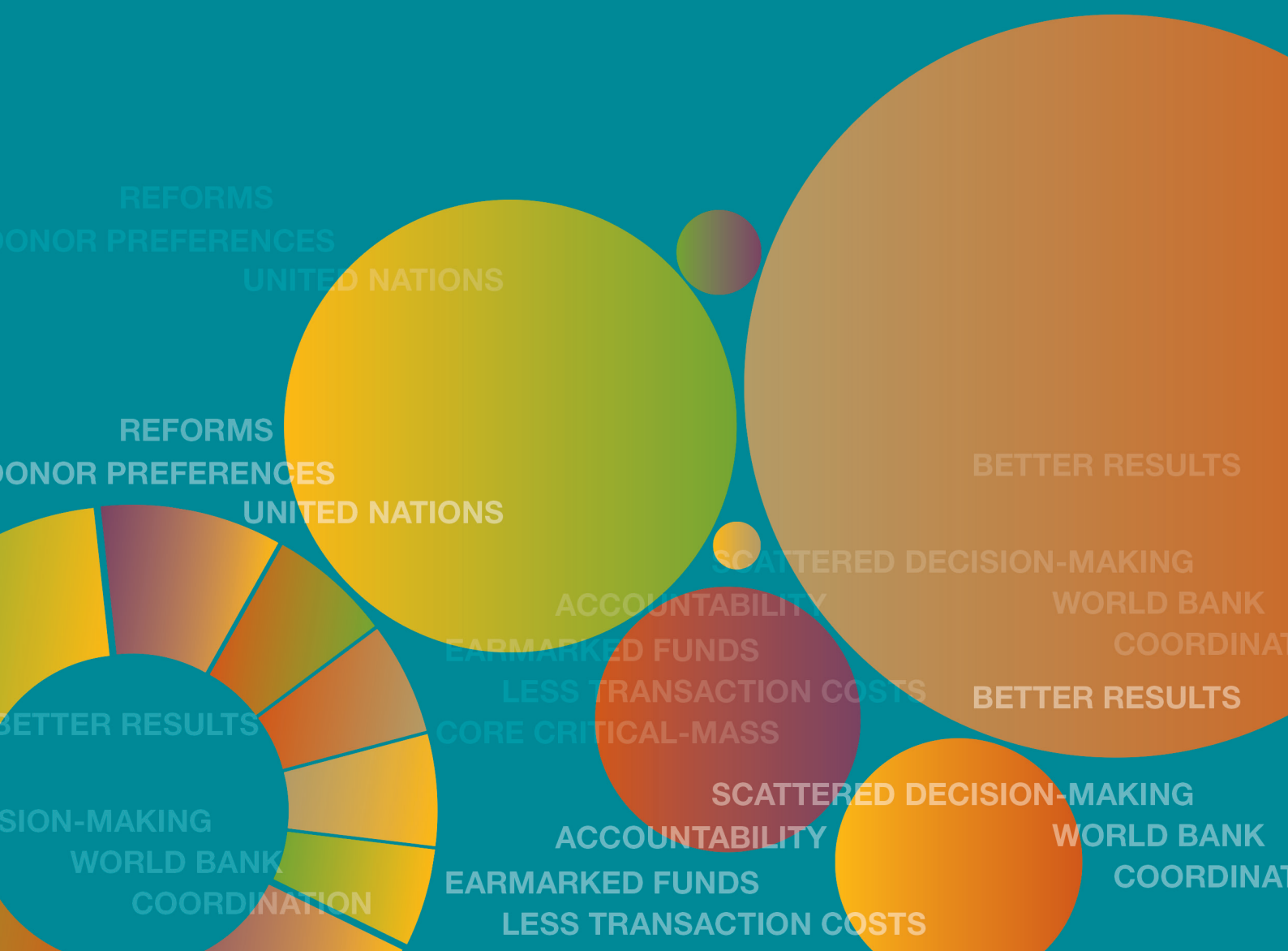


REPORT NUMBER 1 • 2014

Making earmarked funding more effective: Current practices and a way forward

Piera Tortora and Suzanne Steensen
OECD Development Co-operation Directorate



**MAKING EARMARKED FUNDING MORE EFFECTIVE: CURRENT
PRACTICES AND A WAY FORWARD**

TABLE OF CONTENTS

ACKNOWLEDGEMENTS	3
ABSTRACT	4
INTRODUCTION	5
1. HOW IMPORTANT IS EARMARKED FUNDING?.....	7
2. SOME ELEMENTS OF MAIN ROOT CAUSES AND IMPLICATIONS OF EARMARKED FUNDING.....	10
3. THE “SUPPLY SIDE” – DONORS’ POLICIES AND PRACTICES.....	12
Hard facts on DAC members’ use of the multilateral system	12
Main motivations for using earmarked funding – some stylised facts	15
No explicit strategies or policies for earmarked funding	16
Scattered decision making on earmarked funding.....	17
Allocations of earmarked funding across multilateral organisations	19
Choosing the appropriate modality to maximise effective use.....	21
4. THE “DEMAND SIDE”: POLICIES AND PRACTICES OF MULTILATERAL ORGANISATIONS.....	23
Main features and implications of earmarked funding from the multilateral organisation perspective ...	23
UN reforms – an ambitious agenda.....	26
World Bank Group reforms – an on-going effort.....	29
5. EMERGING RECOMMENDATIONS: TOWARDS SOME REPLICABLE GOOD PRACTICES?.....	32
REFERENCES	35
ANNEX: 2013 SURVEY ON MULTILATERAL ALLOCATIONS.....	38

