	7.0%	5.9%	6
UNFPA	7.3%	8.3%	11.3%	7
UNICEF	6.6%	5.8%	6.6%	2
UN Women	7.1%	6.6%	9.4%	5
Sources: UNDP, United Nations Population Fund, and UN Office for Project Services (2018, p. 6); for the third column: UNDP, UNFPA, UN Women and UNICEF (2017, p. 24)				

Discussions on full cost recovery continue in UN governance bodies. It appears that the issue of full cost recovery has become a battleground on which member states and agencies quarrel over transparency and efficiency issues. The majority of donors stick to the harmonised rates (the United States prefers agency-specific rates), but still insist on more transparency of indirect costs, potentially to drive agencies towards even higher levels of efficiency.<sup>87</sup> The cost recovery debate is currently also an HQ-level phenomenon, whereas cost recovery at the country level is largely unregulated. According to interviews, the bulk of the 8 per cent overheads supports HQ functions, but at the country level, it only supports the agency director and perhaps their assistant. So country offices charge another 15 per cent to keep their offices running (interviews MS 47, UN 19, UN 29). These costs are the subject of intense negotiations, and agencies feel that increasing efficiency pressures are undermining their operational effectiveness.

Agencies have an interest in ensuring sufficient funding for institutional budgets and for multilateral core functions. In that regard, in 2017 the four New York-based funds and programmes suggested the “LEGO approach”, which would have redesigned the entire indirect costs architecture. It would have reintroduced agency-specific rates, resulting in higher institutional

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<sup>87</sup> One donor representative at the country level was of the opinion that the 8 per cent overhead cost, which would make the UN quite competitive, does not reflect the real costs of project implementation, which were nearer 40 per cent (interview MS 13).

budgets but lower overhead costs (compared to higher projections, but still higher than current notional rates), as well as better protection of essential management tasks from the fluctuations in voluntary funding. This concept – resembling earlier attempts to define agency-specific “critical masses” of core funding – was rejected by member states in 2018. Increased overheads probably were the reason for this, but, according to one interviewee, it was probably also the complexity of the new concept that made it difficult for board members to fully understand the proposed changes (interview MS 47).

#### 5.1.4 How agencies push back against earmarking

UN development agencies are not only passive recipients of earmarked funding. Although member states provide mandates and set the strategic direction, agencies have some freedom in how they implement decisions. In addition to that, they can – and are expected to – also initiate strategies themselves, rather than subjecting them to micro-management. In that regard, agencies have, in recent years, advanced a number of initiatives to push back against practices of tight earmarking.

##### *Changing roles: From implementer to partner*

Agencies are engaged in an effort to redefine their relationships with donors, both at the HQ and country levels. A study on resource mobilisation in the UN also notes “a clearly discernible trend, namely, a shift from looking upon raising resources in purely transactional terms to engaging in more lasting relationships with donors as partners that require attentive nurturing through effective communication strategies” (JIU, 2014a, p. 9). The new partnership approach appears to be different from the older partnership rhetoric. It very much sounds like an attempt to break free of the role of implementer and put the relationship with donors on a new foundation of joint interests and closer cooperation in implementation.

There is a need to distinguish partnerships at the HQ and field levels. At the HQ level, agencies are investing in strategic partnerships with important donors. These partnerships serve to create a more permanent collaboration with high-level political support, frequently concerning specific topics that are important for both partners. Typical elements of these partnerships are regular high-level strategic dialogues, support for global programmes or projects, and bilateral trust funds or some other form of soft earmarking.

Annex 3 provides an overview on agency-specific trust funds and contains a number of these single-donor and single-agency trust funds.

Field-level partnerships are by nature more limited in their scope, but also serve to consolidate fragmented donor relationships on the basis of the agencies' frameworks. In Nigeria, WHO has initiated annual meetings and invited all donors to discuss its programmes and activities, ultimately to incentivise donors to get on board with their plans, rather than the other way round (interview UN 30). Monthly technical briefings have been set up to build trust with donors. In an extreme case involving a US agency, IOM offers them office space, resulting in daily interactions with the donor.

Partnerships can transform the nature of earmarking. In the contract or implementer modality, the principal-agent problem is resolved by strict terms and conditions. The partnership modality offers a different solution, as donor and agency work together (interviews UN 10, UN 14, UN 26). Projects are agreed through a dialogue, and therefore are better suited to agency frameworks. In other words, earmarking does not matter so much if agencies develop the project based on their frameworks. Regular consultation replaces rigid monitoring and facilitates decision-making on the spot, which can allow the agency to be more responsive to the host government and local communities. Longer-term orientation is provided by donors' country strategies. Short-term funding is then more a matter of instalments within longer-term frameworks of engagement and does not dominate project implementation. Donor ownership translates into political support that can be activated in case problems emerge.

The change to partnership roles is not complete, and it might hit rock bottom in different donor predilections.<sup>88</sup> It is probably also more an evolution than a well-developed strategy (we did not find policy documents on it). Downsides need to be considered. Are transaction costs just shifted to other forms of engaging donors? Are partnerships more than a futile fundraising approach. Do donors reciprocate with less earmarking? If so, will it orient the UN too much towards donors at the cost of its neutrality, legitimacy and responsiveness to local communities? Is it possible to have strong

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88 The United States and the EU practice the "implementer" modality; they engage the UN like any other organisation to get certain jobs done and might have little patience for partnerships. The Scandinavian countries, with their policies of un-earmarked contributions, and Switzerland, with its long-term policies, represent the other end of the spectrum.

partnerships with several donors simultaneously? For the moment, however, it is an interesting approach to mitigating the effects of tight earmarking.

*Centralising for softer earmarking: Thematic pools and other initiatives*

The first agency-specific trust funds were established not long after earmarking began to reach critical levels. UNDP established three thematic trust funds in 2001, which transformed into four so-called funding windows in 2016. UNICEF's thematic pooled funds were introduced in 2003, UNFPA's Maternal and Newborn Health Thematic Fund was created in 2008, UNIDO's five trust funds in 2010. UNICEF accurately captured the rationale for thematic pooled funds in stating that “[s]uch contributions have fewer overall restrictions on their use, have simplified management with long-running thematic budget allocations at country level, and allow for consolidated reporting at thematic level, thereby reducing transaction costs” (UNICEF, 2004, p. 38). They also serve to increase attention and funding for specific thematic areas (UNFPA Evaluation Office 2017, p. iii). Multi-partner trust funds became a new funding tool when MPTFO was established in 2014 as “a system-wide window so that donors could contribute to a UNDS-wide programme without having to decide with which specific organisation to partner” (Jenks, 2014, p. 1824).

Originally meant to complement core resources and expand agencies' activities, trust funds are now more often advocated as an alternative to tight earmarking through which agencies can regain some financial autonomy. Their basic deal is to elicit softer earmarking, in turn, for better clarity on how funds are used. From an organisational point of view, they strengthen the role of HQ in the context of an ever more decentralised system and can help improve organisational efficiency. In UN Women's Flagship Programme Initiatives, for example, policy templates are developed centrally rather than separately in each office, reducing workloads at the country level.<sup>89</sup>

Thematic funds are not an untainted success story, either financially (see Section 4) or regarding the functions they provide. One of the rationales behind them is to consolidate and structure donor relationships at the HQ level (interview UN 32), keeping donors away from meddling too much with the funds. However, donors are still involved in the governance through advisory bodies. UNFPA established an Earmarked Funds Management

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89 This holds for the global programme modality; there are other, more decentralised modalities for implementing the flagships (UN Women, 2016b, p. 10).

Unit in the Office of the Executive Director to manage HQ-level earmarked resources in a more harmonised way, including contributions to the Maternal and Newborn Health Thematic Fund. However, all agencies have, contrary to the original intention, allowed for soft earmarking in the face of donor pressure (interview UN 32). In 2017, just 24 per cent of contributions to the UNDP funding windows were not earmarked (UNDP, 2018b, p. 36), which is around the system-wide level, meaning that funding windows do not provide the benefit of softly earmarked funding.

Thematic funds can reduce fragmentation. If UNDP's previous crisis trust fund allocated resources to 91 countries in 2015 (UNDP, 2016b, p. 11), the succeeding funding window has only 11 countries (UNDP, 2018b, p. 38). For UN Women's Flagship Programme Initiatives, there is a "minimum of \$1 million in programmes [for] working at a larger scale in order to ensure the sustainability of UN Women" (UN Women, 2016a, p. 68), but the evaluation notes that this is not well understood by country offices. The potential for consolidation is not exploited, as agencies are not leveraging the added value of trust funds regarding the duration of commitments. UNICEF stands out with its policy to "maintain a four-year funding period that covers the entire Strategic Plan period" (UNICEF, 2018b). The UNDP funding windows, in contrast, support short projects of 12 months only.

At the country level, agencies are also trying to turn earmarking into gold by moving the level of earmarking up from projects to programmes, where it effectively becomes quasi-core. For this reason, WFP has tried to move away from a project, donor-driven approach and introduced more strategic country frameworks structured around outcomes (interviews UN 11, UN 25). However, the result of the "Integrated Road Map" initiative has not been as intended. The specification of respective activities under the outcome invited donors to earmark to them rather than to the outcomes (interviews UN 11, UN 31). Multi-donor projects (see Section 4.1) might partially result from the attempt of agencies to consolidate a multitude of small projects in a programme-like structure.

### *Structured funding dialogues*

A major problem for agencies has always been that their mandates are defined by strategic plans, whereas resources and budgeting are planned separately. Rising shares of earmarked funding coming in over the entire period of the strategic plan has further complicated the planning process.



To better align planning and funding, the General Assembly in 2012 mandated “structured funding dialogues” in the executive boards as a tool for “improving the predictability and quality of resources” (A/Res/67/226). Around the same time, in 2014, integrated budgets were introduced for UNDP, UNFPA, UNICEF and UN Women that not only provide a basis for the funding dialogues but also, and more importantly, “allow an allocation of both core and earmarked resources that is more in line with the multilateral organisations’ strategic priorities” (OECD, 2015a, p. 99). Technically, the integrated budgets make the term “extra budgetary resources” obsolete, as now all resources are brought under the budgets.

Funding dialogues were initially believed to offer an opportunity to transform donor–agency relationships and partially move fundraising back to the HQ level while rebalancing towards softer earmarking and relieving field offices of resource mobilisation pressure. No such effect can be observed. Agencies appear to have mixed feelings about funding dialogues. On the one hand, they see the chance to make their case to donors, to highlight their successes and professionalism, to build trust, and to put things right (UN Women, 2015, p. 9). In that spirit, UNFPA in 2018 proposed its own “Funding Compact” between donors and agencies, inspired by the Secretary-General’s Funding Compact. However, agencies also have reservations. They are concerned that member states will attend to the allocation of core resources as well as to the size and share of the institutional budget and will start earmarking even more to protect their priorities (UN Women, 2015, p. 9).

As a result, neither member states nor agencies have embraced the structured funding dialogues. Technically, they are slots in board sessions. Socially, they resemble a blame game, in which each side attempts to shift responsibility to the other side. An analysis of recent board presentations shows that the transparency that agencies provide does not go beyond basic funding parameters (core and earmarked revenue, number of donors, etc.). Agencies run funding dialogues as a marketing exercise, assuming that displaying their professionalism and successes creates trust, which then translates into better funding. Member states, however, hear only lofty rhetoric and highlight three points of criticism: 1) that agencies do not provide information on gaps regarding outcomes of the strategic plan<sup>90</sup> (one representative stated after the agency’s presentation: “I don’t know

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90 Exception: UNFPA Briefing May 2018, which demonstrated gaps in thematic funds (UNFPA, 2018d, 2018e).

where you have the gaps right now”<sup>91</sup>; 2) that it is not clear which specific functions are funded by core and earmarked resources; 3) agencies do not engage proactively with individual donors. Interestingly, agencies did not make a robust case for pooled/thematic funding in these dialogues. Pooled funding might come up in supporting documents, but rarely on a PowerPoint slide, as far as we can see. If funding dialogues were ever supposed to be a kind of pledging event, based on compelling evidence of funding gaps, then they are clearly not meeting this aim. WHO financing dialogues, which are full-day events in which WHO administration presents a comprehensive and detailed picture of the budget and its gaps, could serve as a model for the funds and programmes (see also OECD, 2018a).

### *Providing visibility to donors and transparency*

If visibility, effectiveness and transparency are the main drivers of earmarking, then it should be possible to incentivise untied contributions by applying these principles to core contributions. This is also the rationale behind the transparency commitments in the Funding Compact, which builds on agencies’ initiatives in recent years regarding their handling of core and softly earmarked funding. For visibility, at least the larger funds and programmes now present their largest contributors on websites, in annual or global reports, in the projects and in the social media communication linked to activities (Poole & Mowjee, 2017, p. 4). For effectiveness, they are making efforts to report specifically on what they achieved with core resources and link results to donors. During the last UNFPA board, the agency advanced the concept that if a donor funds X per cent of the UNFPA core budget, it can also claim X per cent of the agency’s annual results (including results achieved by earmarked resources, as earmarked-funded activities are understood to draw on core functions). For transparency, agencies are going to great lengths to make the decision-making on core resources transparent. The four agencies we checked (WFP, UNDP, UNFPA and UNICEF) all provide detailed information on the methodology<sup>92</sup> and the results of the country allocation processes. This clearly demonstrates an active effort to answer donor requests, although such attention given to core resources does not necessarily reflect the very low shares of core resources of some agencies.

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91 Swedish representative in UNFPA strategic funding dialogue 2018, seen on UN Web TV.

92 In a nutshell, the agencies apply two basic criteria: 1) a country’s prosperity, 2) development status regarding the specific agency’s mandate.

Donors are not yet fully satisfied. A policy paper submitted by Sweden and the International Committee of the Red Cross notes, “the current level of information on results would be an obstacle to their [member states’] ability to convince their parliaments and publics to scale up this type of funding” (Poole & Mowjee, 2017). This lack of information pertains to the level of goal attainment (see our comments on the strategic funding dialogues). In addition, member states demand greater transparency on issues related to efficiency. The United Kingdom, for example, has made core contributions partially contingent on organisational performance. Agencies for their part appear reluctant to provide full transparency on the administrative aspects of how they implement mandates, focussing rather on what they do thematically.

Perhaps the promise of more trust through transparency is a false one. Donors appear to follow the premise that control through transparency leads to trust, and thus would enable more core resources. This might be a self-deception, as limitations on individual control are in the nature of multilateral cooperation. The trend towards micro-managing agencies does not bode well for the capacity of member states to handle all this information. The alternative would be trust in the sense of delegation; this would shift the emphasis for agencies from total transparency to being able to demonstrate results – an approach that appears not to have taken hold yet.

### *Conclusion*

The section reviewed the role of UN agencies in earmarked funding. It first reviewed and acknowledged the positive influence earmarked funding has on UN development cooperation, which reinforces the point that a return to 100 per cent core resources might not only be impossible, but also not desirable. However, the negative impact of current levels of earmarking on agencies and their ability to effectively perform their development functions is a real concern and very likely outweighs the limited benefits. Our research confirms that the dominance of project-specific funding fosters a system that, in a troublesome way, is donor-oriented, fragmented, overburdened, inefficient and, thus, not sufficiently responsive to the demands of the 2030 Agenda.

Although there can be no doubt that earmarking is driven by donors, we can also state with some certainty that agencies are complicit in the dramatic rise of earmarked funding, as they willingly go along with it and even invite

earmarking actively in three ways: 1) decentralisation strategies have shifted the fundraising function to the country level, which is the “El Dorado” for tight earmarking, 2) institutions and coordination mechanisms have not been sufficiently strengthened to resist the temptations to accept earmarked grants, and 3) core resources are used to actively leverage earmarked grants, undermining the case for core contributions. Agencies are at the same time engaged in various efforts to reduce or mitigate the consequences of earmarked funding, but these efforts have, to date, not been able to turn the tide back towards a healthier mix of core and earmarked resources.

## 5.2 The multilateral development banks

The analysis of the MDBs proceeds in three steps. First, we describe the main drivers of earmarked funding in the specific contexts of the MDBs against the backdrop of the Addis Ababa Action Agenda as the basic document for financing the 2030 Agenda. This sheds light on the growing role of the contribution of concessional resources – including earmarked concessional resources – by donors as a complement to the core funding of the MDBs. Second, we present the current state of earmarked funding in the World Bank and the RDBs, including the German contribution to the trust fund portfolios of the banks. This includes a glance at the ongoing reform efforts of the MDBs, particularly the World Bank’s trust fund reform. Third, we conclude with synthesising the observations on the institutional repercussions of earmarked funding across the MDBs.

### 5.2.1 Systemic benefits of earmarking – leveraging the MDBs’ operating model for SDG attainment

The Addis Ababa Action Agenda on Financing for Development asks for better use of the MDBs’ operating model: It demands greater leverage from the banks in mobilising public and private funds, and greater complementarity to other sources of development finance – ODA, private and domestic resources – in order to close the gap for financing the SDGs (Addis Ababa Action Agenda, 2015).

In the early days of the MDBs there was a clear distinction between the ordinary resources of the banks, based on their equity capital, and the voluntary contributions of donors to the MDBs’ concessionary funds for low-income countries, which were not eligible for the ordinary market-based

loans of the MDBs. This distinction has been blurred by the graduation of several low-income countries, notably China (1999) and India (2014), into MICs in the past two decades, which made them eligible for non-concessionary loans from the MDBs' ordinary capital. Particularly the lower-middle-income countries continued demanding concessionary resources, in the form of grants for technical assistance and capacity-building, and for buying down interest rates through the blending of concessionary with non-concessionary funds by way of co-financing. However, these countries were not eligible anymore to use resources from the MDBs' concessionary funds, which were reserved for low-income countries.<sup>93</sup>

In the same period, since the turn of the century, the perceived need as well as the political will of donors for the financing of GPGs rose, leading to the establishment of global funds with concessionary resources in the health and climate areas and for responding to natural catastrophes and other crises. With these developments, the need for concessionary resources beyond the traditional use in low-income countries rose considerably. Since the MDBs' capacity for creating concessional resources on their own – through retaining part of their operating profit – is limited,<sup>94</sup> only voluntary contributions of concessional funds from bilateral donors could fill the gap. The ordinary resources of MDBs were neither sufficient nor adequate (in terms of their financing conditions) to meet the new demands. Thus, instead of providing the MDBs with more concessionary funds, new earmarked funds (FIFs and trust funds) were created to meet the new demands. Alternatives would have been:

- to increase core funding of concessional resources through the IDA and other concessional windows under the statutory governance of the MDBs;

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93 For the World Bank as well as for the RDBs, there is a certain flexibility regarding the provision of concessionary funds to countries that are at the threshold of graduation. "Eligibility for IDA support depends first and foremost on a country's relative poverty, defined as GNI per capita below an established threshold and updated annually (\$1,145 in FY19). Some countries, such as Nigeria and Pakistan, are IDA-eligible based on per capita income levels and are also creditworthy for some IBRD borrowing. They are referred to as "blend countries"; see <http://ida.worldbank.org/about/borrowing-countries>.

94 The MDBs' operating profit is derived mainly from interest payments of middle-income countries on the MDBs' loans. Therefore, MICs, represented in the MDBs' boards, hesitate to confine a large portion of MDBs' profits for concessional funding of low-income countries or GPGs. They rather want to see advanced countries providing additional concessional resources.

