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T7 Task Force International cooperation for the global common good

POLICY BRIEF

REINFORCING UNITED NATIONS FUNDING: HOW THE G7 CAN STRENGTHEN MULTILATERALISM

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Abstract

The Group of 7 (G7) comprises some of the largest donors to the United Nations (UN). This is why the G7 is uniquely positioned to address challenges stemming from a UN revenue profile that heavily relies on unpredictable forms of voluntary finance. If the G7 is serious about wanting a more effective UN system for managing an expanding list of global threats – in line with the programme of the German G7 presidency – individual UN entities must be solidly financed to ensure their independent capacity to act. The need to strengthen the UN has become even more urgent with Russia’s war against Ukraine that represents a major challenge to the legitimacy and effectiveness of a rules-based international order. With regard to UN funding, the G7 should work towards (1) raising assessed contributions across the UN system, starting with the World Health Organisation; (2) tweaking the formula used to calculate each member state’s share of assessed contributions to give due consideration to evolving global challenges; (3) ensuring that the formula is fit for delivering on the global functions of the UN; and (4) reinforcing mechanisms for penalising arrears. Such financing reforms would strengthen the UN’s role as a foundational global public good through which transnational challenges can be tackled.

Challenge¹

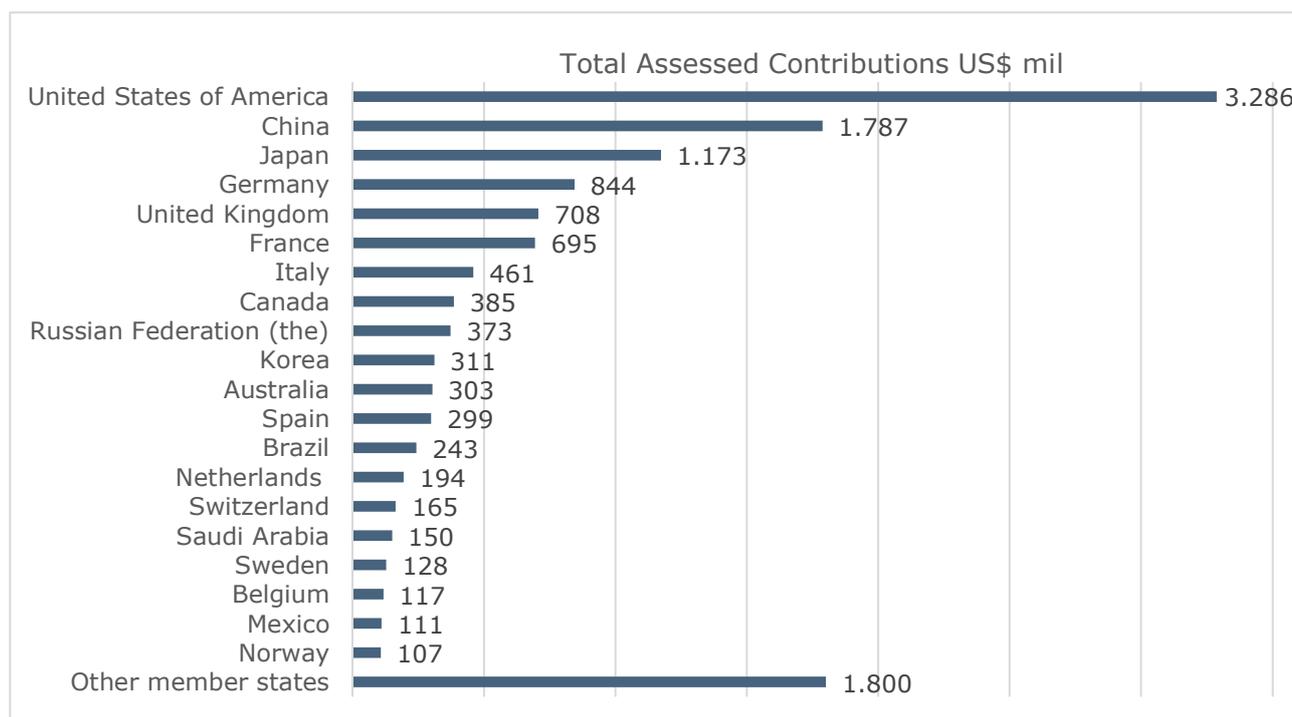
The United Nations (UN) did not succeed in preventing the Russian attack against Ukraine. Nor has it brought an early end to the COVID-19 pandemic or halted the climate or biodiversity emergencies. At the same time, all of these challenges unmistakably illustrate the need for strengthening international cooperation and multilateral organisations.² Currently, the UN³ does not live up to today's global challenges, as UN Secretary-General Antonio Guterres highlights in his recent report "Our Common Agenda" (United Nations, 2021). UN structures, procedures and decision-making processes have become outdated, while UN entities themselves often seem sluggish and inefficient. There are many reasons for this, and the need to find common ground for reform among 193 member states defies easy answers. Yet there is one key parameter that Group of 7 (G7) countries are uniquely positioned to address, and that influences the effectiveness, efficiency, and also legitimacy of the UN system: the funding structure.