Figures

Figure 1. Gross ODA disbursements (2012)	7
Figure 2. Evolution of ODA components from 2000 to 2012 (gross ODA excluding debt relief)	8
Figure 3. Year on year percentage changes in total, core and earmarked funding funding to multilateral organisations in 2008-12.....	9
Figure 4. Sector breakdown of earmarked funding from DAC members in 2012.....	9
Figure 5. Total use of the multilateral systems as a share of total gross ODA in 2012 (excluding debt relief), by DAC member.....	12
Figure 6. No strong evidence that smaller donors use the multilateral system more (2012 data)	13
Figure 7. DAC members’ use of the multilateral system in 2012 (gross ODA ecluding debt relief)....	14
Figure 8. Fairly decentralised earmarked funding across DAC members	17
Figure 9. Shares of earmarked funding in total funding across 19 main MOs (2012).....	20
Figure 10. Core and earmarked (non-core) funding to MOs in 2012	24
Figure 11. Earmarked funding across UN entities in 2012.....	24
Figure 12. Summary of challenges and recommendations.....	34

ACKNOWLEDGEMENTS

This paper constitutes one of the chapters of the forthcoming multilateral aid report. It was prepared by Piera Tortora under the guidance of Suzanne Steensen. The paper builds on a preliminary analysis conducted jointly with two officials from Germany's BMZ, Rachel Folz and Jurgen Zattler, which was presented at the Senior Level Donor Meeting on Multilateral Effectiveness in November 2013. The OECD is also grateful to Debapriya Bhattacharya, Homi Kharas, David Kuijper, Willem Luijkx, Andrew Rogerson and Margret Thalwitz for valuable comments and inputs to an earlier draft of this paper. The authors are also thankful to John Smith, Georgia Hewitt, and Marie-Claire Tuzeneu for editorial support, to Stephanie Coic for graphic support, and to Andrzej Suchodolski for data quality assurance.

ABSTRACT

The use of the multilateral aid system grew in real terms by 31% between 2007 and 2012. This growth was primarily driven by increased funding provided to multilateral organisations as earmarked resources for specific themes, sectors, regions or countries (+79% in 2007-12). While earmarked funding can help meet specific needs and evolving development challenges, it can also make the co-ordination and coherence of the international development co-operation system more difficult and undermine the strategic and coherent allocation of resources for individual multilateral organisations. This paper sheds light on how multilateral organisations and bilateral providers are attempting to better manage earmarked funds. It also provides suggestions on how these efforts can be taken forward to ensure financing for the multilateral system that is sustainable and conducive to better development results.

INTRODUCTION

1. In aggregate terms, financial flows to multilateral organisations grew in real terms by 31% between 2007 and 2012, mainly because of increased earmarked funding for specific themes, sectors, regions or countries (as opposed to core contributions). Earmarked resources have been described as a powerful means to mobilise resources, engage in partnerships and fill co-operation gaps.¹ They can help respond to specific needs, such as humanitarian crises, and to evolving development challenges. For example, they can make it possible to engage in partnerships that leverage a variety of public and private resources from sovereign countries as well as private foundations, corporations and intergovernmental organisations. However, a wide variety of financial arrangements is used to channel earmarked funding, adding significantly to the complexity of the global development co-operation architecture. This has created risks of duplications, higher transaction costs and lack of coherence. It has also made the traceability and monitoring of these resources more complex. Vertical funds and pass-through financial mechanisms, which have different degrees of independence from existing multilateral organisations, may create momentum for specific initiatives, attract additional funding and add value; but they risk producing duplications and adding to the chain of costs which ultimately diminish the resources available on the ground. Earmarked funding to existing multilateral organisations may provide additional resources that allow expansion of operations. Nevertheless, decision-making processes for earmarked funding have primarily involved numerous different donor agreements that are not always co-ordinated with each other or with the allocation of core resources. This situation has undermined strategic and coherent allocation of resources and has often resulted in additional transaction costs.

2. In a post-2015 perspective, multilateral institutions will be called upon to play a fundamental role in delivering sustainable development goals. Their ability to deliver will be in the spotlight and will depend heavily on the good management of all resources available, including earmarked funding. This calls for joint efforts and revised practices with respect to both the supply (bilateral donors) and demand (multilateral organisations) sides of earmarked funding. In that context, this paper is the first of two presenting an in-depth analysis of earmarked funding aiming to provide policy guidance so that multilateral organisations can better contribute to delivering the post-2015 sustainable development goals (SDGs). By taking the point of view of both the supply and demand sides of earmarked funding, this paper provides three main contributions:

- The paper unpacks the demand for earmarked funding and the main limitations on the ways it is currently managed.
- It outlines the reforms for better management of earmarked funds put in place by both bilateral donors and the two main recipients of earmarked funding, the United Nations (UN) and the World Bank Group (WBG).
- It provides suggestions on how these efforts can be taken forward to make financing for the multilateral system sustainable and conducive to better development results.

The second paper will provide a more nuanced picture of the costs and benefits of earmarked funding, from a partner country perspective, by presenting a stylised categorisation of forms of earmarked funding.

1. See, for example, see IEG (2011), OECD (2011), OECD (2012) and Thalwitz (2013).

3. This paper draws on five main sources of information: (i) statistical data from the OECD Creditor Reporting System (CRS), (ii) responses by 22 DAC members² to the 2013 OECD/DAC Survey on Multilateral Aid Allocations (henceforth “the Survey”), (iii) semi-structured personal interviews conducted in October 2013 with World Bank Group (WBG) officials and staff from a range of UN entities³, (iv) semi-structured interviews with representatives of selected multilateral organisations conducted between January and May 2014 in the framework of the OECD/DAC peer reviews, (v) desk research.