- to open the IDA for lower-middle-income countries to a larger extent;
- to provide the MDBs with non-earmarked core resources for the financing of GPGs.

In each area, small steps were taken: through increases and new funding mechanisms in the IDA, through more flexible approaches in “blend” countries and – most recently – through establishing a “global-public-goods window” in the IDA for financing GPGs also in MICs as a non-earmarked concessionary resource under World Bank governance.

That donors nevertheless opted to increase earmarked resources as a separate funding channel was a deliberate political decision in the case of the global funds, which have been the major drivers of earmarked funding since the establishment of the GFATM in 2002. Initiators and stakeholders of the GFATM, the GEF, the CIF and, not least, the GCF under UNFCCC, did deliberately strive for alternative governance models, as opposed to the MDBs’ governance, dominated by advanced countries. The World Bank ending up as the trustee of all those global funds due to a lack of better alternatives was accepted by stakeholders as long as independent governance of the funds was ensured.

In the case of trust funds, the major drivers were the MDBs themselves, engaging in fundraising among donors to increase grant resources for TA, advisory work and knowledge products. This met with the interest of some donors to set up trust funds in order to pursue bilateral policy interests and, at the outset – as long as grant contributions were tied to procurement in donor countries – also commercial interests. Probably incentivised through the MDGs, and later through the SDGs, donors were also inclined to support a thematic focus for funding, as opposed to the traditional country focus. Thematic trust funds – less complex in governance and administrative terms than FIFs – were an opportunity to pool resources for specific purposes. The MDBs, particularly the World Bank, did have the administrative capacity and knowledge to host these thematic trust funds. That these kinds of trust funds could also be used to nudge the MDBs to innovate in specific areas – gender, climate, health – was seen as a welcome opportunity by some donors and encouraged them to pursue this funding channel further and gain visibility as innovators in the system. Internal dynamics in the MDBs also drove the use, and proliferation, of trust funds, as described by Reinsberg (2017c).

Consequently, there are now four channels for providing concessionary resources through the MDB system: 1) the traditional funds of the MDBs for low-income countries (the IDA, the AfDF, the ADF), 2) the global funds with the World Bank as trustee, partly used for concessionary co-financing with the MDBs' ordinary resources, 3) bilateral concessionary co-financing of MDB loans and 4) trust funds at the MDBs.

For the MDBs, the provision of voluntary concessionary funds by donors – earmarked for specific purposes in cases 2, 3 and 4 – comes with a greater degree of influence of donors in their day-to-day operations and with higher transaction costs. They also create new opportunities for partnerships with bilateral donors and a higher degree of flexibility in responding to upcoming needs – beyond the traditional country-based operating model of the MDBs. The combination of core lending resources with concessionary funds does indeed leverage the MDBs' own funds to a considerable degree by

- providing additional funding for complementary technical assistance and advisory services,
- increasing the degree of concessionality of own funds, particularly for MICs, and
- blending resources for specific uses with co-benefits for third countries (pandemics, climate, migration).

This way of blending core with concessional, mostly earmarked, resources has become part of the business model of the MDBs and has developed into an indispensable mode of financing. The move towards blending concessionary with non-concessionary funds has been further reinforced in the World Bank with a new GPGs window (\$100 million grant funds), which was established through the latest capital increase in 2018, to be funded from net profits of the World Bank. As opposed to trust funds or global funds/FIFs, the public goods window is fully integrated in the World Bank's statutory governance.

In addition to leveraging own funds for SDG-related purposes, the MDBs are supposed to leverage private funds from global capital markets and domestic resources in developing countries. This is reflected in new trust funds and FIFs that have been established in recent years. Many of them are constructed in a way to serve the mobilisation of private funds through mitigating risks

for private investors and encouraging domestic contributions as well.<sup>95</sup> The concessionary donor contribution has a catalytic role, not only for the core funds of MDBs, but also for the mobilisation of private and domestic funds.

Bilateral donors strive for a distinct complementarity in the use of MDBs as conduits for bilateral development cooperation. Voluntary bilateral contributions to the MDBs are to provide specific outcomes (e.g. related to GPGs) that are transformative and clearly additional to what bilateral cooperation can achieve. What specifically can the MDBs contribute to transformative change in view of the 2030 Agenda? And what role can earmarked funding play?

Bhattacharya and Stern (2018, p. 2) point to seven features that make the MDB system a powerful catalyst for transformative change:

- (i) their development mandate and long-term view; (ii) the individual and collective economic and financial strength of their shareholders; (iii) the capital structures, gearing ratios and borrower commitment that enable them to use small shareholder contributions to mobilize financing at scale and at very low-cost; (iv) the ability to be trusted conveners; (v) their ability to influence policy and support institution building; (vi) their presence itself can reduce risks, and they can deploy a range of instruments for risk management (including equity, guarantees as well as long-term loans and hybrids) to attract private investment at scale; (vii) they have developed a unique repository of skills that they can bring to tackle development challenges.

Against this background, from a bilateral donor's perspective, all four ways of channelling concessional resources through the MDB system are to be gauged as to their advantages and disadvantages (see Section 4.2). If we assume that there is a fixed amount of concessional resources in a bilateral donor's budget that can be channelled through MDBs, there is a certain degree of competition between the concessional channels. Based on the analysis of the instruments in Section 4.2, the following reasoning could apply.

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95 See, for example, the Global Financing Facility for Women, Children and Adolescents (GFF), established in 2015: The GFF Trust Fund acts as a catalyst for financing, with countries using modest GFF Trust Fund grants to significantly increase their domestic resources alongside the World Bank's IDA and IBRD financing, aligned external financing and private-sector resources; see <https://www.globalfinancingfacility.org>.



- Core contributions to the capital of MDBs have high priority because they ensure the sustainability of the MDBs' operating model and their lending volume, as well as the influence on the governance of the MDBs through Germany's board representation. However, capital increases and the determination of shares and voting rights of members are political processes that leave only little room for manoeuvre and cannot be determined by unilateral decision. In the long run, the shares of Germany and Europe in the MDBs will decline, for demographic and economic reasons.
- Core contributions to the concessional funds of MDBs are important as a political signal for engaging with multilateral institutions in supporting poverty reduction and economic development in low-income countries. However, due to the change and diversity of contributing countries, the influence of an individual country such as Germany in the governance bodies is rather limited.
- Co-financing specific projects with MDBs is a useful instrument to fund large (mainly infrastructure) projects and share risks (and project development costs as well). It does not deplete many budgetary resources as long as the bilateral part of the funding originates from concessional loans or from KfW's own resources (which currently still count as concessional funding/ODA).
- Contributions to global funds/FIFs do have a leveraging effect through the pooling of bilateral funds in tackling global challenges. They offer a degree of visibility on the international level to the extent that the global funds gain reputation through the quality of their operations.
- Trust funds are a way to leverage the MDBs' capacities for agenda-setting, promoting innovation and partnering with selected donors on specific themes, regions or countries.

### 5.2.2 World Bank

#### *The role of trust funds*

Trust funds form a significant part of the resource base of the World Bank (about 10-12 per cent of its overall disbursements for lending and non-lending activities) and provide multi-year funding with \$12.1 billion in funds held in trust as of the end of FY19, and about \$4.2 billion in annual

disbursements in 2017, declining to \$4 billion in 2019. The total number of trust funds increased to 976 in FY19, of which 781 are administered by the IBRD/IDA and 195 by the IFC (all data from World Bank, 2019). However, the numbers are somewhat inflated due to administrative reasons. Several trust funds are held in separate accounts even though they belong to the same programme (interview B 32). The World Bank's Directory of Programs Supported by Trust Funds 2018 reports a total number of 296 programmes that are supported by trust funds.

In the view of the World Bank, trust funds have the following purposes (World Bank, 2017):

- they are flexible instruments that can be customised to the request of donors and adapted to the needs of recipients;
- they complement the WBG's operations, pilot innovations, allow the scaling-up of activities, and forge new partnerships;
- they enable the World Bank to provide assistance when its own ability to lend is limited, particularly in fragile contexts or in response to natural disasters and other emergencies; and
- they play a supporting role in strengthening institutional and knowledge capabilities in previously under-addressed areas such as gender, climate change, and fragility, etc., and help expand the scope and scale of the bank's knowledge work (e.g. annual flagship studies).

There are two types of trust funds:

**Bank-executed trust funds:** BETFs are implemented by the World Bank to support its work programme. They add to the bank's internal resources and allow increasing expenditures on global knowledge work and advocacy, advisory work and capacity-building. About two-thirds of the knowledge and advisory work of the bank is financed from BETFs, with a volume of around \$1 billion annually.

**Recipient-executed trust funds:** RETFs involve funds that the World Bank passes on to an external recipient to execute, in most cases to a developing country, where the World Bank normally appraises and supervises the activities. RETFs are complementary to the lending of the World Bank (the IBRD and the IDA). They provide about 8-10 per cent of total disbursements, amounting to around \$3 billion annually.

Most RETFs are administered in a more decentralised way than trust funds of RDBs, which, in most cases, are managed by HQ, with only little participation of country offices. The World Bank in general is a more decentralised institution, with more management autonomy in country offices than the RDBs. Several of the smaller RETFs are country-specific and governed and managed in-country. For example, trust funds have been set up to facilitate budget-support operations of donors, particularly in Africa, where capacity gaps in the administration impede the implementation of complex budgetary and policy reforms. Donors have pooled resources in MDTFs for the administration of the budget-support operation and the provision of technical and analytical research to inform policy design and dialogue.

In the case of Uganda, the respective MDTF is administered by the World Bank country office and governed by a steering committee, which meets twice a year, and a technical committee of donor representatives in-country, which meets ad hoc. After scaling down budget support by donors, the support of policy reforms is continued by an SDTF funded by DFID, which allows the World Bank as well as the Government of Uganda to draw on grant funds for continuous administrative support of policy reforms, independent from any lending operations of the World Bank (interview B 1). Thus, trust funds administered in-country can play a role as policy levers and as convening platforms for stakeholders in specific policy areas. These kinds of in-country trust funds can be initiated in collaboration between World Bank country offices and donors, which may lead to a proliferation of trust funds with increased transaction costs for donors and the government, as, for example, in the case of Colombia (interview MS 7). On the other hand, country-based MDTFs are a way to coordinate among donors and with the government in specific policy areas, and thus can counter project proliferation.

The income from trust funds covers a significant part of the World Bank's total administrative cost. Of around \$4 billion annual total administrative cost, 40 per cent is covered by external income, which also comprises reimbursable activities. In FY18, \$1.1 billion was covered by income from trust funds. In 2016, the World Bank has increased the administrative fees for trust funds in a new cost recovery framework aiming for full cost recovery<sup>96</sup> (interview B 32). Thus, trust funds are an important source of income for

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96 For RETFs, the World Bank charges a fee of 2-5 per cent, depending on the volume of the fund.

the World Bank. Particularly in times of pressure to cut administrative budgets, they provide a stable source of income and cover part of the total administrative cost, which benefits the institution as a whole; although, in principle, only the full costs of trust funds – including an overhead fee for staff employed by the bank and funded by trust funds (17 per cent) – is charged, and no “profit” is generated from trust funds.

### *The role of FIFs*

Funds held in trust by the World Bank as FIFs amounted to a total of \$23.1 billion by the end of FY19, and about \$5.9 billion in annual transfers and disbursements in 2019, down from \$6.2 billion in 2017. Over the last decade, the number of active FIFs has more than doubled – from 12 in FY08 to 27 by the end of FY19 (World Bank, 2019). FIFs are financial arrangements that leverage a variety of public and private resources in support of international initiatives as a coordinated response to global challenges such as food security, pandemics, environment and climate change, and natural disasters. FIF structures are customised, depending on the needs of the partnership and agreements between donors and the bank. The World Bank can play three distinct roles in FIFs:

- trustee, in which the World Bank provides a set of agreed financial services, including receiving, holding and transferring funds to external partner entities when instructed by the FIF governing body;
- implementing agency, in which the World Bank may be responsible for appraisal and/or supervision of projects or programmes financed by the FIF<sup>97</sup>; and/or
- secretariat, in which the World Bank provides programme management and administration services to the FIF.

FIFs are heavily concentrated in environment/climate and health. In the period from FY15 to FY19, FIFs supporting the health sector received 43 per cent of the total contributions to FIFs, and the environment and climate change sector received 39 per cent of the total contributions to FIFs.

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97 The World Bank implements FIF projects at an amount of about \$1 billion annually (interview B 10).

Funding for fragile and conflict situations decreased from 10 per cent in FY15 to 8 per cent in FY19 (World Bank, 2019). Around 80 per cent of the funds are concentrated in four FIFs: the GFATM, the GEF, the CIF and the GCF (World Bank, 2017).

### *The contribution of Germany*

In FY18, Germany contributed \$244 million to IBRD/IDA trust funds, \$12 million to the IFC trust funds and \$720 million to FIFs. The number of active trust funds with German contributions at the end of FY18 were 74, including 52 IBRD/IDA trust funds, 4 IFC trust funds and 18 FIFs. For an overview on recent trust fund and FIF contributions, see Annex 5.

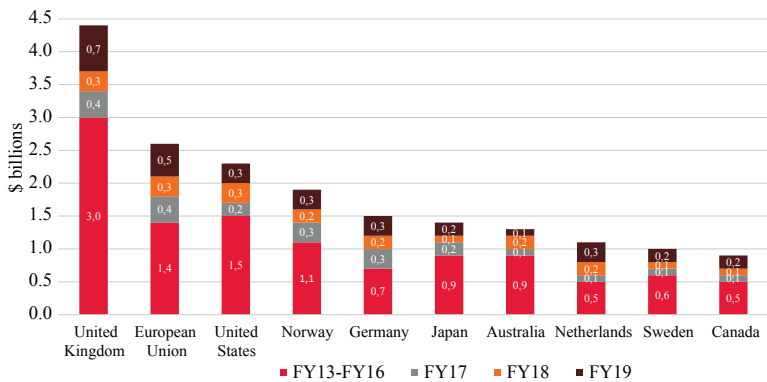
From FY14 to FY18, Germany contributed \$3.2 billion to the IDA, \$1.1 billion to trust funds and \$3 billion to FIFs.<sup>98</sup> Thus, if we include the contribution for the 2018 capital increase of the World Bank, core and earmarked contributions are about balanced, with a clear tendency of rising earmarked contributions to global funds, outpacing the core contributions to the IBRD and the IDA. This balancing of core and earmarked contributions is a clear break from the past, when Germany focussed its contributions to the World Bank on core contributions to the IBRD capital and to the IDA. Thus, Germany can be regarded as one of the drivers of earmarked funding in the World Bank. However, the rising earmarked contributions of Germany went mainly to a few global funds (FIFs) and did not contribute to a proliferation of trust funds in the World Bank.

Germany is the fifth-largest contributor to trust funds and the third-largest contributor to FIFs.

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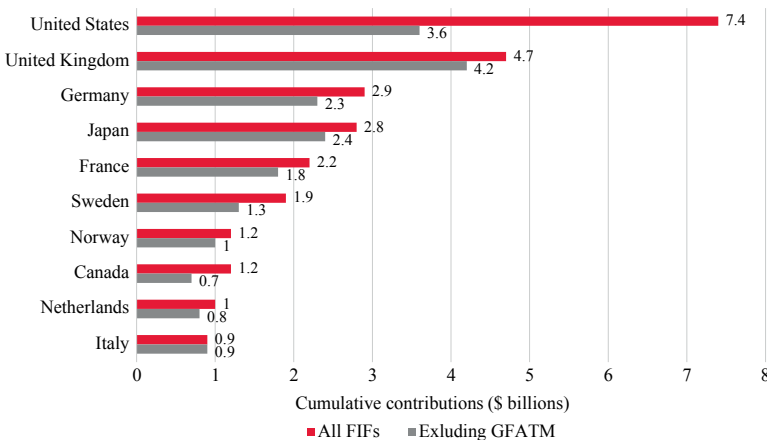
98 See <http://pubdocs.worldbank.org/en/104321538570106267/Germany-Portfolio-at-a-Glance-EDS05-Website.pdf>.

**Figure 27: IBRD/IDA trust funds: Cumulative cash contributions by top 10 donors, FY13-FY19 (\$ billions)**



Source: World Bank (2017, p. 125; 2019, p. 46)

**Figure 28: Cumulative contributions by top 10 FIF donors, FY15-FY19 (\$ billions)**



Source: World Bank (2017, p. 172; 2019, p. 107)

### *Assessment of the German contribution*

In a detailed analysis of the German trust fund portfolio at the World Bank, which includes FIFs, Herrmann et al. (2014) come to conclusions that are still valid:

- Germany contributes almost exclusively to MDTFs;
- there is a strong focus on fragile states and interventions on the country level; and
- the contributions to trust funds aimed at creating knowledge and disseminating new approaches for development is rather low, with most of the German contributions being channelled through RETFs and only small amounts to BETFs.

The major change in recent years has been a stronger emphasis on FIFs, with several newly created FIFs strongly supported by Germany – for example in the areas of migration (GCFF) and women entrepreneurship (We-Fi). Thus, the distribution between FIFs and trust funds in the German portfolio has tilted even more towards FIFs in recent years.

The number of trust funds with German contribution, including FIFs, has risen from 59 (2014) to 74 (2019). However, it has to be considered that some of the trust fund contributions are rather small and sometimes represent one-time contributions for initiatives on the country level that were channelled through trust funds for technical reasons. Therefore, we follow the assessment of Herrmann et al. (2014) that the German trust fund portfolio, particularly since it is focussing on MDTFs, does not contribute to a further fragmentation of the World Bank's trust fund portfolio.

As to the composition of the German FIF and trust fund portfolio, it appears sensible that Germany is a major contributor to the well-established as well as to new global funds, underlining its ambition to tackle global challenges in collaboration with other donors through multilateral channels. However, several of the new FIFs are of a rather ad hoc nature. The GCFF (see Box 12) is a vehicle to buy down interest rates in MICs (Jordan, Lebanon, Colombia) affected by migration inflows. It can be debated whether a FIF is the right solution for the problem of high interest rates of infrastructure loans, or whether dedicated concessionary funding windows at the World Bank and RDBs for middle-income countries – such as the new GPG window at the World Bank – could provide a more sustainable solution. The same

refers to We-Fi, which adds to numerous similar funds for small enterprise finance at MDBs and other development banks and has consequently been set up as a temporary financing vehicle only. Thus, along the lines of a potential consolidation of FIFs in general (see below), Germany will have the opportunity to review its contributions and focus on those FIFs that appear most politically relevant and effective.

The distribution of funding to thematic MDTFs has a strong focus on climate and environment issues, where donor collaboration appears useful and necessary, for example when it comes to the establishment of carbon markets and other issues that demand collaborative cross-border approaches. A particular German focus has been on climate insurances, where Germany builds on the InsuResilience Global Partnership,<sup>99</sup> an example where Germany attempts to be an agenda-setter through several initiatives, including trust funds at MDBs.<sup>100</sup> In other thematic areas, the German trust fund portfolio is – as has been stated already by Herrmann et al. (2014) – an accumulation of funds that have been established over time at the initiative of regional and sector divisions in BMZ, all based on a response to specific challenges where donor collaboration on a global or national level seemed appropriate, and a trust fund hosted by the World Bank appeared to be a good solution.