Over the last decades, voluntary contributions have turned into an important source of funding for most UN entities because they carry more immediate benefits for providing states when compared with assessed contributions, i.e. obligatory member state dues that make up regular UN budgets. More than half of all UN funding in 2020 came in a voluntary fashion, with contributors influencing the timing of investment and the size of the envelope (Dag Hammarskjöld Foundation & UN Multi-Partner Trust Fund Office, 2021). Of this, over 90% was earmarked to specific themes or geographies, rather than provided flexibly as core support. Voluntary contributions, including earmarked ones, have their reason for existing (Gulrajani & Hefer, 2016; Weinlich et al., 2020). They have been behind the substantial increase in member state resources since the 1990s. They are meant to allow UN humanitarian and development entities to carry out their mandates with a strong orientation towards results and donor accountability. They can foster innovation, and, when provided to multi-partner trust funds, induce UN entities to work together. Nevertheless, excessive reliance on voluntary funding also has costs, especially when earmarking distorts institutional priorities, reduces flexibility to respond to emerging needs, and makes long-term planning difficult (Baumann et al., 2020). It can undermine the voice and representation of less wealthy members, giving greater leverage to those who pay more, including non-state actors. This can endanger institutional independence and integrity as some suggest is occurring at the World Health Organisation (WHO) where the Bill and Melinda Gates Foundation was the second-largest donor over the 2020-2021 biennium (see Sridhar & Woods, 2013; Seitz & Martens, 2017). Sizeable voluntary funding can also reduce institutional focus, hollow out the core competencies of multilateral institutions that are not as appealing to individual donors, and fragment the governance of the multilateral system.

Proposals

A functioning rules-based multilateral order is a foundational global public good through which shared threats can be collectively met. If the G7 is serious about wanting a more effective UN system for managing an expanding list of global challenges – in line with the programme of the German presidency – individual UN entities must be solidly financed to ensure their independent capacity to act. As *Figure 1* shows, G7 countries – together with China – are the most significant contributors of assessed contributions. By and large, they have been taking a keen interest in keeping the overall share of assessed contributions as part of the total income of UN entities low, while providing ample, often earmarked voluntary contributions. In particular, countries that pay the largest shares have been voicing explicit resistance against increasing assessed contributions, i.e. regular UN budgets. A mix of motives informs their demand for financial discipline: austerity considerations; the wish to limit funding whose usage is co-decided by UN membership collectively (compared to earmarked funding alternatives where individual providers have a larger say); and an uneasiness concerning a more autonomous international bureaucracy.