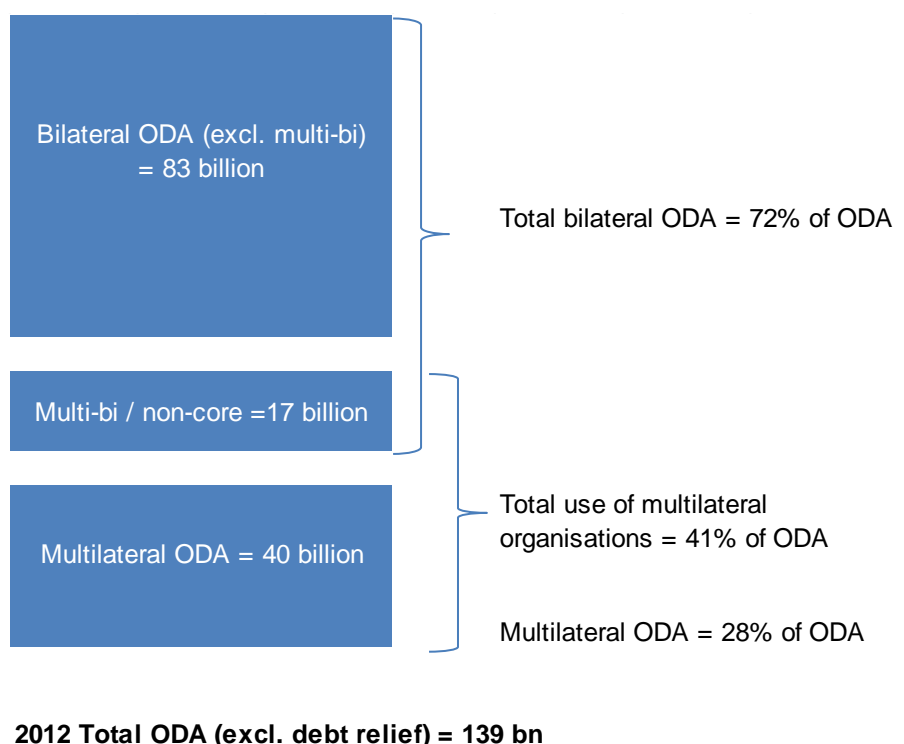
-
2. At the time the survey was conducted Poland was not yet a DAC member. The 22 responding DAC members were: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, the Slovak Republic, Slovenia, Switzerland, the United Kingdom and the United States.
3. The UN Development Programme’s (UNDP) Multi-Partner Trust Fund Office (MPTF Office), the UN Children’s Fund (UNICEF), the UN Department of Economic and Social Affairs (UN DESA), the UN Development Programme (UNDP), the UN Peacebuilding Fund (UNPBF) and the UN Population Fund (UNFPA).

1. HOW IMPORTANT IS EARMARKED FUNDING?⁴

4. Since 2007 the use of the multilateral aid system has grown at an average rate of 6% per year, increasing from USD 40 billion to USD 57 billion in 2012, when it reached a record share of total official development assistance (ODA) (41%).⁵ However, this growth in the use of the multilateral aid system (henceforth “multilateral aid”⁶ or “total funding to multilateral organisations”) has translated only marginally into larger assessed and voluntary contributions to the core budgets of multilateral organisations (henceforth “core contributions”). Rather, **growth in the use of the multilateral aid system has primarily been driven by increased funding provided to multilateral organisations as earmarked resources** for specific themes, sectors, regions or countries.

Figure 1. Gross ODA disbursements (2012)

(Excluding debt relief, contributions from EU institutions)



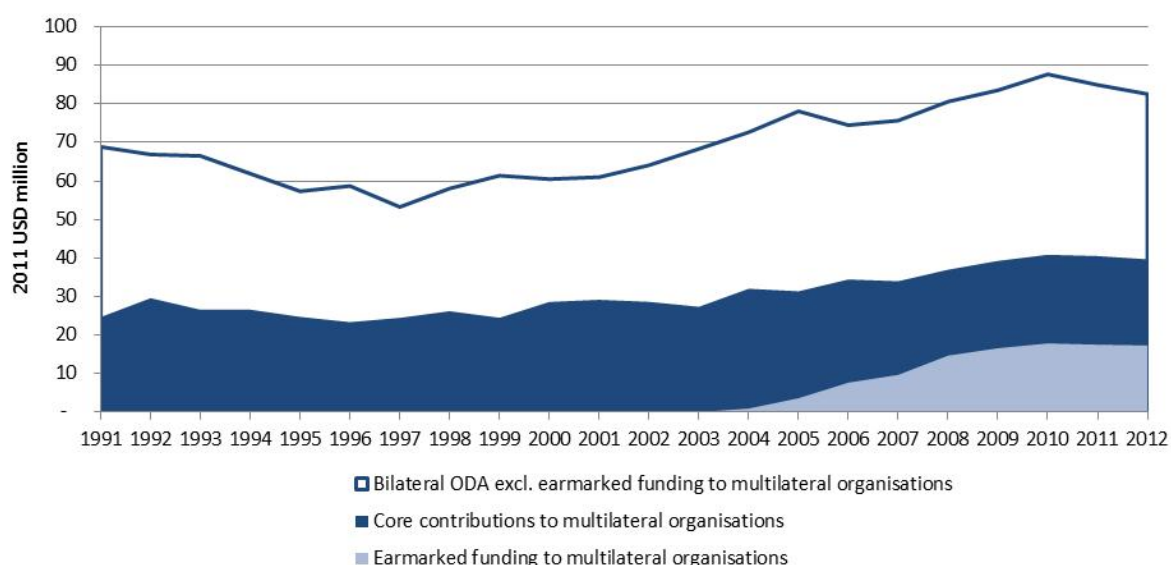
4. The full multilateral aid report will include an in-depth statistical section on recent trends in the use of the multilateral system.
5. This figure is in gross terms and excludes debt relief.
6. In this paper “multilateral aid” refers to the total use of the multilateral aid system, or the sum of core and earmarked resources to multilateral organisations. “Multilateral ODA” is a statistical definition for core resources to multilateral organisations, whether negotiated, assessed or voluntary. “Core resources” are resources that governing boards of multilateral organisations have the unqualified right to allocate as they see fit within the organisation’s charter. It should be noted that in the DAC statistical system, DAC members’ contributions to large trust funds that are listed in the DAC Annex 2 are recorded as core contributions even if trust funds are typically a way to earmark funds for specific purposes.