To what extent the German trust fund portfolio has to be consolidated should be reflected against the background whether the ongoing trust funds 1) reach the desired goals, as expressed in their founding documents, their results framework and the actual results achieved; 2) the degree to which they can be actively supervised and influenced by BMZ, in collaboration with KfW and GIZ; and 3) their value added for German development policy (which includes the support of multilateral institutions). The World Bank's trust fund reform in 2019 might be an opportunity to screen the German portfolio along those lines.

### *Trust fund reform*

The rapid – and to a large extent decentralised and uncontrolled – growth of trust funds after the turn of the century has led to several rounds of reforms of the trust fund portfolio in the World Bank.

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<sup>99</sup> See <https://www.insuresilience.org/>.

<sup>100</sup> Consolidation prospects in climate/environment trust funds will be analysed in a separate study dedicated to this topical area.



The major issue identified in an IEG evaluation of 2011 was that fragmentation and customisation of trust funds limit their efficient management and inhibit the strategic alignment of the trust fund portfolio to the bank's overall strategy (IEG, 2011).

The evaluation acknowledged that the large number of smaller funds can provide important support for innovation and knowledge work. But the fragmentation among many small funds, with heterogeneous governance mechanisms and reporting, could make a clear link to strategic priorities more challenging, and customisation of each small trust fund would add to the transaction costs.

World Bank (2017) distinguishes three phases of reform.

Phase I (2001-2007) focussed on strengthening financial controls. The fiduciary oversight systems developed during this time (independent audits, compliance reviews, information system) contributed to making trust funds at the World Bank more attractive for donors and reinforced the role of the bank as a credible trustee of resources.

In phase II (2007-2013) a management framework for trust funds was put into place, categorising RETFs, BETFs and FIFs. By integrating trust funds into the management and budgetary processes of the bank, they were established as a "business line" aligned to internal and country-level strategies.

In phase III (2013-2017) the bank attempted to improve strategic oversight and management by encouraging the development of umbrella facilities with unified results frameworks and streamlined governance arrangements. A higher degree of standardisation was established in a new cost recovery framework as well as administration agreements with major donors. Cross institutional coordination and decision-making around fundraising was facilitated through stronger transparency requirements around resource mobilisation.

Despite the early reform efforts, trust funds were still mushrooming. It was critically remarked that, despite the greater use of larger programmatic MDTFs over the years, only about 10 per cent of trust funds accounted for more than 75 per cent of the total portfolio's value. Larger trust funds showed a clear link to institutional priorities such as fragile states, GPGs such as climate, and also tended to be organised around an articulated strategy aimed at specific development outcomes. In contrast, small trust funds often were

highly customised with heterogeneous governance mechanisms, resource allocation, reporting and results frameworks (World Bank, 2017).

Therefore, the World Bank is striving for the consolidation of trust funds in a further strategic reform process of 2018/19. It has been emphasised that the bank does not seek to increase the volume of trust funds, but rather their effectiveness (interview B 12).

The aim of the continuous trust fund reform in the World Bank is to consolidate the large number of small trust funds in a new thematic umbrella structure in order to reduce issues of management oversight and strategic alignment to the bank's priorities. Multiple trust funds are to be consolidated under thematic programmes, which would still allow for the preferencing of donors, that is, some degree of deeper earmarking. In a thematic trust fund umbrella, the governance and results framework will be organised at the programme level and not anymore at the level of individual trust funds. Reporting and evaluations will be more standardised. In order to reduce the customisation of trust funds according to a donor's wishes, customised trust funds will only be accepted by the bank with extra fees.

The bank also aims at introducing a higher degree of fundraising discipline. Often fundraising for trust funds by staff was carried out without considering strategic priorities of the bank. As shown by Reinsberg (2017c), organisational reform in the World Bank around the turn of the millennium undermined budget autonomy of sector departments in the bank and consequently led to a decentralised acquisition of funds by sector units. Furthermore, pressure on administrative budgets encouraged sector or regional units to seek trust fund grants for funding additional staff and covering overheads. This met with increasing donor willingness to provide funding for new trust funds. In the future, there is supposed to be a programme idea and priority setting first before fundraising for a trust fund is to be envisaged (interview B 10).

The response of donors to the latest reform proposal was rather mixed. Donors support the direction of reforms, but they continue to request visibility, customised reporting and preferencing (interview B 12). Some donors insist on their own reporting format, even in MDTFs, although the results framework of trust funds is usually devised in consultation with donors. Regarding the visibility of donor contributions, it appears that donors will have to make increased own efforts to report and publicise their inputs and the respective achievements of trust funds in appropriate ways rather than demand that the MDBs highlight individual donor contributions,

or even reflect specific donor demands in customised results frameworks with separate results indicators. However, reporting and preferencing modalities also depend on the specificities of trust funds and will have to be negotiated individually for each trust fund, so there remains room for individual solutions. A higher degree of standardisation in large MDTFs and thematic umbrellas will most probably only be achieved by the successive phasing out of older trust funds and the alignment of new trust funds to the new structures and principles.

### *FIF reform*

In 2011, the IEG also conducted an evaluation of the World Bank's portfolio of partnership programmes, including FIFs. Among the areas for improvement, the review highlighted the need for greater selectivity in determining when the World Bank should engage in FIFs and the need to further strengthen risk management and corporate oversight of such engagements. Also, it called on the World Bank to review its experience with FIFs to ensure that practices for accepting and managing FIFs were adequate (IEG, 2011). Obviously, the evaluation did not lead to immediate action, since the number of FIFs has risen further.

Clearly, the growing number of FIFs increases fragmentation and creates governance challenges. The recently established FIFs are smaller than in the past, often with narrower mandates. Particularly in the climate area, more and smaller FIFs have been added to the large CIFs, adding up to 11 climate FIFs with resources channelled to recipient countries through multiple implementing entities (World Bank, 2017). This adds to a large number of trust funds providing climate-related support, and to the core funding of the World Bank for climate-related purposes, which is growing.

In the next phase of the reform, the bank aims at increasing FIF alignment with its corporate and operational strategies and risk management needs, both at entry and over the lifecycle. The bank will review the existing stock of FIFs and introduce a systematic screening process that will look at the envisaged value added of FIFs over their whole lifecycle and ensure that this fits with the World Bank's corporate strategy (World Bank, 2017). In the view of donors, thematically focussed global partnerships and FIFs with tailor-made governance arrangements, own secretariats and considerable donor influence will probably remain an attractive proposition. It is advisable that new FIFs will have a limited life from the outset, like We-Fi, with an

envisaged life of five years, after which there will be a joint decision of contributing governments and the World Bank as to whether a FIF should be continued or closed down based on an independent evaluation.

### 5.2.3 Asian Development Bank

The ADB has 49 active trust funds: 28 are single-partner funds and 21 are multi-partner funds. The total accumulated committed contributions to the trust funds (stock) in 2018 amounted to \$4.8 billion (ADB, 2018). As Table 18 shows, the annual disbursements vary considerably, making up about 1.5 times the ADB's own funds for TA in the period 2013-2017.

<b>Table 18: Annual use of trust funds at the ADB (\$ millions)</b>					
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
ADB/TA	154	146	151	180	201
Trust funds	317	190	187	397	146
Source: ADB (2018)					

Thus, as in the case of the World Bank, trust fund grants play an important role for the ADB's advisory and capacity-building activities as well as for buying down interest rates of loans from ordinary resources. The blending of the ADB's ordinary resources with donor grants and concessional loans is carried out through co-financing arrangements with bilateral donors (and through global funds such as the CIF, where the ADB is an implementing organisation). With more than \$5 billion in co-financing (2017), the ADB has a rather large portfolio in this area, comparable to the World Bank.

In its Strategy 2030, the ADB expresses the quest for an increase in trust fund resources:

ADB will seek more grant resources for its single- or multi-donor trust funds. It will ensure the effective and efficient deployment of these resources for grant-funded investment projects and TA for capacity development, project preparation, and knowledge work. In close interaction with the fund contributors, ADB will use these resources strategically to promote innovation, enhance project quality, and provide critical support for project implementation. (ADB, 2018)

In 2017 five new trust funds were established (ADB, 2018):

- the Asia-Pacific Climate Finance Fund (ACLIFF) to support the development and implementation of financial risk management products. The fund was established at the initiative of Germany (BMZ) with initial funding of \$33 million. It is supposed to be an MDTF, but Germany is the only provider of funds as of yet;
- the Canadian Climate Fund for the Private Sector in Asia II to increase private-sector participation in climate change mitigation and adaptation projects through blending grants from the trust fund with the ADB's ordinary capital;
- the Cities Development Initiative in Asia (CDIA) to help prepare high-priority urban infrastructure projects and link these to financing. CDIA was established at the initiative of Germany more than a decade ago and will now be transformed into a trust fund;
- the Domestic Resource Mobilisation Fund, funded by Japan, to help meet the SDGs in Asia and the Pacific by mobilising greater domestic resources; and
- the Japan High-Level Technology Fund to scale-up high-level technology and innovative solutions in ADB project design and implementation.

Most of the newly created funds are SDTFs, in some cases with the aim to attract funding from other donors. It is obvious that the ADB does accept SDTFs to a larger extent than the World Bank. It attempts to consolidate thematically similar trust funds in financing partnership facilities (FPFs). Already since 2006, the ADB has established FPFs. They are defined as operational platforms for strategic, long-term, multi-partner cooperation with development partners, linking various forms of assistance in a coordinated manner for defined purposes. These include trust funds, special funds, risk-sharing mechanisms or knowledge-sharing arrangements that financing partners agree upon.

<b>Box 15: ADB financing partnership facilities</b>
<p><b>Clean Energy Financing Partnership Facility</b></p> <ul style="list-style-type: none"> <li>• Asian Clean Energy Fund (single-partner trust fund)</li> <li>• Canadian Climate Fund for the Private Sector in Asia (single-partner trust fund)</li> <li>• Carbon Capture and Storage Fund (multi-partner trust fund)</li> <li>• Clean Energy Fund (multi-partner trust fund)</li> </ul> <p><b>Health Financing Partnership Facility</b></p> <ul style="list-style-type: none"> <li>• Regional Malaria and Other Communicable Disease Threats Trust Fund (multi-partner trust fund)</li> </ul> <p><b>Regional Cooperation and Integration Financing Partnership Facility</b></p> <ul style="list-style-type: none"> <li>• Investment Climate Facilitation Fund (single-partner trust fund)</li> <li>• Regional Cooperation and Integration Fund (special fund)</li> <li>• United Kingdom Fund for Asia Regional Trade and Connectivity (single-partner trust fund)</li> </ul> <p><b>Urban Financing Partnership Facility</b></p> <ul style="list-style-type: none"> <li>• Urban Climate Change Resilience Trust Fund (multi-partner trust fund)</li> <li>• Urban Environmental Infrastructure Fund (single-partner trust fund)</li> </ul> <p><b>Water Financing Partnership Facility</b></p> <ul style="list-style-type: none"> <li>• Sanitation Financing Partnership Trust Fund (single-partner trust fund)</li> <li>• Multi-Partner Trust Fund under the Water Financing Partnership Facility</li> <li>• Netherlands Trust Fund under the Water Financing Partnership Facility (single-partner trust fund)</li> </ul>
Source: ADB (2018, p. 22)

FPFs are managed by a dedicated team that handles all donor contributions to the platform, be they single- or multi-donor trust funds. The team collects applications for funding from sectoral and regional departments and allocates funds from the appropriate source to operational departments. Since the goals of the FPFs are linked to the ADB's overall strategy, they are also used as a fundraising instrument, particularly in cases where more grant inputs are warranted for reaching strategic goals (e.g. a specific intended lending volume for climate, sanitation or private-sector investments). Communication with donors is handled through a variety of direct communication with single donors and with steering committees of MDTFs. Usually FPFs do have an annual conference with all contributing donors – this conference has a distinct knowledge-exchange purpose, apart from the administrative issues of the donor meeting.

Trust fund reform at the ADB aims at a thematic streamlining and greater coherence of trust funds with the new Strategy 2030. Rather than developing a new trust fund policy towards donors, the bank is focussing on internal reorganisation, aiming at a more coherent management structure, particularly with regard to the trust funds that are not part of the FPFs. The internal distribution of trust funds to FPFs and to regional and sectoral management units appears to be somewhat arbitrary. Operational staff is not always well-informed about the specific purpose and access modalities to trust funds (interview B 30). Their link to strategic goals is not always obvious. A revision of the structure and management of trust funds was therefore put under consideration in 2019. Since individual donors have a considerable influence, particularly through SDTFs, it will be challenging for the ADB to achieve a coherent structure of trust funds.

In view of the ADB's staff and management, trust funds have, apart from their financial value, a potentially strong impact on innovation (interview B 24). Operational departments are not always receptive to the application of new solutions and new technologies in investment projects. In the view of the ADB's sector and thematic expert teams, innovative trust funds, which are intended to support new solutions, do have the capacity to push operational project teams towards more innovative projects (interview B 29). The sectoral and thematic expertise from donors that is transferred through trust funds is appreciated, and donors – as the list of new trust funds above indicates – are using this instrument for agenda-setting (Germany's ACLIFF fund is based on the innovative InsuResilience initiative), and also liaising the ADB to knowledge partners from their national context.

### *Assessment of the German contributions*

Germany has not been a major contributor to ADB trust funds. The BMZ budget for the ADB was used in the past exclusively for capital increases and ADF contributions. The only collaborative engagement with the ADB – the CDIA – was structured as a joint programme with parallel financing through GIZ. Only with the recent extension of the RDB budget item, enabling earmarked contributions, was a basis for earmarked funding established for the funding of the first major trust fund contribution of Germany to the ADB (ACLIFF). Since there were no established routines for German trust fund contributions to the ADB, the customised structuring of ACLIFF as a new free-standing trust fund was rather time-consuming and cumbersome (interview MS 56).

A broader engagement of Germany in ADB trust funds could be well-justified by the leverage in terms of finance and knowledge, which can be wielded with a relatively small amount of investment. However, the scope of further engagement is limited by the available budgetary resources and administrative capacities of BMZ. An engagement in existing or new MDTFs or PPFs is only recommendable when innovative conceptual inputs can be mobilised on a continuous basis, which requires funding for GIZ or KfW as implementing agencies of the German contribution or for a third party as knowledge partner. For ACLIFF, no funding for specific knowledge inputs is envisaged, which leaves the steering of the fund mainly to the ADB.

KfW has a framework agreement on co-financing with the ADB (see Box 16) that is not related to any trust funds (interview MS 52). This approach differs from DFID's collaboration with the ADB, which relates its contributions to trust funds to its co-financing of ADB loans.<sup>101</sup> A more strategic approach of BMZ could search for opportunities to jointly invest in project preparation through trust fund engagements (e.g. through the new CDIA trust fund), thereby facilitating the identification and development of co-financing projects aligned to German development policy goals in Asia.

**Box 16: KfW framework agreement with the ADB**

In July 2014, the ADB and KfW signed a memorandum of understanding for \$2 billion in collaborative co-financing to help promote development in five countries (Bangladesh, India, Indonesia, Mongolia and Viet Nam). In September 2017, the ADB and KfW signed an amendment to extend the memorandum to 2020 and increase the co-financing amount to \$4 billion. Additional priority countries include Afghanistan, Myanmar, Nepal, the People's Republic of China, Pakistan and Sri Lanka. The identified sectors and areas of common interest are renewable energy and energy efficiency, urban infrastructure including urban mobility, climate finance, financial inclusion, vocational training, regional integration and health. The ADB and KfW also agreed to strengthen cooperation to harmonise each institution's design and project implementation processes, joint knowledge management events and research, staff exchange, and retreats and training. This critical partnership helps the ADB and its developing member countries to scale-up and expand co-financing operations in sectors of highest priority.

Source: ADB (2018, p. 22)

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101 See the ADB–DFID at <http://www.adb.org/documents/adb-dfid-cofinancing-guide>.



### 5.2.4 Inter-American Development Bank

The IDB as a development bank working mainly in MICs has very limited sources of grant funds at its disposition. Since about a decade ago, the IDB has mobilised more of its own resources for TA, hoping for parallel increases in donor contributions to MDTFs. However, this did not materialise as expected (interview B 14). Through an active fundraising strategy, the IDB wants to attract more grants from donors in order to

- support the preparation, implementation and evaluation of projects financed by IDB loans;
- obtain seed funding to support the introduction of new business areas;
- build capacity in borrowing member countries, including through knowledge-sharing;
- support upstream work and dialogue with an eye to future lending (IDB, 2018).

During the 2000-2017 period, trust funds contributed approximately \$3 billion in grant financing and \$1 billion in concessional financing. In 2017 around 50 per cent of the IDB's spending of \$380 million for technical cooperation was funded through 40 trust funds (interview B 14).<sup>102</sup>

In order to cope with fragmentation and management issues, the IDB has established thematic platforms along the lines of its thematic priorities (infrastructure, institutions, regional integration, social policy, sustainability). After nudging donors to integrate into MDTFs as an effort to increase effectiveness and efficiency, donors rather tended to move away from MDTFs because they have different preferences with regard to country earmarking and outputs, and coordination processes in MDTFs appeared as too cumbersome. Donors rather prefer greater visibility and individual reporting (interview B 14). This can be accommodated through the thematic platforms. As in the ADB, the platforms have a unified results matrix, which, however, can be accommodated to the individual reporting requirements of donors.

There are various ways to establish a trust fund. The usual process is to start with one donor to create a fund with a results matrix and then approach

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102 See the list of trust funds on the IDB's website:  
<https://www.iadb.org/en/aboutus/trustfunds/fundsearch.cfm>

other donors for co-funding. The platforms comprise all sorts of instruments, including loans. Recently, the IDB itself has also begun creating new thematic platforms as a fundraising instrument when a new problem arises (e.g. “citizen security”) and is trying to convince donors to contribute.

In recent years, the appetite of donors has been going more towards reimbursable funds for the de-risking of private-sector investments, financing risk contingencies upfront. Thus, the traditional grant-based trust funds are moving towards blending platforms, attempting to leverage funds beyond the IDB’s own ordinary resources (interview B 14).

**Box 17: Multi-donor trust fund at the IDB initiated by Germany**

*Sustainable Energy and Climate Change Initiative (SECCI)*

In 2007, the IDB established the Sustainable Energy and Climate Change IDB Special Program (SECCI IDB Fund or SCI), financed by resources from the ordinary capital of the IDB and the Sustainable Energy and Climate Change Multi-Donor Fund, which was initiated by Germany. Both sources comprise the SECCI Funds.

The SECCI Funds were created as a financial instrument to mainstream climate change activities and projects in Latin America and the Caribbean (LAC) countries based on a growing number of requests from member countries. Germany and other donors (Austria, Finland, Italy, Japan, Spain, Switzerland, United Kingdom) wanted to encourage the IDB to expand its climate lending from a rather low base.

At the end of 2017, the SECCI Funds had received \$140 million, of which \$95 million was from IDB ordinary resources and about \$45 million contributed by donors.

The German contribution (€17 million in grants) is administered by KfW (based on BMZ budgetary FC funds). Apart from the contributions to SECCI, KfW issued several climate loans to LAC countries based on the knowledge it gained working with SECCI.

A 10-year evaluation in 2018 draws the conclusion: “Both donors and Project Team Leaders agree that the SECCI Funds have been and still are a relevant tool to address climate change needs in the LAC region. Donors are satisfied with the way the SECCI Funds operate. Moreover, the SECCI Funds had a positive and durable impact in beneficiary countries and stakeholders as well as on the IDB itself” (IDB, 2018). On the background of this evaluation, an extension for another period was decided.