Figure 1 Top providers of assessed contributions to the UN system (2020, US\$ mil)



Source: UN System Chief Executives Board for Coordination

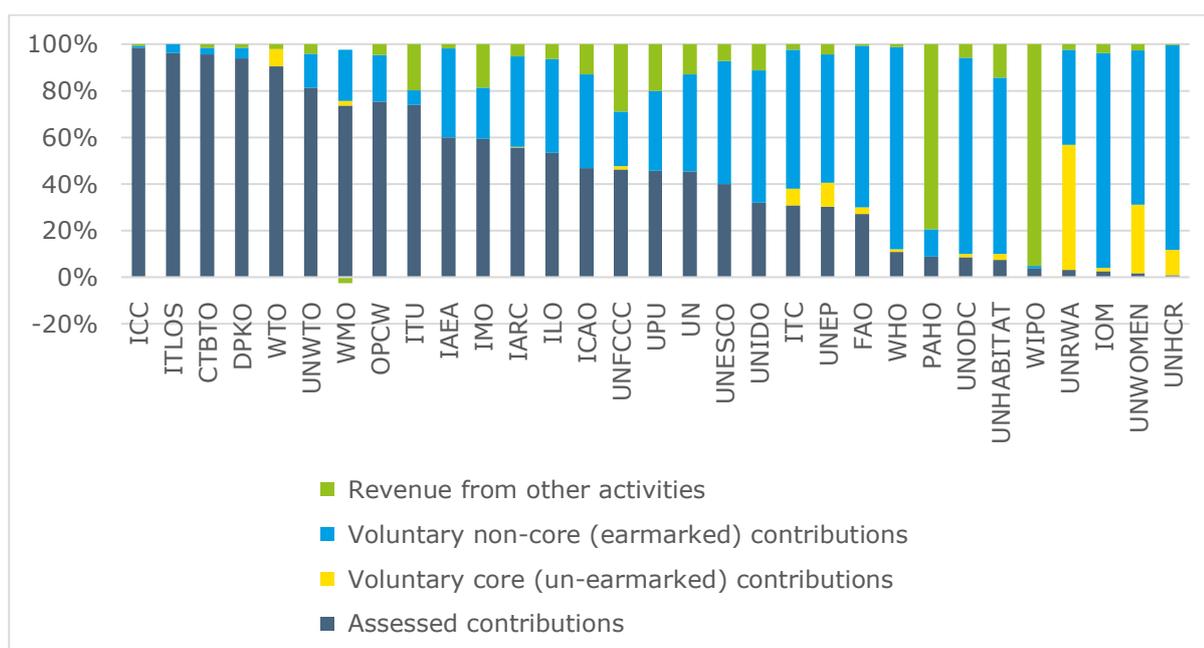
The financial situation of WHO, however, has led to a shift in the position of some G7 members who now advocate for an increase in its general budget. Germany, currently WHO's largest financial contributor, has been prominent among them. The German G7 presidency should garner support from all G7 countries to fund UN organisations with a better-balanced resource mix. More specifically, G7 members should (1) increase regular budgets across the UN, starting with WHO; (2) link funding discussions to the global functions

of UN entities; (3) prepare to modify the formula that is used to calculate each country's share of assessed contributions; and (4) strengthen mechanisms that penalise arrears.

1. Increase regular budgets across the UN system, starting with WHO

G7 member states should decide collectively to increase regular budgets across the UN system. A good place to start is WHO. Only about 16% of the WHO's \$6 billion budget over the 2020–2021 biennium came from assessed contributions, which are a predictable, stable funding source. Observers and member states had long recognized and highlighted the lopsided ratio between core⁴ and earmarked contributions as problematic (Reddy et al., 2018), but it was the COVID-19 pandemic that added a new urgency. For WHO to fulfil its essential global health functions, including the creation of norms and standards based on the best technical knowledge and evidence, as well as preventing, detecting, and responding to disease outbreaks, a sustainable source of funding is a fundamental requirement. A key proposal recently discussed by an intergovernmental working group involves doubling members' assessed contributions from their 2022-2023 levels, starting in 2024 and gradually increasing contribution levels until 2028–2029 (World Health Organisation, 2022). This would break with an approach that has essentially frozen WHO's regular budget since the 1980s. Although the working group's proposal foresees less than the 66% increase in member state fees proposed by the Independent Panel for Pandemic Preparedness and Response in 2021, no consensus has been reached on the recommendation. As the COVID-19 pandemic offers an obvious rationale for why the world needs a stronger, more flexible and more independent WHO, increasing the share of assessed contributions is a concrete – and necessary – step towards this goal. At the World Health Assembly in May, G7 members should therefore come out in favour of suggested increases in assessed contributions.