5. In 2012 earmarked resources represented 30% of the total use of the multilateral system (Figure 1). However, **for individual organisations earmarked funds can represent a significant share of total funding**, up to three-quarters for some. In particular, United Nations entities,⁷ which together are the largest recipient of earmarked funding, received over 70% of their funding in this form. In 2012 the World Food Programme's (WFP) earmarked funds were six times larger than its core funding. For five other UN entities, earmarked funds represented over 60% of total funding: the World Health Organization (WHO) (61%), the Office of the High Commissioner for Human Rights (OHCHR) (64%), the UN Children's Fund (UNICEF) (69%), the UN Refugee Agency (UNHCR) (70%) and the UN Development Programme (UNDP) (74%). For the World Bank Group almost 40% of total funding is made up of earmarked resources, while among the regional banks only the Inter-American Development Bank (IADB) has a volume of earmarked funding slightly larger than core contributions, accounting for 59% of total funding.

6. **After a period of fast growth, earmarked funding stagnated in the wake of the 2011-12 decrease in aggregate ODA levels (Figure 2).** The share of ODA channelled to and through the multilateral aid system peaked in 2011 and 2012, but the actual volumes of funding to the multilateral system contracted in both years, following the decrease in aggregate ODA levels. While gross ODA (excluding debt release) decreased by 2% in both 2011 and 2012, the total use of the multilateral system decreased by 1% in 2011 and 2% in 2012. Earmarked funding decreased by 2% in 2011 and by 1% in 2012 (Figure 3).

7. **Earmarked funding plays a key role in addressing humanitarian needs.** The largest sector of earmarked funding is humanitarian aid, accounting in 2012 for 30% of all earmarked funding from DAC members, or USD 5.6 billion. However, other sectors, too, receive considerable shares of earmarked funding. For instance, government and civil society and other social infrastructures received almost 20% of all earmarked funding from DAC members in 2012 (Figure 4).

Figure 2. Evolution of ODA components from 2000 to 2012 (gross ODA excluding debt relief)

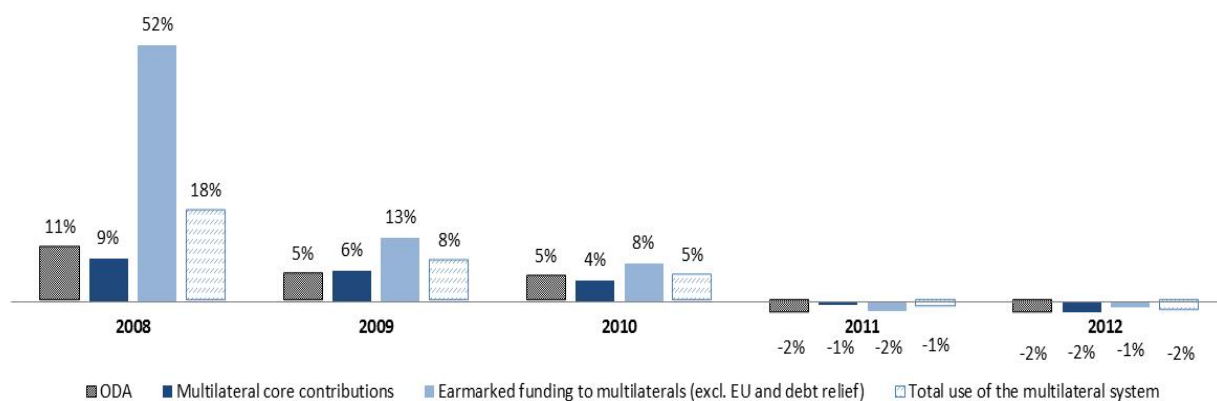


7. In this paper "UN entities" refers to UN funds, programmes and agencies working on development.

Source: Authors based on the OECD/DAC Creditor Reporting System (CRS)

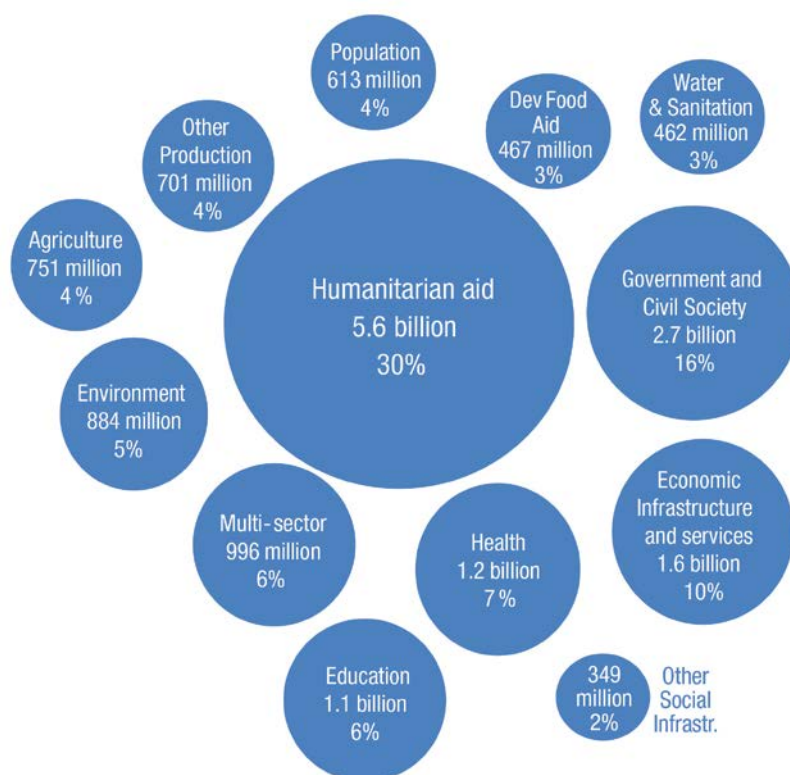
Figure 3. Year on year percentage changes in ODA, core contributions, earmarked funding and total use of the multilateral system in 2008-12 (gross figures excluding debt relief)

(percentage change compared to previous years)



Source: Authors based on the OECD/DAC Creditor Reporting System (CRS)

Figure 4. Sector breakdown of earmarked funding from DAC members in 2012



Source: Authors based on the OECD/DAC Creditor Reporting System (CRS).