*Governance arrangements in IDB trust funds*

Usually there is one annual meeting with trust fund donors and annual or bi-annual donor reporting on the performance of trust funds. The IDB has established a portal for trust fund contributors (“salesforce”), which allows donors to access updated information on the status of funds and on projects carried out. The IDB is rather flexible regarding supervision and reporting arrangements. Some donors – Japan, Korea, Italy – pursue their own supervision missions in recipient countries and get customised reports based on their preferences. They also dispatch trust fund appointees to the bank as a way for close interaction with the day-to-day management of the trust fund. Decisions on the projects to be funded from trust funds are taken by the steering committees in the case of MDTFs, and through direct communication with donors in the case of SDTFs. Thus, as in the case of the ADB, in its effort to acquire more grant funding from donors, the IDB flexibly accommodates to the preferences of donors and adjusts governance and reporting processes accordingly.

*Assessment of the German contribution*

As in the case of the ADB, with the funding of one MDTF, Germany is not a major contributor to the IDB’s trust funds. With the SECCI trust fund, BMZ has developed a rather successful initiative, with several donors joining the fund and KfW implementing the German contribution, with additional co-financing of climate-related projects in LAC countries. However, since there was no dedicated BMZ budget item for earmarked funding at the IDB, the SECCI contributions had to be funded from various sources in an ad hoc manner, which contributed to time-consuming administrative procedures (interview MS 51). Secondments of personnel to the IDB in the area of sustainable infrastructure facilitated additional knowledge transfer. More earmarked funding to the IDB is envisaged in the area of technical and vocational training. As in the case of other RDBs, limited budgetary resources and personnel capacities in BMZ for steering and supervision of the German contribution rather restrict a broader engagement.

### 5.2.5 African Development Bank

In 2018 the AfDB managed 39 trust funds (14 single-donor, 25 multi-donor) to a cumulative value of UA 1.08 billion (\$1.5 billion).<sup>103</sup> These are primarily used for pre-investment feasibility studies, project cycle work and capacity-building activities. The bank distinguishes between

- thematic and multi-donor trust funds, mainly used for infrastructure operations,
- bilateral SDTFs, mainly used for financing capacity-building activities.

In 2018, the bank mobilised around \$230 million new resources for various trust funds. An average of around \$100 million has been disbursed annually over the last five years (interview B 31). This compares with totally available funds for TA of around \$200 million per year (AfDB, 2017a). Thus, as in the other MDBs, a considerable part of TA and capacity-building is funded through trust funds.

Seven new trust funds have been established since 2014:

- Africa Climate Change Fund
- Bill & Melinda Gates Foundation Trust Fund
- Somalia Infrastructure Fund
- Jobs for Youth Multi-Donor Trust Fund
- The Rockefeller Foundation Trust Fund
- Africa Digital Financial Inclusion Fund
- Urban and Municipal Development Fund

Except the two funds from the US foundations, all other new trust funds are thematic multi-donor funds, indicating a shift from single-donor to thematic and multi-donor funds in recent years, with thematic funds capturing about 75 per cent of new resources (interview B 31).

The three largest donors for thematic trust funds are the United Kingdom, Denmark and France. The two largest donors for bilateral trust funds are

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103 The unit of account (UA), as used in AfDB statistics, fluctuated between \$1.34 and \$1.54 between 2012 and 2018.

Korea and Japan, which is similar to other MDBs where Japan and Korea have a preference for SDTFs.

Germany is currently contributing to seven trust funds at the AfDB, with an emphasis on the NEPAD Infrastructure Project Preparation Facility (IPPF), the African Legal Support Facility (ALSF) and the support for the Making Finance Work for Africa secretariat at the AfDB. As the table below shows, the German contribution is implemented either through KfW or GIZ.

<b>Table 19: German contributions to trust funds at the African Development Bank (status 2018)</b>	
Nepad-IPPF	KfW contributes €20 million and GIZ €2 million
Multi-Donor Trust Fund for Zimbabwe	KfW contribution of Phase I: €20 million
Infrastructure Consortium for Africa	€3.6 million (no new funding from 2017 onwards)
Making Finance Work for Africa	GIZ supports the secretariat with a financial contribution of €1.96 million
Africa Climate Change Fund	Through GIZ, Germany contributed €4.725 million. The fund was converted in March 2017 to an MDTF with Italy and Flanders
African Renewable Energy Initiative (AREI)	BMZ through GIZ contributed €1 million to the AREI Secretariat; a €1 million contribution is currently being negotiated with the German Ministry of Environment. Germany and France have announced to provide the largest contributions of €3 billion each. In 2016, Germany was the largest donor with €1.3 billion. It is currently supporting energy projects in more than 20 African countries through bilateral cooperation
African Legal Support Facility (ALSF)	KfW €15 million contribution. GIZ and ALSF cooperate on a number of areas, including: capacity-building through the CONNEX initiative (G7 initiative to improve the quality of advisory support provided to low-income-country governments in their negotiation of complex commercial contracts) and implementing the CONNEX Code of Conduct
Source: Data provided on request by BMZ	

**Box 18: Example of a trust fund with German contribution**

*NEPAD-IPPF Trust Fund*

Current volume of the fund: \$102 million

Financial contributors: Canada (\$23.3m), Denmark (\$4.2m), Germany (\$28m), Norway (\$7.3m), Spain (\$2.7m), United Kingdom (\$14m), USAID (\$1m) and the AfDB (\$21.4m)

The NEPAD-IPPF Trust Fund is an instrumental tool for funding the Infrastructure Project Preparation Facility, which is essential for bringing bankable projects to the market for financial closure. The fund is providing grant resources for 1) preparing high-quality and viable regional/continental infrastructure projects with a view to requesting financing from public and private sources; 2) developing a consensus and partnership for project implementation; and (3) promoting infrastructure projects and programmes aimed at enhancing regional integration and trade.

Since it was established in 2005, 30 projects have reached financial closure with investments for implementation of \$24.1 billion.

In view of a number of other funds with similar purposes that have been established in Africa in recent years, an Independent Review of the NEPAD-IPPF has been suggested by donors for 2019 in order to take stock of its performance since inception, its impacts on infrastructure delivery on the continent and to “improve its operations on the base of ‘a New Business Model’ to better respond to emerging needs”.

Source: AfDB (s.a.)

In addition to the trust funds as grant facilities, the AfDB has established, as other RDBs, co-financing facilities with several bilateral donors that consist mainly of concessional loans, although in some cases they are also called trust funds. The framework agreements on the facilities are focussed on specific sectors and countries and leave considerable discretion as to the determination of joint or parallel financing and to the determination of the division of labour in terms of project preparation and procurement. As in the case of the other MDBs, the AfDB notifies the partners on possible co-financing opportunities, or the co-financing opportunity emerges through collaboration on the country level.

<b>Table 20: AfDB co-financing facilities (status 2018)</b>		
	<b>Facility</b>	<b>Amount</b>
1	Accelerated Co-financing Facility for Africa (with JICA)	\$645 million
2	Africa Growing Together Fund with China	\$1.1 billion
3	Agence Française de Développement	€1.5 billion
4	European Union (External Investment Plan)	€983 million
5	Nigeria Trust Fund	\$50 million
6	Korea-Africa Economic Development Cooperation Co-Financing Facility	\$445 million
Source: Data provided on request by the African Development Bank		

### *Ongoing trust fund reforms*

An evaluation of the trust fund management at the AfDB was conducted in 2013 due to concerns about an apparent lack of disbursements and slow processing times of trust funds (AfDB, 2013). The evaluation diagnoses thematic overlaps between trust funds and recommends consolidation:

Other MDBs have made efforts to provide a framework or platform by which related trust funds are strategically coordinated with the various funding sources while distinct governance arrangements are maintained for individual funding windows on the platform. Moreover, such arrangements can help provide economies of scale for support. (AfDB, 2013, ix)

Furthermore, the evaluation recommends addressing efficiency and management issues by rationalising processes, procedures, timelines and costs, and it suggests observing reform processes in other MDBs as learning examples for the AfDB.

Subsequently, improvements in operational processes led to better performance in terms of disbursements. However, more structural reforms were postponed to a later stage. Only in 2018 was trust fund reform taken up again by the board, and further reform was linked to efforts to align trust funds with what the bank was doing more generally in terms of programmes and for using thematic trust funds to help the bank profile itself on cross-cutting issues (interview B 31). It appears that the AfDB is striving for clearer structures, reporting lines and efficiency, and thus for minimising

reputational risks, before it goes for more fundraising for trust funds, which is, however, envisaged in the longer run.

The ongoing trust fund reform comprises the further promotion of multi-donor thematic trust funds, a standardisation of agreements and reporting frameworks, minimum thresholds for the establishment of funds and the approval of projects financed by the fund. In general, the AfDB – which, in terms of internal trust fund management and communication with donors, has the least standardised approach, as compared to other MDBs – aims to align gradually to the trust fund policies of other MDBs.

#### *Assessment of the German contributions*

Germany is well-positioned with its support for sustainable infrastructure and energy, the funding of the ALSF and the Making Finance Work for Africa knowledge platform. In view of the importance of Africa for German development cooperation, a more strategic use of trust funds at the AfDB should be envisaged, rather than the previous ad hoc nature of funding decisions due – among other reasons – to the fact that there is no dedicated budget item in BMZ for earmarked funding of RDBs. Contributions for trust funds should consider the ongoing trust fund reform at the AfDB and should support the reform efforts by aligning funding proposals to the goals and principles of the reform, and thereby strengthen the AfDB as an institution.

### 5.2.6 General observations and conclusions

#### *Observation 1: Earmarked funding has become a central feature of the operational model of MDBs*

The MDBs clearly benefit from earmarked funding as a complementary instrument to their core resources. In principle, there could be other ways of providing grant funds or concessional lending resources to the MDBs – by increasing voluntary donor contributions to the core concessional facilities (the IDA, the ADF, the AfDF) of the banks. However, it is hardly conceivable that donors would change their approach in a radical way, because earmarked funding has become a commonly accepted concept for the MDBs and all sides derive some benefits from this modality.

The tendency to establish new FIFs and trust funds mainly to buy down interest rates for MDB ordinary resources in MICs is rather questionable. In



this way, trust funds compensate for a deficiency in the system, namely the lack of concessional funding sources. A general non-earmarked soft window for GPGs – as has been established in the World Bank in the framework of the latest capital increase – appears to be a more appropriate solution to a systemic problem. In general, trust funds and global/vertical funds are regarded as being more flexible, focussed and open for private funding than the core resources of the MDBs. They encourage innovation and partnerships and allow for new financing modalities. Donors benefit from leveraging the operational model of the MDBs, from pooling funds with other donors and from influencing the allocation of funds according to their priorities.

However, earmarked funding comes with challenges for the banks and the donors. The strong growth of trusts funds and vertical funds in the previous two decades has led to fragmentation, management inefficiencies and a lack of alignment to the banks' strategies. On the donors' side, the costs and benefits of working through MDBs with earmarked funding – beyond the fees that are requested by the MDBs – are often not fully transparent.

After having been treated as a “side” activity by the MDBs for a certain period, there has been recognition of the need to streamline the management of the funds and ensure that their utilisation is aligned with the specific strategic priorities of the MDBs, and that it is integrated into the policies, processes, general operations and systems of the institutions.

After many attempts at reforming trust funds in the MDBs in the past – striving for full cost recovery, clustering trust funds through thematic platforms, standardisation of processes – there are still critical voices that doubt the efficiency and effectiveness of trust funds in general. See, for example, the 2018 Asian Infrastructure Investment Bank (AIIB) paper for the G20 Eminent Persons Group on global financial governance: “[M]ultiple concessional finance (trust) funds under separate governance arrangements may serve well the objectives of individual contributors and recipients but can weaken the ability to manage coherently the host MDB, let alone the MDBs as a system” (Asian Infrastructure Investment Bank, 2018). Consequently, the AIIB has established only one Special Fund based on grant contributions from donors as a source for project-specific technical assistance. However, it has to be taken into account that the AIIB is focussing on financing infrastructure, based on “country systems”, and it does not have the ambition to be a “knowledge bank” like the other MDBs providing capacity-building services to their clients. Up to now, in its co-financing of projects with other

MDBs, it has relied on other MDBs' capacities in terms of, for example, the control of environmental and social safeguards, which, inter alia, builds on technical capacities in those banks supported by trust funds.

*Observation 2: Ongoing reforms are geared towards gradually aligning earmarked funding with the MDBs' core strategies*

In view of the continuous criticism of trust funds, the G20 Eminent Persons Group on the International Financial System recommends: "Integrate trust fund activities into MDBs' core operations to avoid fragmentation. [...] We must likewise integrate trust fund activities with the MDBs' strategies and operations, to avoid parallel structures that pose significant costs to efficiency and impact" (G20 Eminent Persons Group, 2018).

Thus, the MDBs and their stakeholders continue to be under pressure to act and prove the measurable value added that earmarked funding can render to their core activities. They also need to find solutions to the efficiency issues by introducing more standardised governance, management and reporting frameworks in dialogues with donors. It appears that the consolidation of trust funds in thematic platforms has been a useful approach in the ADB and in the IDB, whereas the World Bank, under challenge from the large number of trust funds to be consolidated, strives for larger MDTFs and thematic umbrellas and a phasing out of small trust funds. The AfDB has improved operational efficiency of trust fund management and is still in the early stages of establishing a more coherent thematic structure of trust funds.

The advantages and disadvantages of single- and multi-donor trust funds have been reflected in the trust fund reform processes of the MDBs. SDTFs forego the benefits of pooled funding and can lead to suboptimal resource allocation through deep earmarking, but they are easier to manage for the banks because they do not entail complex governance processes. MDTFs entail greater flexibility and leverage but are at times challenging in terms of management. The ADB and the IDB attempt to mitigate disadvantages through the establishment of well-defined MDTFs and in the platform/umbrella/facility approach: establishing thematic platforms under a dedicated management team with various financing instruments and with a unified results framework. The platform approach can accommodate different types of funding modalities as long as they are aligned with the results matrix of the thematic platform.

All MDBs have made efforts to provide thematic frameworks or platforms by which related trust funds are strategically coordinated with the various funding sources while distinct governance arrangements are maintained for individual funding windows on the platform. The latter can create higher transaction costs, but particularly for the RDBs, which have to cope with only a fraction of the trust funds as compared to the World Bank, it appears to be manageable to deal with donors on an individual basis. At least this is a cost the RDBs are ready to bear in exchange for funding and a positive relationship with individual donors.

*Observation 3: Cost recovery and cross-subsidisation*

The question of recovering the costs of managing trust funds is an issue for all MDBs. In general, they are under pressure to reduce, or at least stabilise, their administrative costs, and in this context, fees for the management of trust funds are a welcome contribution. As shown above, the World Bank covers a considerable amount of its administrative costs through trust funds. For the RDBs, this is of lesser importance, since the number and volume of trust funds is much smaller. In general, the MDBs request charges of 5 per cent, with lower fees for very large funds and with variations in the way the fee is calculated. For the RDBs, there appears to be greater flexibility regarding charges as well as own contributions to the funds, whereas the World Bank follows a more standardised approach, also requiring 17 per cent in overhead fees for trust fund-financed staff in the bank.

It appears reasonable that the MDBs are striving for full cost recovery, and there seems to be no substantial cross-subsidisation from trust fund income to other activities. However, considering the benefits that the MDBs derive from trust funds, a degree of ownership, as expressed in own contributions to trust funds, could be regarded as useful.

*Observation 4: Developing countries benefit from earmarked funding, but there can be issues with alignment to country needs*

Countries receiving funding from trust funds are only systematically part of the governance bodies of trust funds when the funds are country-specific (Afghanistan, Zimbabwe, Haiti, etc.). In the global funds/FIFs, they are represented in the governing bodies through constituencies, usually with a greater quota than in the statutory governing bodies of the MDBs, and they are involved through the partnership and governance requirements of

the various implementing agencies. In the thematic trust funds, they are not represented as a rule but are involved when specific interventions or projects are envisaged at the country level. This can lead to conflicts with countries planning processes and budgets, particularly when “vertical” interventions through global funds or thematic trust funds meet with very limited capacities at the country level. The proliferation of climate-related FIFs and trust funds with numerous implementing agencies and a great variation of access requirements can be difficult to handle for countries with low domestic capacities. This may encourage the creation of additional trust funds in the same area to support project preparation and capacity-building at the country level. Therefore, a consolidation in the area of climate funds is warranted.

*Observation 5: Donor countries benefit from earmarked funding, but should avoid proliferation*

Earmarked funding is a valuable instrument for agenda-setting and leveraging MDB and donor funds with relatively small inputs. The pooling of resources brings leverage, particularly for donors that engage with the trust funds by using them as knowledge platforms for developing innovative approaches, feeding in own expertise, liaising with national centres of competence in specific areas and seconding staff from national institutions to the trust funds. Countries that are proactively working with trust funds (United Kingdom, and particularly smaller countries such as Netherlands, Norway, Switzerland) achieve a degree of visibility in the community that is somewhat larger than their specific financial contribution. In a way, the legitimacy for influence and visibility of bilateral donors is drawn from the professional competence with which the donors act in the MDBs. Proliferation is driven by the large number of small trust funds at the World Bank, whereas the numbers and volume of trust funds at the RDBs (40-50 per RDB) appear as manageable.

The trade-off remains between donor visibility and influence on the one hand, and coherent bank management on the other. It can only be mitigated through coherent management of earmarked funding on the donor side (regard MDBs as a system, allocate resources strategically across the system, clarify the desired results) and on the banks’ side (accept donors as strategic partners, manage thematic platforms in results-oriented manner, decline unsolicited offers to establish trust funds).

## 6 Conclusions and recommendations

This section discusses the study's findings. It first highlights the similarities and differences between the analysed institutions and summarises the overarching findings. It then presents more details on the UN Development System, MDBs, as well as the earmarking practices of Germany and other donors. Against this background, the study formulates five overarching recommendations directed at the German government, which are broken down into actionable proposals.

### 6.1 General findings and conclusions

#### *Knowledge gaps around earmarking are significant*

There is aggregated data for individual multilateral organisations and OECD data for the multilateral development system at large that allows us to get a first impression of the magnitude of earmarked funding. Although there have been improvements in recent years, multilateral organisations themselves provide information on their earmarked funding streams with little detail. There is little common terminology within and across organisations. Similarly, donor bureaucracies do not provide meaningful data beyond their OECD reporting and also suffer from the lack of clear definitions. Since earmarked contributions are essentially a bi- or “mini-lateral” affair between donors and organisations, the documentation around them (contracts, reporting) is typically not publicly accessible, exceptions notwithstanding. Taken together, this makes it very difficult to create a comprehensive and more granular picture of the streams and practices concerning earmarked funding. This lack of transparency also complicates the assessment of the costs and benefits of earmarked funding (see also Norad Evaluation Department, 2019). Furthermore, it undermines the multilateral oversight that should, in principle, cover all aspects of an organisation's activities. As such, the lack of transparency can be considered one element that prevents member states and organisations from identifying, confronting and rectifying certain problems around earmarking, thus further stabilising undesirable aspects of the multilateral aid architecture.