Figure 2. Revenue split for UN bodies' assessed contributions (2020, %)



Source: UN System Chief Executives Board for Coordination

At the same time, WHO's unsustainable funding situation is not unique (Baumann & Weinlich, 2021). Of the 31 UN organisations in receipt of assessed contributions in 2020, 18 received more than half their total revenues from other sources (*Figure 2*). As a general pattern, forum organisations that predominantly set global rules and support decision-making – such as the World Trade Organization – are funded mainly by assessed contributions. Organisations like WHO, which also engage in operational activities on the ground, rely to a larger degree on voluntary sources of funding (the one notable exception being peacekeeping). By supporting the decision to double assessed contributions at WHO, G7 members could reverse the zero-growth approach to assessed funding in other UN institutions carrying out critical work in areas like human rights, environmental degradation, food security and education.

2. Link discussions on funding reform to the UN's desired global functions

The G7 should use budgetary and reform discussions at WHO to strengthen the link between funding and functions across the UN system. There is no need to start from scratch; recent discussions within the context of the reform of the UN development system and the funding compact provide a good starting point.⁵ While the functional expectations of multilateral organisations will always face political imperatives, the WHO example offers an opportunity to articulate the desired global governance functions of UN entities, and the different forms of funding needed to implement them. Linking finance reform to the UN system's functions adds a hitherto missing dimension to the UN Secretary-General's "Our Common Agenda" report and should become part of the Agenda's follow-up process. "Our Common Agenda", which is currently being discussed in the General Assembly, sets out policy options for the UN to become a more meaningful actor in the protection and provision of global commons and global public goods, ranging from the internet to the atmosphere, the high seas to information, or global health to outer space. It also recognises the UN itself as a global common in need of strengthening, as it serves as a critical venue for collective action, norm development and international cooperation.

A high-level advisory board, nominated by the UN Secretary-General, is to identify global public goods and potentially other areas of common interest where governance improvements are most needed and propose options for how this could be achieved. While it remains unclear both in how far UN membership supports these proposals, and to what extent multilateral negotiations at the UN might be affected by the war in Ukraine, G7 members should open up space for an explicit debate about UN global governance functions. This discussion should have a dedicated financial dimension. G7 members could lead the debate on which functions require which kind of funding, i.e. where assessed contributions provide the best revenue stream, and where are other forms of funding – replenishments, fees, negotiated pledges, soft and hard earmarking – are more appropriate. Supplementary financing for less essential functions, for instance, might draw inspiration from replenishment models, which are increasingly used in stand-alone global funds. This can raise core voluntary resources over a medium-term time horizon, providing a certain degree of income predictability and expanding the range of supporters beyond governments. Blending financial models and creating new ones based on an inventory of the UN's functional needs offers a promising avenue for plugging resource gaps.

3. Make the formula for assessed contributions fit for a world of existential transnational challenges

While different components of the UN assessment scale have evolved since the 1940s, for the last 20 years the formula has remained remarkably stable. It weights contributions according to a country's economic strength and population size, with adjustments made on the basis of income per capita and debt burden, and it is intended to ensure fair financing obligations across countries of dissimilar means. The formula's minimum contribution currently stands at 0.001% of the regular UN budget, while its maximum contribution is 22%. The formula can be adjusted every three years in the UN General Assembly. In order to ensure that this basic formula remains fit for purpose in the context of profound global power shifts and existential transnational challenges, the G7 should revisit it and explore the possibility of adding indicators to the scale of assessments for specific UN bodies. Integrating issue-specific dimensions into the regular budget formula of individual entities – such as member states' climate change vulnerability, carbon footprint or readiness to host large refugee populations – could help strengthen the perception of assessed contributions as both appropriate and fair. This would add a merit-based element to the question of who absorbs the costs of global governance. Undoubtedly, any change to the formula will be controversial, as it will shift the distribution of costs among member states at a time of extreme geopolitical sensitivity and fiscal constraint. But the prospect of doing so also throws the spotlight on some thorny issues. For example, should the cap of 22% (the ceiling that limits the assessed contributions of any member state) be significantly lowered to reduce reliance on larger states like the United States of America? Would other G7 members, in turn, be prepared to shoulder a larger part of the burden? It is worth starting such a conversation rather sooner than later, given that the necessary intergovernmental consensus will become even harder to reach once the sums to which it applies become more significant.