2. SOME ELEMENTS OF MAIN ROOT CAUSES AND IMPLICATIONS OF EARMARKED FUNDING

8. **The widespread use of earmarked funding has brought about a “bilateralisation” of multilateral organisations** (OECD/DAC, 2010). In other words, first through voluntary contributions and later through earmarked contributions, some individual bilateral donors have gained more influence to shape the priorities and sizes of multilateral organisations’ budgets, bypassing “purely multilateral” governance whereby decisions are made by all members according to collectively endorsed rules. For example, in the case of the UN, the current financing system whereby earmarked contributions are a substantial part of all funding radically departs from the system originally envisaged in the UN Charter, according to which decision making by the General Assembly set the priorities and size of the budget to be financed through mandatory assessed contributions by member states. Similarly, the World Bank financing system and that of the regional development banks, with the substantial weight of earmarked funding in the form of trust funds, have brought about a “bilateralisation” of these institutions, extending their activities beyond the amounts mobilised through replenishments and increasing the influence of groups of donors on specific priorities.

9. There are several **reasons** why, according to the literature, this “bilateralisation” has come about. They mainly **have to do with either the governance or the performance of multilateral organisations. Concerning the governance structure**, the current financing system appears to result from a combination of the following three main factors:

- the decisional impasse produced by an increasingly complex multilateral system, in which competing interests make it harder to reach agreement⁸
- actions taken by powerful members to sidestep the will of the majority⁹
- the slow pace at which governance reforms reflect the greater relative importance of other sovereign donors (the so-called “emerging” donors), the new role of private for-profit and not-for-profit organisations in the development co-operation landscape, and the emergence of new global challenges¹⁰ that may require customised governance and funding.

10. **Relating to performance, the current financing system appears to have come about in response to donors’ perceptions about inefficiencies in the multilateral aid system**, as earmarked funding comes with *ad hoc* arrangements that allow closer donor oversight. In addition, as development co-operation is now receiving greater public scrutiny in many donor countries, donors are under increased pressure to demonstrate results. In this context, earmarked funding can respond to donors’ need for greater accountability and visibility with respect to the amounts they spend on development co-operation.¹¹

8. See, among others, Thompson (2006) and Tierney (2006).

9. See, for example, Graham (2012).

10. For example, Jenks et al. (2013) argue that the rise in non-core funding was a natural by-product of the emergence of development co-operation tied to the Millennium Development Goals, which also leads to the creation of vertical funds.

11. See Weinlich (2010), IEG (2011), OECD (2011), Mahn (2012), OECD/DAC (2012), Reinsberg (2013) and Thalwitz (2013).

11. The causal link between governance/performance and the current financing system of multilateral organisations, however, is not a one-directional one. More than just the result of governance and performance issues, with its large volumes of earmarked funds **the current financing system shapes governance and performance**. This is because, even within an individual multilateral organisation, “multilateral” activities are increasingly governed by a multitude of governance structures that pool specific groups of donors (including beyond sovereign member states). Moreover, as multilateral organisations increasingly rely on earmarked funds, they act more and more as hubs for development assistance delivery that compete with each other for funding. Therefore, despite many potential and actual positive sides of earmarked resources, this type of funding can be detrimental to the strategic and coherent allocation of resources and risks, fuelling unhealthy competition for resources by multilateral organisations.

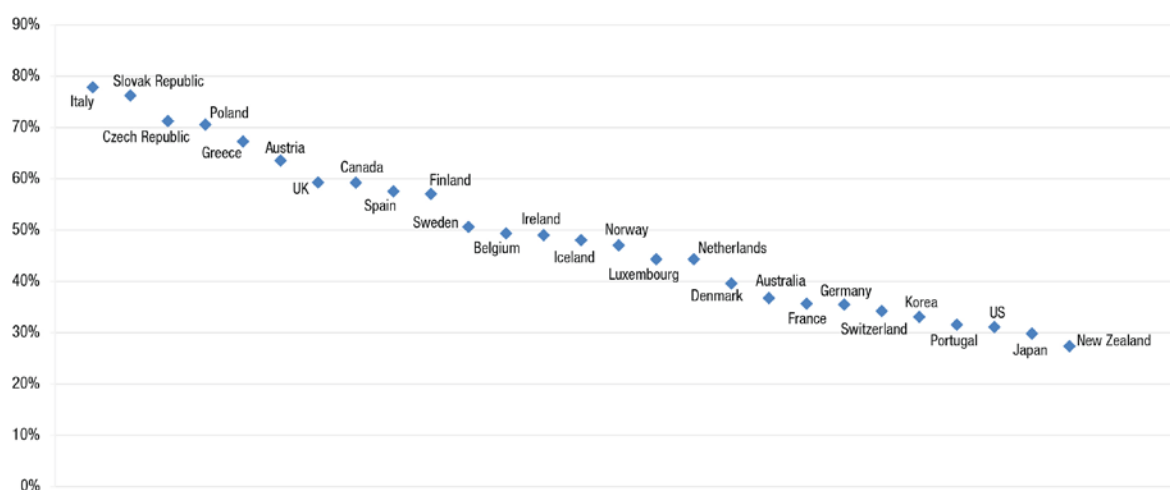
12. Looking at the root causes of earmarked funding may help predict where this funding is heading. In particular, it seems reasonable that as long as its root causes persist, earmarked funding will persist. Addressing the slow pace of governance reforms to reflect the greater relative importance of other sovereign donors, as well as multilateral organisations’ actual and perceived inefficiencies, could therefore effectively shift the financing model. However, the need to close the large development financing gap with additional resources from public and private sources, the greater relevance of non-state actors in the development co-operation landscape, and the focus on thematic (even if cross-sectoral) sustainable development goals are among the reasons why it is reasonable to consider that earmarked funding will continue to play a role in the multilateral funding system. Therefore, alongside addressing the slow pace of governance reforms in reflecting the greater relative importance of other sovereign donors, **it is essential that multilateral organisations promote reforms that improve their performance and transparency with respect to results, and that donors and multilateral organisations alike manage earmarked funding in ways that maximise its benefits while keeping its costs to a minimum**. The recommendations in this paper aim to contribute to taking such reforms forward to ensure financing for the multilateral system that is sustainable and conducive to better development results.