*Earmarked funding is substantial for all analysed institutions, albeit with important differences*

Since the mid-1990s, earmarked funding has grown massively and nearly continuously, at a faster pace than multilateral aid flows. Earmarking has become a major trend in the funding of many multilateral development organisations, and donors are increasingly making use of it.

The term “earmarking” is rather uncommon and can lead to confusion in the context of the MDBs, where it is more customary to speak about “trust funds”. And while earmarking has negative connotations in the UN, given the relatively large proportion of restricted funding, trust funds are viewed much more positively in the banks. Trust funds in the banks tend to be viewed as complementary to the core business, as they have opened up new functions such as adding grants for technical assistance and knowledge products to lending. In the UNDS, earmarked funding by now tends to be more associated with risks to the missions of UN agencies and their core functions. It is only more recently that the benefits of specific forms of earmarked funding have been highlighted, namely that they can provide funding for the UN system rather than for individual agencies.

These negative and positive perceptions of earmarked funding appear to be closely related to the significance that this form of funding has and the role it plays for the analysed institutions. The UNDS has been receiving the largest shares of earmarked funds, both in absolute terms as well as when measured against its core contributions. Today, earmarked funding is its most important source of revenue. For several UN agencies in particular, the revenue structure has flipped, and they now depend on earmarked funding for their day-to-day business. This has rendered them into de facto project-implementing agencies. For regional MDBs, trust funds remain complementary to core resources and provide a welcome – yet, in terms of overall scale, limited – additional source of funding. In the case of the World Bank, although proportionally not as substantive when compared with core resources, trust funds provide sizeable sums of resources and have increased in importance.

In the context of the UNDS, earmarking often seems to be equated with donor influence (or at least one form or another of undue donor proximity to administrative processes). In the MDBs, the view on earmarking seems more balanced, where positive aspects appear to play a greater role. MDB field offices are significantly less donor-oriented than is the case for UNDS offices,

where major fundraising takes place at the country level. Although regional MDBs seem keen on increasing the share of earmarked funding, given their low reliance on earmarked funding, they appear to be in a relatively good position to deal with donors. For the UNDS, the basic question is: How can we rebalance to more core funding and increase the share of less restrictively earmarked contributions? Whereas in the context of the MDBs, the question is: How can earmarking be better organised to benefit from its advantages while controlling problematic aspects?

For all organisations, earmarking means working around multilateral rules. Given that providing and accepting earmarked funding is voluntary for both donors and organisations, the rise in earmarking has opened up a vast area of unstructured interactions and institutional bargaining that is only partly based on agreed rules and rather non-transparent. This leaves room for ad hoc policy-making, disproportional influence of donors, but also innovative approaches by entrepreneurial staff. The rise in earmarking has also led to an expansion of staff who are directly involved in raising and managing funds, adding additional complexity. Given the absence of clear rules and regulations – both on the side of donors and the organisations – the overall oversight of earmarked funding needs improvement.

There are many differences concerning the instruments of earmarked funding between the UNDS and the MDBs, not least due to their different mandates and ways of working. All organisations have highly customised forms of instruments that are usually agreed upon between individual donors and organisations. There also exist country-specific, multi-donor arrangements with the aim of coordinating and pooling efforts at the country level. Lastly, all organisations have thematic MDTFs that can be used to fund specific thematic priorities at the regional or global level. The World Bank has advanced to become the institution of choice for GPGs funding. The UNDS also receives funding for global topics, yet generally these resources are used to fund the work of UNDS member organisations only.

### *Earmarked funding leads to negative consequences across institutions*

In the MDBs, repercussions are mostly confined to fragmentation, management inefficiencies and a lack of alignment to the banks' core strategies and the respective control through the boards. However, challenges also arise due to the multilateral character of MDBs. The question of board control is particularly relevant, since the bulk of earmarked funding is provided by a

limited number of donors. The UN is afflicted by the same problems, but to a much larger extent. Revenue structures have substantially changed in the UNDS, and this has left a deep impact on organisations themselves, their structures, mechanisms, mandates as well as the expectations of member states towards them. Organisations have come under pressure, to the point that they find it increasingly difficult to reconcile their funding and missions, and in the interest of bureaucratic survival (or expansion) might prioritise the former. A gap has evolved between how organisations are supposed to operate and how earmarking practices push them to operate.

All organisations grapple with their responses to the increase in earmarked funding and use similar approaches to regain control and mitigate negative effects of existing earmarking arrangements. At the UNDS, individual agencies aim to engage donors in closer partnerships, both individually as well as collectively, redirect donors to more flexible forms of funding as well as improve their transparency and cost-effectiveness. More recently, the Funding Compact formulates for the first time a system-wide approach that includes all member states and all UN entities in the area of development. The compact aims to increase the number of overall contributors, augment the share of core contributions and step-up more flexible multi-donor funds. In the MDB system, the World Bank is the most advanced with its efforts to consolidate the long tail of small trust funds into a new programmatic umbrella structure in order to improve management oversight and ensure strategic alignment to its priorities. RDBs appear to be orienting themselves towards this approach in their own reform efforts.

### *Individual earmarking arrangements defy black and white*

The voluntary nature of earmarking has engendered a plethora of varieties within instruments. Both the MDBs and the UNDS have reports on major official instruments, but instruments are far from being homogenous and their boundaries are fluent. Differences pertain to the organisational level of earmarking, the number of donors involved, the alignment with organisational priorities and governance modalities. Although earmarking is generally assumed to come with strong donor influence, certain instruments, such as country-based trust funds, often involve more inclusive governance forms that bring member states, the host-country government and other stakeholders together.

Accordingly, not every form of restricted funding imposes donor priorities and turns an organisation into a mere service implementer. Donors can also



earmark in order to lend support to multilateral actors and agendas, for example by closing funding gaps and providing means for innovation and risk-taking. In the MDBs, earmarked funds can strengthen lending projects and create new partnerships with bilateral donors through the pooled funding of analytical work and capacity-building.

*Earmarking also poses challenges for donors*

The common understanding of the rise of earmarked funding puts donors front and centre and highlights their benefits in terms of control, accountability and making use of an organisation's multilateral assets for their own interests. Although we found many arguments supporting this reasoning, we also discovered that earmarking is costly for donors, too. In many instances, they might not be able to profit from earmarked funding the way they expect.

Transaction costs are not just burdensome for organisations, but also for donors. Donor bureaucracies face many different tasks, and it seems as if they often cannot provide the oversight and follow-up on reports that would be arguably needed to establish the sort of accountability that was a primary motive for earmarking in the first place. Costs related to the continued administrative role of donor organisations are not adequately taken into account in decision-making on earmarked funding.

Decision-making on earmarked contributions is remarkably fuzzy in practice, also because of the multitude of involved actors scattered across thematic units, units with responsibilities for international organisations or countries, as well as those at the country level. The rationales and potential alternatives to providing earmarked funds are often not explicit. Remarkably, arguments for the use of specific instruments of earmarking are not easily distinguished from more general reasons for supporting multilateral organisations. Making use of the unique capabilities of multilateral organisations for implementing the 2030 Agenda and strengthening organisations and the system in times of multilateral crisis seems paramount, yet there are signs that donors' multilateral funding decisions reflect primarily considerations other than strengthening multilateralism. A more strategic approach that is used by some of the analysed donors is still hampered by scattered decision-making, which makes adhering to coherent policy priorities rather difficult. This further adds to the challenges in terms of oversight and accountability.

*The rise of earmarked funding raises systemic concerns*

Earmarked funding has turned into an important and growing funding flow for multilateral organisations. This trend to bilaterally tie funding to purposes is further reinforced by the growth in international organisations with rather narrow mandates, such as GAVI or the Global Fund when compared to UN organisations or MDBs. Earmarked funding not only has effects on individual development interventions, donor bureaucracies and international organisations. Its more indirect consequences affect the development effectiveness and the multilateral development system.

Earmarked funding comes with a multitude of single contracts between donors and organisations. This fragmentation poses problems in terms of costs, in terms of how individual organisations can act and in terms of what the multilateral system is able to deliver. There is also the danger that such an adding up of donor priorities distorts overall policy priorities and, as a result, important themes and sectors are neglected. Duplications and overlaps among multilateral development actors might arise.

From the perspective of the multilateral development system as a whole, we also see earmarking as a self-reinforcing practice. It cannot be treated neatly as a separate funding flow, as dichotomising terms such as “core” and “earmarked”, “bi-” and “multilateral” resources suggest. Earmarking has arguably led to a dilution and expansion of mandates and changes in the governance of organisations, which in turn has incentivised greater earmarking. In the World Bank, trust funds have become a fundamental part of the organisation, and in the UNDS, earmarked funding has even become an integral part of the business model. In both cases, the practice is now well-entrenched in the institutions, in what they are and how they work. The UNDS appears to have particularly suffered from such a vicious circle.

Earmarking represents a collective action problem. The multilateral assets of the UNDS (such as its convening power, normative aspirations, knowledge and expertise, perception of impartiality, global presence) are of immediate importance for the UN’s ability to make a difference. But these assets should also be considered common goods that rest on a fragile balance of give and take. Through the more detrimental forms of earmarking that fragment, “bilateralise” and financially stress the UN, these common goods can be depleted. In such a situation, it may become a rational strategy for donors to earmark in order to capture and exploit what is left of the common good, even if such practices diminish the unique multilateral UN assets that make

the UN so important in the first place. When core resources cross-subsidise earmarked projects, for example, it becomes less attractive for other donors – including countries from the Global South – to provide core contributions. Even those donors that acknowledge the crucial importance of core funding have then an incentive to engage in earmarking, in order not to support the policies of other donors. Earmarking thus triggers further earmarking.

Multilateral organisations may themselves be locked into similar vicious circles, which willingly or unwillingly make them active drivers of earmarking. In a multilateral development system of potentially overlapping mandates, the more an organisation accepts thematically undue or overly restrictive earmarking arrangements, waives certain limitations and makes compromises for the sake of revenue maximisation, the more it becomes rational for competing organisations to do the same. This race to the bottom can even affect individual staff that might start to compete within organisations for donor resources.

In donor bureaucracies, such systemic concerns are usually neglected in favour of more immediate concerns over the effectiveness of individual interventions and cost effectiveness. However, strong multilateral development organisations and a strong multilateral system should be of concern in an age of global interdependencies and pressing global governance challenges.

### *Earmarking and the 2030 Agenda – from undermining to supportive?*

Earmarked funding risks instrumentalising mission-based multilateral organisations for project-implementation purposes; grants individual donors a greater say and thereby undermines multilateral governance; and negatively affects organisational effectiveness and efficiency. In light of the side effects of earmarking, how then can earmarked funding contribute to the implementation of the 2030 Agenda, which not only requests integrated approaches at scale but also strong multilateral cooperation? The trend towards earmarked funding seems to be stable, if not expanding. Against this political reality, it seems crucial to put earmarked funding into service for the 2030 Agenda.

Pooled funding arrangements hold great promise for making headway in implementing the SDGs. They adopt many advantages unique to multilateral organisations. For the UNDS, they are indeed the only way to fund activities by more than one organisation and to foster collaboration and coordination.

Both are urgently needed if the UNDS is to provide more integrated support to governments. The Funding Compact specifies that the share of pooled funding is to double within the next four years. For the MDBs, programmatic MDTFs have the potential to promote innovative approaches and leverage impact in priority areas.

At the same time, such pooled funds cannot be looked at in isolation. Not only is there the need to keep further fragmentation at bay, allow for substantially capitalised funds and bear in mind an overall division of labour within the multilateral system, but the current state of the multilateral development system must also be taken into account. In order for multilateral development organisations to be better able to make use of their unique assets, overall better balanced funding mixes from a larger number of contributors are needed to support and nourish multilateral core functions and assets. In the end, multilateral development organisations are requested not only to provide thematic and country-specific support and expertise. They also need to credibly advocate for human rights and other internationally agreed norms and values as well as act impartially and in the interest of the greater global good. They must also make the case for multilateral cooperation and support states and other stakeholders in their cooperation.

## 6.2 Findings and conclusions concerning the UNDS

*Earmarking can, if prudently applied, be a positive force in the UNDS*

Our empirical research confirms that, in the UN, earmarking is not per se negative when used in a measured and prudent way. It indeed has many “shades of grey”, and so it can be an instrument for donors to throw their support behind the UN and its multilateral assets. Given the lack of a system-wide budget, earmarking is the only funding modality that can bring agencies together for greater coherence on selected issues – either through inter-agency pooled funds or, in a more ad hoc fashion, by funding “consortiums” of agencies to implement complex projects jointly. Since the 2030 Agenda calls for coherent and integrated solutions, such forms of softly earmarked contributions can enable the UNDS to become more than the sum of its parts and better address the cross-cutting, multi-sectoral nature of the SDGs. Furthermore, earmarking can also bring donors, agencies and governments into a closer relationship, fostering policy dialogue and – particularly in the case of country-level trust funds – coordination within

and beyond the UN. Although earmarking always comes with the risk of undue donor interference, it can also be a vehicle for donors to lend political support to UN agencies and individual field offices on crucial policy matters. On a more systemic level, donors that entrust comparatively large amounts of earmarked resources to the UNDS can play a caretaker function, ensuring that UN agencies are continually modernising in terms of accountability, effectiveness, efficiency and responsiveness to a changing environment, provided that they avoid the non-intended consequence of distracting agencies from their missions. Against this backdrop, a full return to core funding does not seem fully desirable. The more important question in the UNDS is how to find sustainable solutions to reliably fund core functions and how to improve earmarking practices so that they support, rather than deplete, the multilateral assets of the UNDS. The UN Funding Compact is a good step in this direction.

### *Earmarking effects: Lack of a clear-cut picture*

The above observation captures one aspect of a phenomenon for which no clear or comprehensive picture exists. Given that approximately 80 per cent of UNDS resources are earmarked, the lack of a clear picture regarding earmarked funding is not just a technical nuisance, but it also has implications for multilateral cooperation, its governance and the motivation of member states to participate in collective action. The term “earmarked contribution” covers, or even masks, many variations. Although the UN describes all “programme- and project-specific funding” as “tightly earmarked”, for example, this category involves both very restrictively earmarked funding for donor-driven projects and quasi-core funding to programmes. Thus, the dichotomous representation of core and earmarked resources is no longer accurate. It is also problematic because insufficient attention has been paid to the links between the two forms of funding. Co-financing of projects that are mainly supported by earmarked resources via core resources is quite common and substantial, as the volume of core resources that support projects are greater than the subsidies for earmarked funds that result from inadequate overheads. This could be a good thing if core resources leverage earmarked resources, which are then closely aligned with agencies’ frameworks. However, there is also the risk of reverse leveraging, in the sense that donors capture the core budget for projects that are insufficiently embedded in UN programmes. It is difficult to draw a clear picture of earmarking at the country level, given the lack of disaggregated data. Although the adoption of International Aid Transparency Initiative standards

by most UN agencies in recent years has greatly improved transparency on allocations, the institutional side of the UN's country-level work remains opaque. On important aspects of earmarking, there exists only anecdotal, unsystematic and incomprehensive knowledge. Apart from the amount of co-financing, it would be desirable to have sound information regarding the breakdown of restrictively versus softly earmarked resources as well as of multi-year contributions, transaction costs, reporting burden, degree of alignment with agency frameworks and project evaluations. The lack of such data not only complicates public scrutiny, but it is also an obstacle to the multilateral oversight of UN operational activities and weakens the role of agencies vis-à-vis donors. A report by the JIU, for example, notes that, as agencies do not know the precise costs of reporting, they cannot charge donors appropriately (JIU, 2017). Investing in transparency could thus pay off – financially, but also in the sense of strengthening the UN's development multilateralism.

#### *Funding instruments: Characteristics and potential*

The study took a closer look at the UN's four major instruments of earmarked funding to enable donors to make informed and strategic choices of how to best support the UN's development work apart from core contributions. There is considerable variation within the funding instruments, yet each instrument also has some distinct characteristics, potentials and risks. *Programme and project funding* (emphasis evidently on the latter), which accounts by far for the largest stream of earmarked revenue, tends to come with high transaction costs for both donors and agencies. There is also a risk that effectiveness is compromised. Focussed accountability to specific donors on agreed project results can lead to tunnel vision. Both donors and agencies might have a preference for aiming at low-hanging fruit that yield quick and visible results, rather than engaging in more long-term transformative interventions. It may be difficult to win adequate ownership by the host government for comparatively small and isolated projects. *Joint programmes* are the answer to a specific need for more coherent, cross-sectoral approaches – this has never been more urgent than under the 2030 Agenda. Yet, despite their good potential, the number of joint programmes is still limited, mostly because of the challenges inherent in UN inter-agency collaboration. *Trust funds* generally come with a reduced level of donor influence, but they can provide unique functions. At the country level, they can serve as political platforms that allow for policy dialogue, risk-sharing and quick action in difficult contexts. Global trust funds stand out by providing the most de-politicised

form of support, which gives field offices the space to test and explore innovations and incentivise cooperation within the UNDS. *Thematic funds* can be seen as sectoral core resources. Like core resources, they score well on effectiveness and efficiency, but donor influence is relatively restricted. This comes with a greater delegation of implementing responsibilities, which in turn may lead to more effectiveness. Most thematic funds allow earmarking to specific countries, and so they can be used to support country programmes while benefiting from reduced overheads (7 per cent instead of the 8 per cent or more charged for programme- and project-specific funding). It would be desirable for the UN to better communicate benefits and best practices around these four instruments, so that decision-makers in donor bureaucracies have a clearer picture of specific instruments and their alternatives. It would be particularly helpful to establish the funding for country programmes, or sections thereof, as a viable alternative to the better known project funding.

*Systemic nature of earmarking: The UN agencies as drivers*

Explanations for earmarking typically start with donor interests, showing how bilateral priorities, the perceived insufficiencies of organisations, or accountability pressures from domestic audiences lead to the decision to earmark contributions rather than entrusting core resources to an organisation. Our observations regarding the UNDS suggest that a systemic perspective can add to the understanding of earmarking. As outlined above, earmarking depletes multilateral assets that depend on core resources. At the end of the day, a donor might have to earmark precisely to uphold core functions such as normative work, convening activities, and advocacy or to simply avoid filling gaps left by other donors that mainly resort to earmarking. Co-financing and cross-subsidies from core to earmarked resources can also provide a rational impetus to earmarking. In a sense, earmarking can lead to further earmarking that is not driven by the desire to gain something but to prevent something. UN agencies also play a role as drivers of earmarking (with the consent of the boards). They do so 1) by relying on decentralised resource mobilisation through field offices (funds raised at the field level are always earmarked), 2) by placing insufficient emphasis on the integrity and strength of institutional mechanisms that could counter the dynamics of earmarked contributions that are activated when the power of the purse of donors meets entrepreneurial staff and 3) through the active leveraging of earmarked resources via core resources. The subsequent

lack of core resources for core functions can further undermine the case for core contributions.

Agencies are also involved in efforts to mitigate and reduce earmarking. The main efforts that agencies undertake to limit the negative consequences of earmarking are: partnerships to engage donors; greater visibility for core resources provided by donors; integrated budgets and structured funding dialogues that hold donors accountable; constant efforts to achieve greater cost-effectiveness; and the creation of centrally managed instruments of soft earmarking. However, often these efforts lack rigor in the face of high dependency on donors, and, to date, their success in reducing the share of earmarked contributions has been modest. The most visible strategy that agencies pursue is demonstrating “core-worthiness” by fulfilling the demands that donors attach to core contributions – in particular regarding accountability, results-orientation and efficiency.