4. Strengthen mechanisms that penalise arrears

One of the main challenges of the UN's current assessed contribution system is that a small but significant number of member states pay late, partly, or not at all. To counter such 'low payment morale', a more comprehensive set of mechanisms should be considered to increase timely and full compliance with assessed contribution obligations. For example, lowering the threshold beyond which member states lose their voting rights at UN assemblies if they do not pay their dues, or do not pay on time, would tighten sanctions for non-payment. Alternatively, the assessed contribution formula itself could be adapted by using a variable that factors in past payment performance when calculating budget allocations. Throughout, a more explicit distinction should be made between member states' inability to pay – in the case of emergency situations in Least Developed Countries, for instance – and an unwillingness to pay for geopolitical or other strategic reasons.

Implementations

Assessed contributions provide flexible and reliable funds and can help ensure a UN entity's institutional autonomy. Nevertheless, they are by no means a cast-iron guarantee for a solidly financed multilateral organisation. The UN has been on the brink of insolvency several times because of unreliable payment practices by a small but significant number of member states, including some G7 members. Obligatory contributions to the UN core budget give no formal advantage to larger contributors in terms of control, attribution or accountability. This is because core institutional priorities are set by member states with equal representative status at the UN. Formal influence in policy-making processes does not depend on the size of members' budgets, as is the case for the World Bank or the International Monetary Fund. UN budget negotiations are more challenging and more demanding of patience and active compromise than bilateral voluntary contributions.

As G7 members are among the most important multilateral contributors, the G7 is uniquely positioned to turn the tide on UN funding. This would entail a shift in the mix of funding they provide to the UN. A more resilient multilateral system is in the interest of all G7 members, including those that so far have been wary about increases in assessed contributions. In the context of substantial international power shifts – many of which indicate a relative decline of G7 influence over the long run – multilateral settings such as the UN offer the best available framework for managing change. With its broad membership and encompassing set of mandates, the UN system offers imperfect but essential multilateral instruments to both address emergencies and co-produce sustainable cooperation processes. If the seven governments of the G7 came together to design a concerted approach to increasing assessed contributions, they would not only showcase their leadership on inclusive multilateralism but also strengthen mechanisms that can ensure the stability of the international system. From WHO, to the Food and Agriculture Organisation, and the UN Secretariat, the UN system plays a key role in designing global frameworks, steering policy debates and providing support in crisis situations. Reinvigorating regular UN budgets would allow the G7 to contribute to a multilateral system better suited to address the world's pressing needs. In light of a pandemic, inter-state war and the long-term repercussions of climate change, it is an investment in the future of multilateralism and a more effective response to the challenges ahead.

Endnotes

¹ This paper draws on a policy paper published by ODI, “Fixing UN financing: a Pandora’s box the World Health Organization should open”, see Gulrajani et al. 2022.

² See also the T7 policy brief by Beisheim et al., 2022.

³ The UN is a system of institutions with the General Assembly, Security Council, Economic and Social Council, and Secretariat at its center. There is a set of linked and associated institutions, including Funds and Programmes, Specialized Agencies and other related organization, see also Dervis & Ocampo, 2022.

⁴ Core funds can come as either assessed or voluntary contributions. They are spent in line with an organisation’s mandate as decided by its multilateral governing bodies. Earmarked funds, in turn, are linked to specific themes, countries or projects, which are defined bilaterally among a contributor and the recipient organisation.

⁵ The Funding Compact, adopted in 2019, is part of the ongoing reform of the United Nations development system. UN member states committed to providing more flexible forms of funding and UN entities in turn UN vowed to increase coherence, cooperation and transparency, see also Dag Hammarskjöld Foundation, 2021.

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