3. THE “SUPPLY SIDE” – DONORS’ POLICIES AND PRACTICES

Hard facts on DAC members’ use of the multilateral system

13. **DAC members have different strategic approaches to the use of the multilateral aid system.** In most cases the ratio of bilateral to multilateral ODA (core contributions only) is subject to explicit discussions, either when development policies are formulated or when the ODA budget is developed. Only in Ireland¹² and Switzerland¹³ have quantitative targets been established for this ratio.¹⁴ As a reflection of different strategic uses of the multilateral system, across DAC members in 2012 multilateral ODA ranged from 76% of total gross ODA (the Slovak Republic) to 15% (Australia). Differences among DAC members remain large, even when earmarked funds are included to determine their total use of the multilateral systems (core contributions and earmarked funding) as a share of total gross ODA. As shown in Figure 5, shares range from 78% for Italy to 27% for New Zealand. While there is no strong evidence that smaller donors provide greater shares of ODA to the multilateral system (Figure 6), there is a difference between European Union (EU) and non-EU members. Core contributions as a share of gross ODA are on average significantly larger for EU members (42%) compared to non-EU members (22%) due to the assessed core contributions of EU members to the EU budget and the European Development Fund.

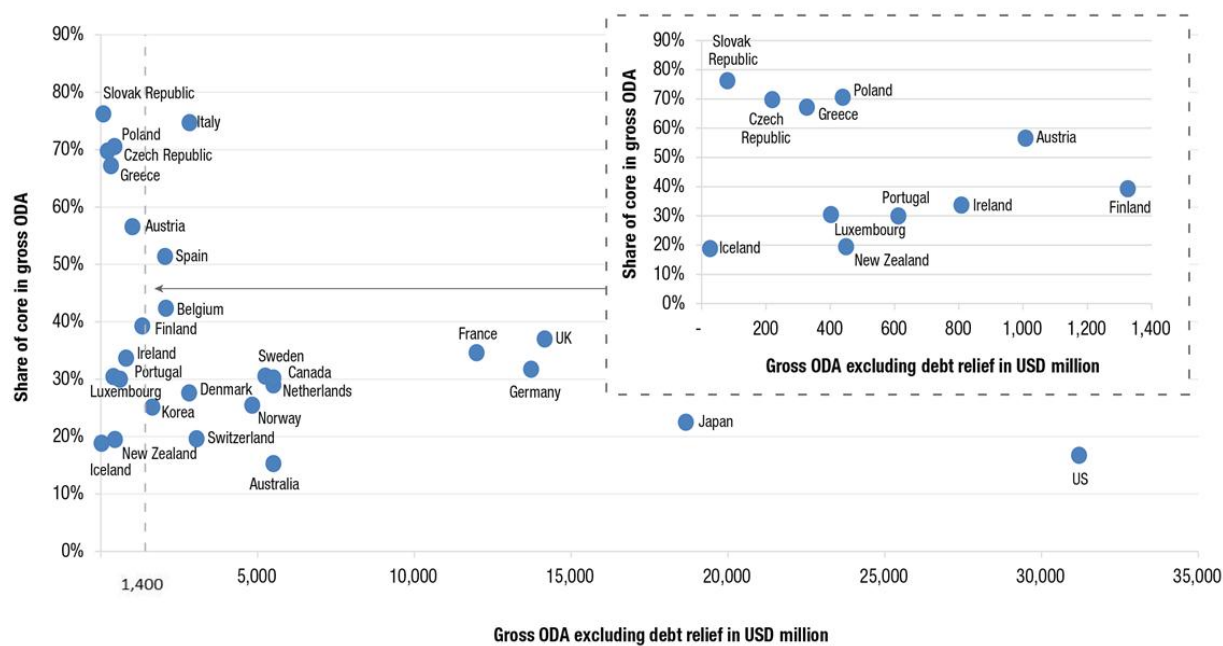
Figure 5. Total use of the multilateral systems as a share of total gross ODA in 2012 (excluding debt relief), by DAC member



Source: Authors based on OECD/DAC Creditor Reporting System (CRS) data.