*Earmarking creates a system in which effectiveness is not the top priority*

If the volume of resources the UNDS receives and spends is used as an indicator for impact (it certainly is used as an indicator for agencies’ success), then the final assessment of earmarking would have to be fairly positive. The resource mobilisation that earmarking practices have triggered has helped the UNDS to grow financially. However, for any multilaterally-minded observer or stakeholder, the yardstick for measuring the UNDS should more broadly be how the UNDS brings its multilateral assets (or “comparative advantages”) to bear on development impact. Our study suggests that the high share of earmarking in the UNDS compromises its effectiveness by orienting it too much towards donors. When so much attention and energy is directed towards the question of resources, there is a risk that the 2030 Agenda becomes less of a goal and instead is used as a platform for doing business. A logic of survival or expansion comes to prevail over a culture of working towards sustainable impact. Important indicators for the claim that earmarking compromises the effectiveness of the UNDS include: considerable inefficiencies of a fragmented funding approach that binds staff capacities; the notable lack of coordination and coherence in the UNDS given inter-agency competition; the low volume of pooled funding arrangements, despite the obvious need for coherence; the short-term duration of many projects and the commensurate drift towards low-hanging fruit and tangible results, despite the need to work on complex, socio-economic challenges; and the lack of global, transboundary functions and approaches for which



the UN has considerable potential but little commensurate funding. There is a danger that earmarked funding in the UNDS has created an ecosystem in which special interests are brought to the fore, crowding out those actors, intentions or just opportunities that can serve to orient the UNDS towards the global common good of sustainable development.

### 6.3 Findings and conclusions concerning the MDBs

*Earmarking has become an established modality complementary to MDB core resources*

In principle, MDBs can fulfil their mandates with their core resources. However, voluntary earmarked contributions as grants or concessional loans have become an important additional funding source. For the MDBs, the provision of voluntary concessional funds comes with a greater degree of influence of donors in their day-to-day operations and with higher transaction costs. They also create new opportunities for partnerships with bilateral donors and a higher degree of flexibility in responding to upcoming needs – beyond the traditional country-based operating model of the MDBs. The combination of core lending resources with concessional funds does indeed leverage the MDBs' own funds to a considerable degree: by providing additional funding for complementary technical assistance and advisory services, by increasing the degree of concessionality of own funds, particularly for MICs, and by blending resources for specific uses with co-benefits for third countries (pandemics, climate, migration).

This way of blending core with concessional, mostly earmarked, resources has become part of the business model of the MDBs and has developed into an indispensable mode of financing. Thus, earmarked funding for MDBs is clearly complementary to their core funding and does not, in principle, affect their policy goals or their business strategies, which are determined on the basis of their core funding and the related governance processes. Therefore, in the case of MDBs, earmarked funding has a considerably lower impact on the organisations as well as on policy and country strategy designs, as compared to the UNDS.

From a donor's perspective, earmarked funding through MDBs is a way of piggybacking on the MDBs' operational models and competences. The MDBs offer well-established lending operations, country and sector knowledge, access to governments in developing countries, a degree of

political neutrality as multilateral institutions, and – particularly in the case of the World Bank – a proven track record of knowledge work as a public good. Furthermore, over the years, the World Bank has developed into being a trusted steward of funds from other actors through its longstanding experience and established fiduciary processes with regard to trust funds. Choosing to provide earmarked funding through MDBs is not necessarily a question of allocating funds bilaterally or multilaterally, but rather of using the multilateral channel for bilateral development policy goals as a way of pooling funds with other donors and the MDBs in specific areas in order to create leverage – in terms of achieving specific goals, in terms of agenda-setting and innovation, or in terms of impact on the ground through the pooling of funds – that could not be created otherwise.

It is hardly conceivable that donors would radically change their approach, since earmarked funding has become a commonly accepted concept for the MDBs and all sides derive some benefits from this modality.

*MDBs respond to the challenges of earmarked funding with internal reforms*

It is generally recognised that the large number of small trust funds in the World Bank leads to inefficiencies. RDBs are affected by the proliferation issue to a much lesser extent.

MDBs have made efforts in various rounds of trust fund reforms to provide a framework or platform through which thematically related trust funds are strategically coordinated with the various funding sources, whereas distinct governance arrangements are maintained for individual funding windows on the platform.

The ongoing World Bank trust fund reform aims at a high degree of thematic consolidation, standardisation and control, which contradicts the interests of many donors. The RDBs are striving to accommodate the donors' individual approaches by establishing flexible thematic platforms that encompass a variety of instruments (single- and multi-donor trust funds, grants, loans, guarantees, TA and project finance). Each MDB faces challenges with regard to internal coordination – typical for the matrix structure of large organisations – and the alignment of trust funds to own priorities as well as to country programmes.

The trade-off remains between donor visibility and influence on the one hand, and coherent bank management on the other hand. It can only be mitigated through coherent trust fund management on the donor side. Elements of such a management approach include regarding MDBs as a system, allocating resources strategically across the system and clarifying the desired results. Coherent bank management requires accepting donors as strategic partners, managing thematic platforms in a results-oriented manner and declining unsolicited offers to establish trust funds.

### *Funding instruments: Characteristics and potential*

The study took a closer look at the three major instruments of earmarked funding in the MDBs. Through *co-financing of bilateral and MDB loans*, borrowers can obtain larger volumes of resources than would otherwise be possible, bilateral partners can rely on MDB funding and knowledge in an area where they would like to be engaged, and the MDB increases its development impact and shares risks with the bilateral donor. For a bilateral donor, co-financing is a way to exercise influence on the project design of MDBs. This can be an opportunity to advance the consideration of specific development policy approaches or to introduce innovative solutions that an MDB has not yet considered.

Co-financing with an MDB clearly has higher transaction costs compared to purely bilateral financing. A particular challenge is the coordination of project cycles with a multitude of formal review and approval steps between the initial request for financing and board approval in MDBs as well as in partner agencies. In the case of joint financing, there can be cost savings, as the MDB would carry out most of the planning and implementation work against a fee. Savings can become more relevant when banks engage in a division of labour where each bank initiates specific projects in areas where it has a comparative advantage in terms of technical or country knowledge and invites other banks to co-finance.

In the case of *global/vertical funds* as another instrument of earmarked funding, donors exercise control through the specific governance arrangements of funds that – in most cases – are more participatory than the statutory governance bodies of the MDBs, in that they give developing countries and borrowers greater voice. However, vertical funds clearly contribute to the proliferation of aid institutions in certain thematic areas (climate, health), since the horizontal institutions that base their interventions

on country strategies do not retreat when a new vertical fund is created. For bilateral donors, the global funds are the major instrument of choice for investing in their specific priority areas in the multilateral system. Adding all the donor priorities in a diverse setting of global funds, however, may result in a fallacy of composition where no clear priorities exist anymore on an aggregate level, or where priorities are set in a way that crowds out other important themes/sectors.

In the case of *trust funds*, the degree of donor control depends on governance arrangements and the role of the donor in the conceptualisation and steering of the trust fund. There is a high level of diversity with regard to donor engagement. Each trust fund in a way has its own identity, and processes vary, although they are determined by trust fund governance arrangements. It appears that the RDBs in general put more effort into relationships with donors and are ready to meet the requirements of donors. Whereas the World Bank hesitates to accept individual results frameworks (outcomes, goals, indicators) that deviate from the agreed framework of a trust fund, the RDBs are ready to deliver tailor-made reports for donors, accepting their individual requirements.

Some donors prefer SDTFs to MDTFs because they assume that they have greater influence and control through this modality. Whereas the World Bank is attempting to phase out most SDTFs in order to curb the proliferation of small trust funds, the RDBs are more accommodating. There even seems to be a tendency for establishing more SDTFs than MDTFs, since the experience with cumbersome and time-consuming governance processes in MDTFs are largely not positive. As long as SDTFs are integrated in a thematic platform and managed by a dedicated thematic team, it seems to be less important as to whether a trust fund is single or multi-donor.

*Both donors and banks are drivers of earmarking – a more prudent approach is needed*

Increasing earmarked resources as a separate funding channel was a deliberate political decision by donors in the case of global funds, which have been the major drivers of earmarked funding since the establishment of the GFATM in 2002. Initiators and stakeholders of the GFATM, the GEF, the CIF and, not least, the GCF under UNFCCC, deliberately strove for alternative governance models as opposed to the MDBs' governance, which is dominated by advanced countries or the UNDS with its universal

membership. The World Bank ending up as the trustee of all those global funds due to a lack of better alternatives was accepted by stakeholders as long as independent governance of the funds was ensured.

In the case of trust funds, the major drivers were the MDBs themselves, engaging in fundraising among donors to increase grant resources for TA, advisory work and knowledge products. This met the interest of some donors to set up trust funds in order to pursue bilateral policy interests and, at the outset – as long as grant contributions were tied to procurement in donor countries – also commercial interests. Probably incentivised through the MDGs, and later through the SDGs, donors were also inclined to support a thematic focus for funding as opposed to the traditional country focus. Thematic trust funds – less complex in governance and administrative terms than FIFs – were an opportunity to pool resources for specific purposes. The MDBs, particularly the World Bank, had the administrative capacity and knowledge to host these thematic trust funds. That these kinds of trust funds could also be used to nudge the MDBs to innovate in specific areas – gender, climate, health – was seen as a welcome opportunity by some donors and encouraged them to pursue this funding channel further and gain visibility as innovators in the system. Internal dynamics in the MDBs also drove the use, and proliferation, of trust funds.

*Using the MDBs' operating model for SDG attainment – effectiveness should be the prime consideration*

Earmarked funding comes with challenges for the banks and the donors. The strong growth of trusts funds and vertical funds in the previous two decades has led to fragmentation, management inefficiencies and a lack of alignment to the banks' strategies. On the donors' side, the costs and benefits of working through MDBs with earmarked funding – beyond the fees that are requested by the MDBs – are often not fully transparent.

The tendency to establish new FIFs and trust funds mainly to buy down interest rates for MDB ordinary resources in MICs is rather questionable. In this way, trust funds compensate for a deficiency in the system, namely the lack of concessional funding sources. A general non-earmarked soft window for GPGs – as has been established in the World Bank in the framework of the latest capital increase – appears to be a more appropriate solution to a systemic problem.

All three modes of earmarked funding of MDBs are valuable instruments for multilateral cooperation. If used strategically and based on sound principles, they are complementary to, not competing with, the core funding of MDBs.

- Selective co-financing of MDB projects, aligned with donor priorities, can accomplish greater impact and reduce risk in innovative approaches as compared to purely bilateral funding.
- Investing in global funds administered by the World Bank can bring additional benefits through joint approaches, although a focussed approach that avoids a proliferation of funds in the same thematic areas is warranted.
- Contributions to trust funds at MDBs are a way of leveraging impact in priority areas and promoting innovative approaches. Multi-donor and programmatic approaches have potentially greater impact. Selectivity is key, particularly in the World Bank, where a more thematically consolidated approach is under way.

## 6.4 Findings and conclusions with regards to Germany and other donors

Germany, Sweden, the United Kingdom and the EU provide generous core and earmarked funding to the multilateral development system. Across the four donors we researched, there is a similar pattern regarding the decision-making and handling of earmarked resources. Administrative costs of earmarking arrangements also arise for donors, although there is little actual assessment of these costs. Delegating the implementation of projects and programmes to multilaterals through earmarked funding requires substantial and continued engagement and administrative oversight on the part of the donor. Across bureaucracies, there are capacity constraints that undermine due oversight, thus compromising accountability and control, which were among the primary motives for earmarking in the first place. To ensure that there is adequate oversight to fulfil domestic accountability requirements, bilateral actors must allocate administrative resources to the management of earmarking.

Decision-making related to earmarked funding tends to be dispersed, whether between HQ and the country level (where embassies often play an important role), or across different ministries and implementing agencies in the capital. These scattered and fragmented responsibilities render the application

of overarching strategic objectives more difficult. This suggests that to rebalance towards more core or less restrictively earmarked funding, there is a need for more coherence and harmonisation within donor bureaucracies.

Without clearly described options – including guidelines and trade-offs – there is a limited basis for ensuring that dispersed funding flows are working together to advance a common agenda. In practice, decisions to provide earmarked funds reflect the combination of thematic agendas, development needs in specific contexts, the availability of alternative funding channels, the legacy of past decisions, budgetary restrictions and other considerations. Changes in the funding mix of donors thus requires not only overall political support for the Funding Compact that goes beyond those only responsible for UN reforms and institutions, but also a thorough strategic approach that may help enforce greater funding discipline.

The question of efficiency, which is generally well-recognised among donors, is normally discussed in relation to international organisations that suffer from high transaction costs. But this focus is too narrow and does not do justice to the full costs of earmarking. Such costs may also be located on the side of the donor administration itself and among organisations that later implement funding, including the civil society organisations selected as implementation partners for multilaterals or developing-country governments to which reporting duties are passed on.

### *Findings specifically on Germany*

Germany is among the top donors to the multilateral system. In 2016, it advanced to become the second-largest government donor to the UNDS. The German government was the seventh-largest cumulative contributor to World Bank trust funds in 2016 and the fourth-largest contributor to global “vertical” funds in the period 2013 to 2017.

Germany is a latecomer to earmarking. In the MDB system, Germany has traditionally focussed on core funding. It only started contributing to trust funds on a larger scale when the MDBs’ role in contributing to crisis response and fragile situations was recognised. The new thematic “vertical” funds for tackling global challenges (e.g. health, climate) then led to an increase in Germany’s earmarked funding to the MDB system, particularly to the World Bank and affiliated global funds, with the World Bank as trustee. In the UNDS, the share of earmarked funding has substantially increased since 2014. Before then, Germany supplied roughly equal amounts of core and

earmarked funding to the UNDS. In 2017, Germany's share of earmarked funding for UNDS operational activities had risen to 91 per cent. Without humanitarian funding, the share for development-related activities was at 73 per cent. Both the United Kingdom and Sweden have higher shares of core funding (whereas the EU almost exclusively provides earmarked contributions). Germany's largest UN recipients – WFP, UNHCR, UNICEF, UNDP and OCHA – receive overwhelmingly earmarked contributions from Germany.

Rather than reflecting a strategic choice for multilateralism, the strong rise in earmarked funding – in particular to the UNDS – can mostly be attributed to the increased importance of refugees and their host countries and the availability of new thematic budget lines. BMZ operationalised sizeable new thematic funding sources that provide funding for thematic issues to several organisations, including multilateral ones (the special initiatives, i.e. *Sonderinitiativen*), whereas the Foreign Office presided over a drastic increase in funds for humanitarian and stabilisation purposes, which also comes with earmarking requirements.

Multi-donor trust funds are Germany's first choice in the MDBs, but they are used much less in the UNDS. Germany's share of inter-agency pooled funding arrangements in the UNDS is at 12 per cent of its overall contributions, although it was the second-biggest contributor in terms of volume (2017). The majority of pooled funding, as for the other donors, is contributed for humanitarian purposes; however, Germany's largest contributions go to the Peacebuilding Fund (all through the Foreign Office).

Germany's earmarking profile is characterised by a plurality of funding sources. Although the Foreign Office, BMZ and BMU are by far the most important contributors of earmarked funding to the multilateral development system, the ministries for finance, education, agriculture and health also provide funding to the UNDS. MDBs receive their funding mainly from BMZ and also from BMU.

The plurality of sources helps explain the patterns of earmarked contributions in German aid. German budget rules stipulate that only one ministry (which then also represents Germany in the respective board) can provide core resources, meaning that other ministries have to resort to earmarked contributions. Budgetary rules and their rather narrow interpretation by the Federal Court of Auditors also place restrictions on the funding of international organisations and dispose staff towards tight earmarking.



There is no central repository for financial contributions to the multilateral development system beyond the aggregated figures contributed to the OECD-DAC creditor database or internal lists compiled in an ad hoc fashion. This lack of overview impedes a more strategic approach towards organisations, which becomes particularly problematic in a system as complex as the UNDS. Although there exist selected thematic strategies (e.g. health, crisis prevention), there is no government-wide multilateral strategy. Coordination across ministries that fund the same organisation is often loose.

Another peculiarity about the German aid system is BMZ's reliance on implementing agencies, specifically KfW and GIZ. These organisations make their own contracts with UN agencies and oversee the implementation of projects. In particular, KfW has in recent years grown into an important partner for the UNDS. Through KfW, UNDP alone received \$376 million between 2016 and 2018. Although this reduces BMZ's administrative load and allows KfW and GIZ to contribute expertise, such delegation chains come with additional overhead costs. They also add further complexity, which makes a strategic approach harder and runs the risk of reducing the political control of BMZ.

## 6.5 Recommendations

The following five recommendations are set out to inform policy- and decision-making by the German government with respect to earmarked funding to the multilateral development system.

### *1. Germany should help narrow down knowledge gaps on earmarked funding and its effects.*

There is still a lot about earmarked funding that is unknown. Better data holds the key to evaluating the effectiveness of varied forms of earmarked funding and how they differ from other funding approaches. Improved data can provide guidance on more effective aid allocation. The room for improvement is rather large, both at the international as well as the national level.

**Germany should advocate for a more detailed and consistent data basis with multilateral organisations (the UNDS and MDBs).** Encourage organisations to improve transparency on earmarked funding, including more granular reporting on earmarking restrictions concerning the length of

projects, both planned and actual. Allow organisations to make information on projects and programmes funded with earmarked funds accessible. At the UNDS, building on recent Data Cube efforts, use the Utstein Group of like-minded donors as well as the follow-up to the UN Funding Compact to initiate a debate about how to improve the details and accessibility of data. Initiate a process for the harmonisation of definitions and terminologies across different MDBs and improve public accessibility to funding data.

Germany should establish and regularly update a government-wide transparency portal for multilateral funding and allow public access. To date, information about German funding to multilateral organisations in general, and earmarked funding in particular, is scattered, incomplete and not easily accessible. The government should request that the Foreign Office – as a ministry with a large share of earmarked funding and the overall task of representing Germany abroad – establish a government-wide transparency portal for multilateral funding. Detailed information of German funding concerning organisations and families of organisations (such as the UNDS and MDBs), as well as important sectors (health, peace–development nexus, climate) should be reported on, both for individual ministries as well as across government.

**BMZ should initiate processes that enable establishing an evidence base on the impact of different earmarked funding instruments to inform further decision-making.** With its long experience, BMZ is well-suited to take the lead in identifying best practices, innovative models and negative examples, which can then be shared and further developed with other ministries. Administrative costs on the donor side should be factored into these assessments.

Germany should better communicate the results of multilateral cooperation in general, and earmarked funding in particular, to the German public. Among the various reasons for earmarking contributions to multilateral development organisations, the visibility of what is achieved with German money ranks high. Often, the onus of ensuring visibility is placed on the multilateral organisation. The German government should accept its own part in communicating multilateral development results achieved with its support. It should develop its own web-based reporting methods for the public that present, for example, German contributions to MDB programmes and global funds and their results.