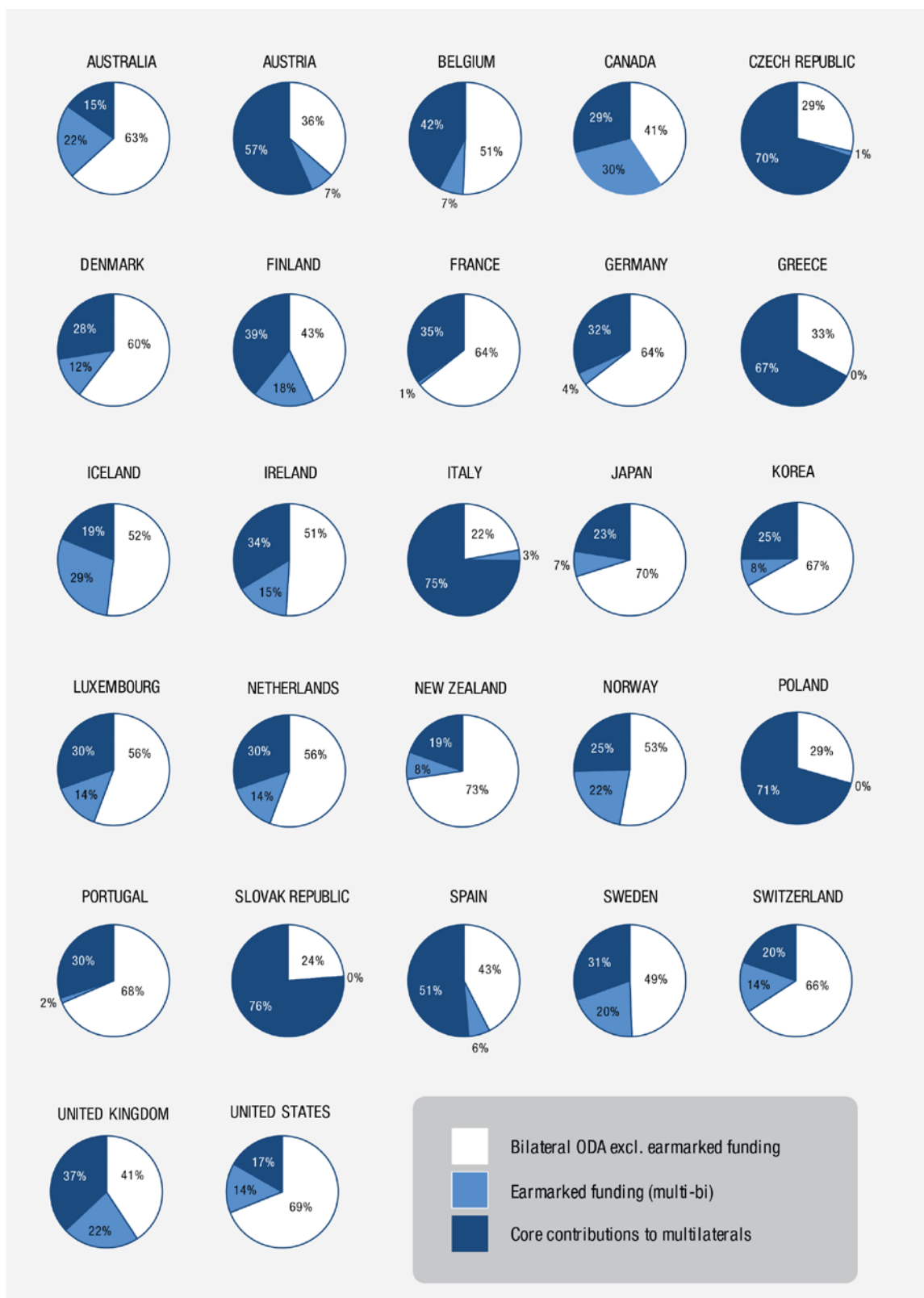
12. Ireland’s policy for international development explicitly states that Ireland will maintain a 70:30 ratio between bilateral and multilateral aid, respectively.
13. In Switzerland there is a restriction that applies exclusively to technical co-operation (which accounts for roughly 45% of its total ODA), according to which the share of multilateral contributions is 40% and is limited to 13 priority multilateral development organisations.
14. Until 2013 Germany’s allocation of ODA was set at two-thirds for bilateral and one-third for multilateral aid in accordance with a binding decision of the budgetary committee of the German parliament, which was reinforced in 2006, and also as stipulated in the coalition agreement of the Federal Government of 25 October 2009. In December 2013 the new coalition agreement came into force, abolishing the allocation for multilateral aid.

Figure 6. No strong evidence that smaller donors use the multilateral system more (2012 data)



Source: Authors based on OECD/DAC Creditor Reporting System (CRS) data.

Figure 7. DAC members' use of the multilateral system in 2012 (gross ODA excluding debt relief)



Source: Authors based on OECD/DAC Creditor Reporting System (CRS) data.

Main motivations for using earmarked funding – some stylised facts

14. **DAC members report that they choose earmarked funding primarily for governance-related reasons and due to a need for visibility.** In their responses to the Survey, the reason for using earmarked funding most cited (mentioned by 14 out of 22 members) is the additional influence it allows in shaping a multilateral organisation's development agenda.¹⁵ In particular, DAC members report that earmarked contributions provide a means to align an organisation's agenda to their own priorities, to address priorities that are not adequately covered by core funding, and to design more innovative programmes. The open answers to the survey hint that possible reasons DAC members feel they need to influence organisations' agendas are that they believe these do not adjust fast enough to emerging challenges, or that they wish to give more prominence to specific thematic or geographic priorities (including target groups), which would not be achieved as effectively without the legitimacy and international relevance granted by these organisations. The second most cited reason for using earmarked funding (mentioned by 8 out of 22 members) is that it provides greater visibility to donor resources. Interestingly, out of the 8 donors citing this reason, 5 are large donors whose net ODA is over USD 5 billion.

15. **Earmarked funding is also perceived as a means to achieve better oversight, harmonisation and co-ordination.** Survey responses reveal that donors see earmarked resources as an effective way to better oversee implementation and results, as these resources come with special clauses or management arrangements, including for monitoring and reporting. Having special requirements in place may be particularly important when a donor feels that a multilateral organisation's quality assurance systems are not sufficiently robust. In the case of multi-donor arrangements, donors report that earmarking can be a way to reinforce co-operation with like-minded donors on specific issues, bring in specific expertise from various donors, and harmonise efforts in the field.