## *2. The German government should develop a more strategic approach to multilateral cooperation, including funding.*

To date, there is no overarching strategy that informs the German approach to multilateral cooperation. This includes its approach to multilateral and earmarked funding allocations. It could be argued that the current fragmented decision-making in the German system also has advantages. It allows different ministerial and other actors with different competencies to shape the substance of cooperation, for example, and may also add flexibility in programming. Given the constitutionally predetermined authority of individual ministries, it will be difficult for any actor to assume an overarching role. However, by taking a piecemeal approach to multilateral organisations in general, and allocation questions in particular, Germany significantly plays under its weight vis-à-vis multilateral organisations, in particular in the UN Development System. Moreover, it risks jeopardising its long-term interests in an effective and strong multilateral system that can achieve goals which other actors cannot. At the same time, multilateral development cooperation is under pressure also in the domestic political debate within Germany. A multilateral strategy could help increase the coherence of Germany's multilateral efforts and more clearly justify its increased engagement in the multilateral system.

**Following an inclusive and participatory process, formulate a multilateral strategy for sustainable development.** The strategy formulates and prioritises the main objectives for multilateral engagement (both within organisations as well as across them), it specifies which part multilateral cooperation plays in implementing the 2030 Agenda, and it provides orientation to all ministries and implementing agencies involved. Implementation could be reported annually to parliament. Explore options for thematic, government-wide strategies, following the example of the recent strategy for global health. Joint strategies among the relevant ministries for important selected multilateral organisations such as UNDP could also be formulated. They should guide policies and allocation decisions of responsible actors and ensure an improved and continuous exchange.

**Improve coordination and collaboration within the federal government for a more coherent and strategic approach vis-à-vis organisations and the multilateral system.** A strategy in itself does not lead to more coordinated policies. It is important to improve coordination and collaboration across government at different levels of hierarchy. The State Secretaries' Committee

for Sustainable Development should include Germany's multilateral cooperation to implement the 2030 Agenda periodically in its discussions. At the working level, multilateral concerns should feature more prominently in thematic and country-specific exchanges among ministries.

**Introduce a systematic allocation process for trust funds in MDBs and global funds within BMZ and in collaboration with BMU.** Sector/country divisions should have to apply to the institutional division(s) for the funding of trust funds. A systematic screening process of applications should be based on a set of principles for guiding the allocation decisions.

**Explore the involvement of experts and civil society to define policies vis-à-vis selected international organisations of strategic importance,** such as UNDP or the World Bank for instance, modelled on established formats such as the *Ländergespräche*.

*3. The German government should include a more systemic perspective in its funding decisions to ensure its fit with strategic priorities.*

To date, decisions on earmarked funding are more often than not taken in isolation and not looked at in their entirety – neither when it comes to individual multilateral organisations, nor with regard to the overall multilateral development system. A systemic view to shape Germany's overarching funding profile is therefore warranted.

**Develop an overarching perspective and assess the current mix of core, flexibly earmarked and restrictively earmarked funding against overall policy objectives.** Take a systemic perspective on MDBs and strike a balance between the banks in the allocation of funding with regard to co-financing and the contributions to global funds and trust funds. Allocation decisions in BMZ should take into account comparative advantages of banks and global funds with regard to thematic competences and regional outreach. The same holds true for the UNDS, although there is the need to bring together various ministries, most notably BMZ, the Federal Foreign Office and BMU. Officials should together discuss core and various forms of earmarked funding periodically and define internal targets, using the UN Funding Compact commitments as a basis.

**Reduce the fragmentation in earmarked funding.** Limit the number of trust funds with German contributions in MDBs and define a minimum size as well as a time perspective. Consolidate UN earmarked funding in

fewer projects/programmes based on shared strategic goals and also develop thresholds in terms of minimum size and sunset clauses. Increase the overall share of pooled funding in line with the Funding Compact.

**Explore ways that allow Germany's interests in the areas of stabilisation, reconstruction, refugees and climate to reinforce its institutional interests of strengthening multilateral organisations.** Currently, the majority of German contributions to the UNDS stems from thematically oriented budget lines. Allocation decisions are taken by staff that arguably prioritise thematic considerations and short-term interests in successful development interventions, for example in crisis situations, over considerations for effective multilateral organisations and a strong multilateral system. BMZ and the Foreign Office should review their respective current set-ups internally and discuss formats and mechanisms that allow for greater synergies between bi- and multilateral priorities. This also holds true for BMZ and BMU, in particular with regard to climate change.

**Review the role of implementing agencies KfW and GIZ in earmarked funding arrangements in terms of political control and transaction costs.** BMZ and BMU already resort to implementing agencies in order to cope with the administrative burdens that come with providing earmarked grants, not only to multilateral organisations. The Foreign Office plans to establish a new agency for similar purposes (as well as other tasks). Although such an approach frees up capacities for political decision-making within ministries, it also comes with political and financial costs. KfW implements a significant share of BMZ's earmarked funding to the UNDS, a role that has grown significantly in the last five years. Both KfW and GIZ play an important role in managing the German contributions to MDB trust funds. There are several reasons for this delegation of responsibilities, including BMZ capacity constraints – both at HQ and in developing countries – as well as services that KfW and GIZ provide. Although there might be good reason for such a delegation, it comes with financial costs and a potential loss of control by BMZ, adds to the fragmentation of the German approach towards the multilateral development system and risks running counter to potential multilateral policy priorities. BMZ should be represented in important governance bodies of trust funds instead of delegating representation to KfW and GIZ. The costs and benefits of having KfW and GIZ implement earmarked funding arrangements on behalf of BMZ should be examined, and various forms of engagement and divisions of labour should be explored.

*4. BMZ and other ministries should strengthen policies on the use of earmarked funding.*

Earmarked funding has increased strongly over the last five years. Internal policies that formulate guidance on the terms of use help in weighting funding options against each other, or provide clarity on how to deal with trust funds that seem to be lagging behind. Likewise, for BMZ, funding sources are scattered across the budget, which does not need to be a disadvantage per se but seems to disproportionately affect the MDBs.

**Ministries should clarify options, procedures and trade-offs for the different instruments of earmarked funding (at the country, regional and HQ levels) in internal guidelines.** Legal uncertainties regarding pooled funds and other softly earmarked instruments should be clarified and removed.

**BMZ, the Federal Foreign Office and BMU should explore the leeway for less restrictive forms of earmarking, both internally and with the Federal Ministry of Finance.** This includes longer project durations, more flexible thematic and geographic purposes, as well as institutional support and global programmes.

**Establish a reliable source for earmarked funding to MDBs in the BMZ budget.** The multilateral budget title has been opened for earmarked funding to MDBs, but no systematic process for funding and allocation is in place yet.

*5. Germany should support reforms that tackle the negative consequences of earmarking in multilateral organisations.*

As Germany is currently the second-largest contributor to the UNDS and an important donor to the World Bank and other MDBs, its support to ongoing reforms can make a real difference. Germany can also send important signals to organisations and other donors by adjusting some of its practices around earmarking.

**Support MDBs in their efforts to better align earmarked funding sources with their core business.** Encourage the use of transparent and unified reporting mechanisms of MDBs, which show the contribution of donors to outputs and outcomes of programmes without undue reporting requirements for individual donors.

**Encourage UN agencies through their governing boards to strengthen their rules and mechanisms for receiving and aligning earmarked funding with multilaterally agreed frameworks** (regional offices and HQs may be involved more directly in approving grants) that orient fundraising at the country level. Also, take this up in the next QCPR (2020).

**Make the case in governing boards to bring earmarked funding under intergovernmental supervision** to ensure better alignment with agency frameworks, full transparency and complementarity with core resources. Earmarked resources need to fully support the mandates and goals of agencies.

**Explore options to further disincentivise harmful forms of funding and help agencies recover their costs.** Overheads for highly customised and restrictive funding could be markedly increased, and extra-reporting could be charged to donors to reflect the relative administrative burden and other inefficiencies.

**Explore the potential of structured funding dialogues and integrated budgets to serve as a basis for German funding decisions.** Agencies should be asked to provide more transparency on their funding status to allow for meaningful discussions on gaps and needs, including on “core” functions such as knowledge, normative work and convening.

**Better integrate bi- and multilateral priorities through greater involvement in UN programming at the country level** (regarding UNDAFs, agency-specific frameworks) in order to support recent reforms and explore how to better align funding in selected pilot countries that receive large shares of earmarked funding. Invite UN agencies to donor coordination groups and take part in relevant UN meetings.

**Explore new internal coordination methods to enable a coherent response by all relevant ministries to the current UNDS reform processes.** Develop a government-wide response to the changes required for implementing the Funding Compact and report on these changes also in the context of reporting to the High-Level Political Forum on Sustainable Development.

**Clarify funding options in the UN Development System with regard to country and development contexts, potential benefits and trade-offs.** A UN funding checklist for all new funding decisions could also ensure involvement of RCs, alignment with country frameworks, appropriate host government ownership and consideration of alternative funding channels.

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## **Annexes**



**Annex 1: Interview partners**

<b>Name</b>	<b>First name</b>	<b>Institution / donor</b>	<b>Date of the interview</b>
Mangelsdorf	Hans-Christian	AA	23.08.2018
Pilarski	Anke	AA	23.08.2018
Reiffenstuel	Anke	AA	23.01.2019
Felten	Peter	AA	23.01.2019
Siep	Georg	AA	23.08.2018
Ulrich	Stephan	AA	29.09.2018
Warttmann	Sofia	AA	23.08.2018
Bannert	Fiona	ADB	27.11.2018
Benson	Charlotte	ADB	27.11.2018
Caetani	Ilaria	ADB	27.11.2018
Fischer	Helmut	ADB-ED	27.11.2018
Goswami	Arjun	ADB	28.11.2018
Kurokawa	Ayato	ADB	29.11.2018
Nam	Kee-Yung	ADB	27.11.2018
Panella	Thomas	ADB	29.11.2018
Rattinger	Michael	ADB	27.11.2018
Ringhof	Eva	ADB	28.11.2018
Roth	Susann	ADB	28.11.2018
Salgado	Daisy	ADB	27.11.2018
Sharma	Manoj	ADB	28.11.2018
Sharma	Virinder	ADB	28.11.2018
Sorensen	Jacob	ADB	27.11.2018
Norman	Roderic	AfDB	various
Nuwagira	Asaph	AfDB	03.09.2018
Zankli Lawson	Laté Dodji	AfDB	15.11.2018
Baumann	Elke	BMF	23.01.2019
Ifland	Thomas	BMG	09.11.2018

Beimdieck	Fritz	BMZ	22.08.2018
Buder	Katrin	BMZ	22.08.2018
Gruschinski	Bernd	BMZ	20.11.2018
Haase	Sven	BMZ	13.12.2018
Hummel	Micha	BMZ	25.02.2018
Mahn-Jones	Timo	BMZ	19.03.2019
Meyer	Ronald	BMZ	24.08.2018
Schütt	Claudia	BMZ	20.11.2018
Sewing	Philipp	BMZ	23.08.2018
Theus	Florian	BMZ	20.11.2018
Weber	Udo	BMZ	21.09.2018
Paust	Sebastian	BMZ	19.03.2019
Ramirez	Juan Carlos	Economic Commission for Latin America and the Caribbean	04.10.2018
Schönrock	Philipp	Cepei	02.10.2018
Villar	Leonardo	Colombia / Fedesarrollo	05.10.2018
Callan	Paul	Dalberg	27.11.2018
Boulter	Melissa	DFID	06.11.2018
Bowler	Oliver	DFID	05.11.2018
Collins	Mark	DFID	06.11.2018
Hindley	Chris	DFID	06.11.2018
McLaughlin	George	DFID	05.11.2018
Nembhard	Adrian	DFID	05.11.2018
Yapp	Hannah	DFID	05.11.2018
Bailey	Richard	UN DOCO	24.09.2018
Baumann	Marco	UN DOCO	24.09.2018
Adriaen	Charlotte	EU	18.10.2018
Ceravolo	Matilde	EU	01.10.2018

Cornelis	Kurt	EU	16.11.2018
Merel	Cedric	EU	30.08.2018
Maire	Emmanuelle	European Commission, DG Environment	03.10.2018
Nizam	Rabya	European Commission, DG DEVCO	04.10.2018
Olthof	Willem	European Commission DG DEVCO	05.10.2018
Sordet	Fabien	European Commission, DG Environment	03.10.2018
del Campo	Rafael Zavala Gómez	FAO	04.10.2018
Gonzalez	Manuela Angel	FAO	04.10.2018
Gujadhur	Priya	FAO	28.08.2018 (email)
Okello	Beatrice A. A.	FAO	05.09.2018
Sedrakayan	Armen	FAO	17.10.2018
Müller	Alexander	Germany / tgm	27.09.2018
Ohnesorge	Casjen	Germany	15.10.2018
Rodriguez	Santiago	Germany	02.10.2018
Schnelle	Hans-Hinrich	Germany	04.09.2018
Wenzel	Christopher	Germany	12.11.2018
Bode	Eckart	GIZ	04.09.2018
Bücker	Wolfgang	GIZ	23.02.2019
Sato	Helge Michael	GIZ	13.11.2018
Page	Rob	House of Commons International Development Committee	06.11.2018

Bendersky	Matias	IDB	18.10.2018
Heinbuch	Ute	IDB-ED office	18.10.2018
Rivera	Sonia	IDB	18.10.2018
Celestin	Frantz	IOM	13.11.2018
Moldobaeva	Bermet	IOM	18.10.2018
Bürkin	Claudia	KfW	20.12.2018
Kampen	Christian	KfW	22.11.2018
Lassmann	Ulrike	KfW	20.11.2018
Matsuno	Gunnar	KfW	20.12.2018
Richter	Christian	KfW	20.12.2018
Schiffler	Manuel	KfW	22.11.2018
Wieneke	Florian	KfW	04.10.2018
Wyrsh	Philipp	KfW	20.12.2018
Bösch	Céline	MDB staff member	04.02.2018
Krauthauser	Fabio	MDB staff member	16.01.2018
Heine	Tim	UN MPTFO	25.09.2018
Keijzer	Henriette	UN MPTFO	25.09.2018
Matsumoto	Mari	UN MPTFO	25.09.2018
Toppings	Jennifer	UN MPTFO	25.09.2018
Anderson	Per	UN MPTFO	25.9.2018
Hendra	John	Former UN	7.11.2018
Browne	Stephen	Former UN	19.3.2018
Franiran	Sanjo	Nigeria	14.11.2018
Gulrajani	Nilima	Overseas Development Institute	05.11.2018
Gonzalez	Julieta	Plan International	05.10.2018
Finn	Alva	Save the Children	03.10.2018
Elisson	Malin	Sida	28.09.2018

Rönquist	Anders	Sida	30.11.2018
Zinn	Katarina	Sida	28.09.2018
Bergqvist	Johan	Sweden	31.08.2018
Bobjer	Charlotte	Sweden	24.10.2018
Mora	Catalina Hoyos	Sweden	04.10.2018
Axerup	Tobias	Swedish Ministry of Foreign Affairs	28.09.2018
Olson	Marita	Swedish Ministry of Foreign Affairs	12.10.2018
Trulsson	Per	Swedish Ministry of Foreign Affairs	27.09.2018
Aegerter	Lucien	Switzerland	19.10.2018
Bieler	Peter	Switzerland	12.02.2018
GrosPierre	Christophe	Switzerland	12.11.2018
Reisle	Markus	Switzerland	25.09.2018
Olanya	Eric	UK	30.08.2018
Ampiah	Frederick	UNDP	15.11.2018
Beccaro	Alice	UNDP/RCO	01.10.2018
Deusch	Jonas	UNDP	29.09.2018
Greenway	Janil A.	UNDP	25.09.2018
Harzé	Pierre	UNDP	23.10.2018
Mrakic	Alessandro	UNDP	25.09.2018
Niculita	Aliona	UNDP	17.10.2018
Ohrstedt	Pontus	UNDP/RCO	01.10.2018
Rebedea	Oana	UNDP	25.09.2018
Shabynov	Ulan	UNDP/PBF	16.10.2018
Tobing	Martin Loemban	UNDP	26.09.2018
Vargas	Daniel	UNDP	10.04.2019
Venancio	Moises	UNDP	27.09.2018
Villarreal	Jairo Matallana	UNDP	03.10.2018

Topping	Jess	UNFCCC intern	13.03.2019
Gorinic Christian	Iva	UNFPA	21.09.2019
Ihalainen	Mira	UNFPA	21.09.2019
de Mora	Beatrica	UNFPA	21.09.2019
Omurzakov	Meder	UNFPA	15.10.2018
Sibenaler	Alain	UNFPA	05.09.2018
Borchmeyer	Sebastian	UNICEF	31.10.2018
Burckhardt	Yosi Echeverry	UNICEF	15.03.2019
Carvalho	Marcio	UNICEF	04.04.2019
Ganesh	Vidhya	UNICEF	04.04.2019
Ironside	Pernille	UNICEF	15.11.2018
König	Christopher	UNICEF	26.09.2018
Luchmann	Rudi	UNICEF	26.09.2018
Matern	David	UNICEF	26.09.2018
Oliver	Aida	UNICEF	02.10.2018
Sarandrea	Lucio Valerio	UNICEF	16.10.2018
Van't End	Lotte	UNICEF	07.09.2018
Zemene	Solome	UNICEF	26.09.2018
Bakole	Jean B.	UNIDO	15.11.2018
Bethke	Kai	UNIDO	26.09.2018
Dobinger	Johannes	UNIDO	05.10.2018
Fujino	Ayumi	UNIDO	26.09.2018
Tokwini	Bruno Otto	UNIDO	07.09.2018
Usopov	Marat	UNIDO	17.10.2018
Gomez	Andres Filipe	UNODC	20.02.2019
Mathiasen	Bob	UNODC	01.10.2018
Galat	Natalia	UN System Staff College	13.09.2019
Costanzo Sow	Simona	UN System Staff College	13.09.2019

van Weerelt	Patrick	UN System Staff College	13.09.2019
Lenzen	Marcus	UN Secretariat	14.04.2019
Günther	Gerald	UN Women	16.10.2018
Hounito	Maxime	UN Women	03.09.2018
Jaric	Vesna	UN Women	25.09.2018
Khyari	Ghita	UN Women	29.09.2018
Severo	Lucio	UN Women	03.10.2018
Amgaabazar	Bolormaa	WB	19.10.2018
Bhatnagar	Bhuvan	WB	17.10.2018
Bleiber	Nadja	WB-ED	17.04.2018
Borg	Asger Halberg	WB	07.09.2018
Kern	Jutta Ursula	WB	04.10.2018
Koshmatov	Talacibek	WB	19.10.2018
Mutahakana	Franklin	WB	04.09.2018
Nordlander	Kjell	WB	12.06.2019
Paolucci	Massimiliano	WB	05.10.2018
Phillips	Traci	WB	17.10.2018
Quesnel	Brice	WB	17.10.2018
Sultanova	Gulmira	WB	19.10.2018
Uulu	Zhanybek Ybraiym	WB	19.10.2018
Widmann	Johannes	WB	04.10.2018
Zattler	Jürgen	WB-ED	17.04.2018
Aschbacher	Angelika	WFP	29.11.2018
Bagnoli	Andrea	WFP	15.10.2018
Hines	Deborah	WFP	04.10.2018
Izushi	Keiko	WFP	15.10.2018
Knoch	Heiko	WFP	29.11.2018
Longford	Sarah	WFP	12.11.2018

Habicht	Jarno	WHO	19.10.2018
Nabil	Safrany	WHO	16.11.2018
Peter	Clement Lugala	WHO	16.11.2018



**Annex 2: UN MPTFO and OCHA trust funds (2018) (\$)**

<b>Fund</b>	<b>Type of funding</b>	<b>Deposits in 2018</b>	<b>Total deposits 2015-2018</b>
Central African Forest Init.	Climate Change	46,663,955	147,369,617
DRC Fonds National REDD+	Climate Change	1,657,376	82,857,376
Ethiopia CRGE Facility	Climate Change	900,293	2,610,427
Mali Climate Fund	Climate Change	8,879,543	16,373,896
Partnership Act. on Green Econ	Climate Change	5,506,141	26,408,904
Sustainable Energy for All	Climate Change		7,459,452
UN REDD Programme Fund	Climate Change	14,396,887	63,742,366
UN REDD Viet Nam Phase II MPTF	Climate Change	387,447	10,924,124
Afghanistan LOTFA MPTF	Development	29,093,534	29,093,534
Albania SDG Acceleration Fund	Development	4,431,061	10,621,274
Delivering Results Together	Development		7,102,674
Ebola Response MPTF	Development		40,505,335
Ethiopia One UN Fund	Development		3,554,029
Financing Strategy 2030 Agenda	Development	3,731,700	3,731,700
Human Rights Mainstreaming TF	Development	6,617,805	11,955,683
Iraq UNDAF Trust Fund	Development	465,687	4,575,436

Joint Fund for the 2030 Agenda	Development	43,091,152	46,143,966
Kenya SDG Partnership Platform	Development	450,000	1,305,658
Malawi One UN Fund	Development	301,033	58,489,417
Migration Compact Support MPTF	Development	610,812	1,057,614
Moldova Toward Unity in Action	Development	49,597	5,328,996
Montenegro UN Country Fund	Development		1,370,852
Mozambique One UN Fund	Development		2,220,436
Nigeria Safe Schools MDTF	Development		1,750,240
Pakistan One Fund	Development		2,225,082
Pakistan UNSDF Fund III	Development	9,093,000	9,093,000
PNG UN Country Fund	Development	13,649,957	62,221,501
Rural Women Economic Empowerment	Development	6,038,143	12,273,874
Rwanda One UN Fund	Development		10,725,706
Rwanda SDG Fund	Development	720,000	720,000
SDG Fund	Development	531,233	13,395,151
Spotlight Initiative Fund	Development	125,314,530	146,603,130
SUN Movement Fund	Development		46,577
Tanzania One UN Fund	Development	16,982,986	56,304,934

The Lions Share Fund	Development	1,390,000	1,390,000
UN Haiti Cholera Response MPTF	Development	2,164,615	9,747,697
UN Indigenous Peoples' Ptnrshp	Development		111,903
UN Road Safety Trust Fund	Development	7,061,400	7,061,400
UN Trust Fund to End VAW	Development		331,369
UNPRPD Disability Fund	Development	4,176,385	16,107,207
Viet Nam One Plan Fund II	Development		6,783,208
Working for Health MPTF	Development	1,158,078	1,158,078
Afghanistan Humanitarian Fund	Humanitarian	45,858,630	184,678,315
CAR Humanitarian Fund	Humanitarian	27,685,230	107,164,260
CERF	Humanitarian	555,328,105	1,899,195,378
<b>Colombia Humanitarian Fund</b>	Humanitarian		1,615,446,817
DRC Humanitarian Fund	Humanitarian	90,144,088	246,355,675
<b>Ethiopia Humanitarian Fund</b>	Humanitarian	75,656,602	276,982,920
<b>Haiti Humanitarian Fund</b>	Humanitarian		596,303
<b>Iraq Humanitarian Fund</b>	Humanitarian	56,980,089	302,165,503
<b>Jordan Humanitarian Fund</b>	Humanitarian	10,448,021	43,814,333

<b>Lebanon Humanitarian Fund</b>	Humanitarian	10,622,883	55,185,744
<b>Myanmar Humanitarian Fund</b>	Humanitarian	14,342,647	33,609,139
<b>Nigeria Humanitarian Fund</b>	Humanitarian	28,121,836	71,816,219
Occupied Palestinian territory (oPt) Humanitarian Fund	Humanitarian	31,975,583	59,311,805
<b>Pakistan Humanitarian Fund</b>	Humanitarian	7,370,423	26,765,992
Somalia Humanitarian Fund	Humanitarian	54,267,299	168,020,110
South Sudan Humanitarian Fund	Humanitarian	88,922,888	324,683,543
Sudan Humanitarian Fund	Humanitarian	44,822,585	172,027,760
<b>Syria Humanitarian Fund</b>	Humanitarian	35,896,697	148,144,093
<b>Turkey Humanitarian Fund</b>	Humanitarian	118,421,958	295,226,415
<b>Yemen Humanitarian Fund</b>	Humanitarian	208,725,684	548,853,108
Cape Verde Transition Fund	Transition	1,857,850	7,576,754
CAR Multi Window Trust Fund	Transition	1,117,910	8,277,966
Colombia Peace Trust Fund	Transition	41,502,714	109,985,487
Counter Piracy Trust Fund	Transition	443,561	2,440,340
Darfur Peace & Stability Fund	Transition	6,848,756	23,019,412
DRC Stabilization ISSSS Fund	Transition	8,940,699	33,969,831

Ethiopia New Way Platform	Transition	1,788,000	1,788,000
GLR Cross-Border Fund	Transition	813,200	2,813,181
Lebanon Recovery Fund	Transition		1,500,000
Peacebuilding Fund	Transition	128,925,762	332,579,053
Somalia Multi Window Trust Fund	Transition	91,088,973	278,169,885
South Sudan RSRTF	Transition	5,683,000	5,683,000
Syria Urban & Rural Resilience	Transition	2,347,280	2,347,280
UN Action Against Sexual Violence	Transition	3,031,737	20,008,120
UNDG Haiti Reconstruction Fund	Transition		40,000,000
United Nations Fund Darfur	Transition	13,612,143	80,597,912
Women's Peace & Humanitarian TF	Transition	6,964,787	13,718,577
Note: All OCHA funds are highlighted in bold.			
Source: Authors, based on data from UN MPTFO (s.a.-c) and UN OCHA (s.a.)			

### Annex 3: Overview of UN agency-specific thematic and trust funds

This list comprises current and recent entity-specific trust funds in the UNDS; it is often not clear if a trust fund is still active. Numbers are usually not available. The list is in all likelihood not comprehensive.

Entity	Title	Reach
FAO	Food Security and Safety	Global
	German – FAO Bilateral Trust Fund (Empowering Agriculture for Global Food and Nutrition Security)	Global
	Special Fund for Emergency and Rehabilitation Activities (SFERA)	Global
	Africa Solidarity Trust Fund for Food Security	Regional
	Government Cooperative Programme (GCP) Funds (many)	National
ILO	Direct Trust Funds	National
IOM	IOM Development Fund	Global
UNDP	Funding Window Climate Change and Disaster Reduction	Global
	Funding Window Emergency and development Response to Crisis and Recover	Global
	Funding Window Governance for Inclusive and Peaceful Societies	Global
	Funding Window Sustainable Development and Poverty Eradication	Global
	Innovation Facility	Global
	Russia – UNDP Trust Fund for Development	Global
	Asia-Pacific Innovation Fund	Regional
	Czech-UNDP Trust Fund	Regional
	Spain-UNDP Trust Fund	Regional
	Environmental Trust Funds (many)	National
	Law and Order Trust Fund for Afghanistan (LOFTA)	National

UNEP [2]	Environment Fund	Global
UNFPA	Innovation Fund	Global
	Maternal and Newborn Health Thematic Fund	Global
UN-Habitat	Water and Sanitation Trust Fund	Global
UNICEF	Innovation Fund	Global
	Thematic Fund Child Protection	Global
	Thematic Fund Education	Global
	Thematic Fund Gender Equality	Global
	Thematic Fund Health	Global
	Thematic Fund HIV/AIDS	Global
	Thematic Fund Humanitarian Action	Global
	Thematic Fund Nutrition	Global
	Thematic Fund Safe & Clean Environment	Global
	Thematic Fund Social Protection, Inclusion and Governance	Global
	Thematic Fund WASH	Global
UNIDO	Partnership Trust Fund	Global
	Trust Fund for Youth Employment	Global
	Trust Fund on Food Security	Global
	Trust Fund on Renewable Energy	Global
	Trust Fund on Trade-related Capacity Building	Global
	Trust Fund for Latin America and the Caribbean	Regional
UNOPS	Enhanced Integrated Framework	Global
	Livelihoods and Food Security Fund (LIFT) Myanmar	National

UN Office for South- South Cooperation	India, Brazil and South Africa Facility for Poverty and Hunger Alleviation (IBSA Fund)	Global
	India-UN Development Partnership Trusts	Global
	Japan-UNDP Partnership Fund	Global
	Pérez-Guerrero Trust Fund for South-South Cooperation (PGTF)	Global
	United Nations Fund for South-South Cooperation (UNFSSC)	Global
UN Women	Fund for Gender Equality	Global
	TF to End Violence Against Women	Global
WFP [1]	Asia Preparedness	Global
	Emergency Preparedness	Global
	Forecast-based financing	Global
	Immediate Response Account	Global
	Innovation Accelerator	Global
	Nutrition	Global
	Resilience	Global
	Trust Fund P4P (Purchase for Progress)	Global
WHO	Contingency Fund for Emergencies	Global
	African Programme for Onchocerciasis Control	Regional
	African Public Health Emergency Fund	Regional
Notes: [1] 137 trust funds in 2015 [2] 124 trust funds in 2013, see also UNEP (2019)		



#### Annex 4: Selected German contributions to UN pooled funds (\$)

This list comprises current and recent contributions by Germany to UN pooled funds. It is compiled from various sources and does not purport to be complete.

Trust fund name/ institution	Responsible institution	Contributions 2006-2018	Contributions in 2019
Inter-agency trust funds and humanitarian country-pooled funds			
Afghanistan Humanitarian Fund / MPTFO	AA	10,705,281	3,222,746
CAR Humanitarian Fund / MPTFO	AA	16,275,500	5,599,500
Colombia Peace / MPTFO	AA	16,347,970	5,523,586
Counter Piracy Trust Fund / MPTFO	AA	2,000,000	
Darfur Peace & Stability Fund / MPTFO	AA	3,103,750	
Delivering Results Together / MPTFO	BMZ	4,507,600	
DRC Humanitarian Fund / MPTFO	AA	27,756,777	11,217,000
DRC Stabilization ISSSS Fund / MPTFO	AA	1,482,012	5,508,995
Ebola Response / MPTFO		11,606,933	
“Education Cannot Wait” Trust Fund (administered by UNICEF)		30,099,971	30,942,526
Elise Initiative Fund / MPTFO	AA		2,000,000
Ethiopia country-based pooled fund	AA	35,990,351	11,273,957
Financing Strategy 2030 Agenda / MPTFO	BMZ	2,500,000	

Human Rights Mainstreaming TF / MPTFO		1,230,350	
Iraq CBPF	AA	77,186,565	1,137,656
Joint Fund for the 2030 Agenda	BMZ	456,087	5,957,063
Jordan CBPF	AA	6,452,967	2,200,220
Lebanon CBPF	AA	10,568,052	2,750,275
Lebanon Recovery Fund / MPTFO		5,860,660	
Malawi One UN Fund / MPTFO		851,429	
Migration MPTF / MPTFO	AA		1,101,579
Migration MPTF /MPTFO	GIZ		1,120,032
Myanmar CBPF	AA	1,136,364	1,668,525
Nigeria CBPF	AA	16,759,127	6,825,939
One Planet MPTF / MPTFO			1,111,927
Occupied Palestinian territory CBPF	AA	12,502,257	12,471,410
Papua New Guinea UN Country Fund / MPTFO			554,207
Partnership Act on Green Economy / MPTFO	BMU	17,529,500	
Peacebuilding Fund / MPTFO	AA	121,644,395	44,238,845
Somalia Humanitarian Fund / MPTFO	AA	35,310,885	13,460,552
Somalia Multi Window Trust Fund / MPTFO	AA	24,720,225	4,435,801
South Sudan Humanitarian Fund / MPTFO	AA	39,538,220	14,618,350

South Sudan MPTF for Reconciliation, Stabilization, Resilience / MPTFO		5,683,000	5,522,235
Resident Coordinator System Special Purpose Trust Fund	BMZ	€9,980,000 (2018)	€10,200,000
Sudan Humanitarian Fund / MPTFO	AA	7,853,800	3,337,905
Sustainable Energy for All / MPTFO		990,543	
Syria CBPF	AA	9,611,365	2,229,654
Syria Cross Border Fund	AA		29,754,608
Turkey CBPF	AA	27,954,582	22,574,637
Ukraine CBPF	AA		2,779,709
UN Water Interagency Trust Fund (administered by UNOPS)	BMZ	1,810,483 (2010-2017)	664,470 (2018)
UNDG Iraq Trust Fund / MPTFO		10,000,000	
Yemen CBPF	AA	129,204,915	42,142,876
Yemen NDCR TF / MPTFO	AA	1,990,950	
West Balkans SALW Control MPTF / MPTFO	AA		4,944,586
Women's Peace and Humanitarian TF / MPTFO	AA		3,280,002
Thematic agency-specific trust funds			
German-FAO Bilateral Trust Fund (Empowering Agriculture for Global Food and Nutrition Security)	BMEL	ca. 134,000,000 (2002-2019)	

ILO Vision Zero Fund	BMAS		
UNCTAD Trust Fund “Debt Management and Financial Analysis and System DMFAS”			59,242
UNDP Funding Window Climate Change		24,501,665 (2016-2017)	22,753,128 (2018)
UNDP Funding Window Environment and Natural Capital		23,696,682 (2016-2017)	
UNDP Funding Window Conflict Prevention		6,862,478 (2016-2017)	11,945,392 (2018)
UNDP Funding Window Democratic Governance for Peace and Development		227,294 (2016- 2017)	341,296 (2018)
UNEP Technical Cooperation Trust Fund for Activities in Developing Countries on Environmental Awareness and Machinery			
UNFPA Maternal and Newborn Health Thematic Trust Fund (MHTF)	BMZ	5,662,371 (2013-2017)	1,620,813 (2018)
UNIDO Trust Fund on Trade-Related Capacity- Building			€400,000 (2018)
WFP Trust Fund Purchase for Progress	BMZ		
WFP Trust Fund Innovation Accelerator	BMZ, AA		
WFP Trust Fund Nutrition	BMZ		
WFP Trust Fund Resilience	BMZ		

WFP Trust Fund Forecast-based Financing (Emergency Preparedness for Climate Risks)	AA		
WFP Immediate Response Account	AA		4,477,014 (2019)
WFP TF for Emergency Preparedness Division Strengthening	AA		
WFP Trust Fund Asia Preparedness	AA		
WHO Contingency Fund for Preparedness	BMG	29,918,067 (2015-2018)	11,706,397
Other			
ITC Global Trust Fund	BMZ	1,2576,000 (2014-2017)	3,128,000 (2018)
UN Democracy Fund	AA	23,848,660 (2005-2018)	1,938,650
UN Women Trust Fund for Gender Equality	BMZ		
UN Women Trust Fund to End Violence against Women	BMZ		
Sources: FAO (2019), UN MPTFO (2019c), UN OCHA (2019), UN Water (2019), UNCTAD (2018), UNDEF (2019), UNDP (2019b), UNFPA (2019), UNICEF (2019), United Nations (2020), WHO 2019; all rights reserved, used with permission			

## **Annex 5: Selected contributions of BMZ for trust funds and financial intermediary funds of the World Bank (€)**

<b>Programme/project/ institution</b>	<b>Contributions in 2017</b>	<b>Contributions in 2018</b>	<b>(Planned) contributions in 2019</b>
Pandemic Emergency Facility (PEF)	5,000,000	55,000,000	5,000,000
Women Entrepreneurs Finance Initiative (We-Fi)	0	20,000,000	20,000,000
Debt Management Facility (DMF)	0	3,000,000	3,000,000
Sahel Adaptive Social Protection Programme (SASPP)	0	30,000,000	20,000,000
Global Financing Facility (GFF)	0	0	0
International Finance Cooperation / Kakuma Kalobeyei Challenge Fund (KKCF) – Private Sector Solutions for Refugee and Host Communities	0	0	3,240,000
Concessional Financing Facility (CFF)	14,500,000	0	
Global Concessional Financing Facility (GCFF)	0	63,475,000	
GPE Fund (Global Partnership for Education Fund)	7,000,000	18,000,000	37,000,000
Responsible Finance Forum (IFC)	100,000	0	0
Consultative Group to Assist the Poor (CGAP)	380,000	470,000	400,000

Public-Private Infrastructure Advisory Facility (PIIAF)	0	895,000	0
Financial-Sector Reform and Strengthening Initiative in Middle-Income Countries (FIRST-MIC)	700,000	250,000	250,000
Financial-Sector Reform and Strengthening Initiative in Low-Income Countries (FIRST-LIC)	500,000	250,000	250,000
(Umbrella) Multidonor Trust Fund on Jobs	0	250,000	250,000
State-and Peacebuilding Fund	500,000	3,000,000	0
Results in Education for all Children (REACH)	1,000,000	400,000	0
German Contribution to the Global Program on Sustainability (successor to WAVES-Partnership)	0	0	1,000,000
Extractives Global Programmatic Support (EGPS)	250,000	275,000	300,000
Energy Sector Management Assistance Programme (ESMAP)	800,000	750,000	1,000,000
Mobility and Logistics Multi-Donor Trust Fund	0	350,000	650,000
Connect 4 Climate	0	100,000	100,000
Think Africa Trust Fund (WB Africa Vice Presidency)	0	4,800,000	
IFC G20 Support to Compact With Africa (ISCA) Trust Fund	10,000,000	0	

Green Climate Fund (GCF)	93,910,000	140,000,000	140,000,000
Global Environment Facility (GEF)	69,700,000	69,760,000	68,700,000
Least Developed Countries Fund	24,999,970	25,000,000	25,000,000
Nationally Determined Contributions; NDC-Partnership	0	15,000,000	15,000,000
Global Agriculture and Food Security Programme (GAFSP)	9,000,000	29,147,496	18,621,796
InsuResilience Climate Risk Financing and Insurance Programme	5,000,000	30,000,000	60,000,000
Forest Carbon Partnership Facility (FCPF)	50,000,000	50,000,000	50,000,000
Afghanistan Reconstruction Trust Fund	80,000,000	62,500,000	100,000,000
Support to International Agricultural Research	0	6,500,000	
National programme against malnutrition: Cambodia	0	0	2,170,000
Liberia Reconstruction Trust Fund V	0	14,000,000	
Improving living conditions in urban areas and improving the integration of returnees (Phase II)	0	25,000,000	0
Central America and Caribbean Catastrophe Risk Insurance Facility Trust Fund	0	7,500,000	



Improving Living Conditions in Urban Areas and Improving the Integration of Returnees	23,240,000	0	
Khyber Pakhtunkhwa / FATA Balochistan Multi-Donor Trust Fund	15,000,000	0	
Global Alliances for Social Protection II	0	2,822,000	
Programme for climate-smart livestock systems	0	1,490,000	
Enabling Investment in Tunisia / Deutsch-Tunesische Investitionspartnerschaft	0	1,000,000	
Contribution to the Global Facility for Disaster Reduction and Recovery (replenishment in 2018)	2,000,000	9,000,000	
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