16. **Smaller and "new" donors perceive earmarking as a way to reduce their own delivery constraints, learn from multilateral organisations and scale-up bilateral efforts.** Responses to the Survey suggest that, for small donors, earmarked funding allows specific thematic priorities to be targeted in regions or countries where they lack field presence or sufficient delivery capacity, and to meet pledges that require greater implementation capacity than they possess on their own. Small donors also see earmarked funding as a way to benefit from the expertise and professionalism of multilaterals' fund management, including financial controls, management oversight and investment management. In addition, some small donors have used multilaterals' expertise to establish new partnerships and scale-up their own efforts. For example, the Czech Republic has worked with the UN Industrial Development Organization (UNIDO) to establish a trilateral co-operation programme dedicated to supporting agribusiness development in Ethiopia and South Sudan. Korea has partnered with a number of multilateral organisations to scale-up its comparative advantage for rural development in Southern Asia. At a time when the comparative advantage of multilaterals' "know-how" is believed to be decreasing because of the new sources of expertise now available (e.g. through emerging donors),¹⁶ these are examples of positive, win-win donor-multilateral organisation co-operation. The normative role, convening power and co-ordinating capacity of a multilateral organisation were successfully combined with the experience and specific knowledge of a bilateral donor.

17. **Despite these benefits, donors also acknowledge that earmarking can increase costs for themselves and multilateral organisations.** Earmarked funding may be less expensive than managing

15. The answer was elicited through the open question: "In your view, what are the main advantages of contributing earmarked funding to multilateral organisations, for example to a trust fund, rather than providing core resources?" (Question B8 in the Survey).

16. See Kharas and Blomfield (2013).

funds bilaterally, but it is still not as cost-saving as providing core funding. High costs in terms of human resources employed for managing earmarked funds were explicitly identified as an issue by 15 out of 22 respondents. In fact, providing earmarked funding entails negotiating the initial agreement as well as regular meetings to assess progress – adding to the workload of donors and multilateral organisations alike. As described in the section on the “demand side” below, managing earmarked funds can also be highly transaction-intensive for multilateral organisations.

No explicit strategies or policies for earmarked funding

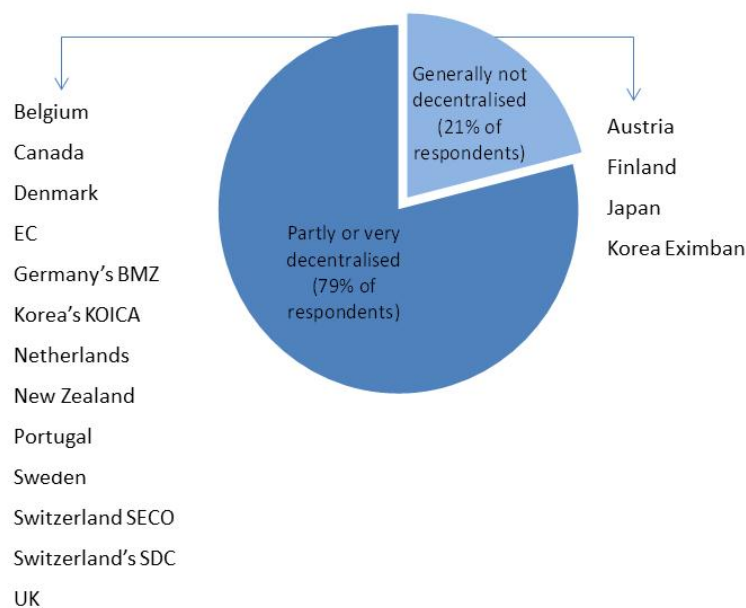
18. Although responses to the Survey point to specific reasons why DAC members make use of earmarked funding, these are not elaborated in policy documents or strategies in which members articulate the objectives and comparative advantages of this particular type of funding. A handful of DAC members (5 out of 22 respondents) report having a policy or clear orientation for the balance between core and earmarked funding, although no DAC member has set a quantitative target for the ratio of core and earmarked funding. As discussed below, most DAC members make earmarked contributions on a case-by-case basis, and decision making about core and earmarked resources is often made by different parts of the administration. In this context the approach of Belgium and France stands out, as they have explicitly adopted a “maximum core” policy which is reflected in their allocations, as actual core contributions make up over 80% of their total funding to the multilateral system. Three other DAC members (Austria, Finland and the Netherlands) currently provide 68-89% of their total multilateral funding as core contributions and have committed to increasing core funding in their development policies. For other DAC members core contributions represent a smaller share of total funding to the multilateral aid system: Switzerland (57%), Norway (54%), the United States (54%), Canada (49%), Australia (42%) and Iceland (39%) (2012 data).

19. **In most cases no explicit policies guide the use of earmarked funding. However, some donors are taking positive steps to provide policy guidance, which can be highlighted as an emerging good practice.** Most responding DAC members (16 out of 22) do not have policies, guidelines or criteria for using earmarked funding. In the few cases where such policies are in place, they lay out very broad and general principles such as alignment with the member’s development co-operation policy or strategic interests, as well as pragmatic motivations, including promotion of new initiatives. Even if it is still too early to know their impact, it is positive that two DAC members have taken steps to provide more specific guidance on managing earmarked funding. The Australian aid programme has been working in 2014 to develop a department-wide trust fund management plan to provide guidance, training and assistance for establishing and managing trust funds. The United Kingdom established a Strategy for World Bank trust funds in December 2012. This strategy introduced a set of principles that programme officers are expected to take into account before deciding to provide earmarked funding. One of the principles is to consult with the Department for International Development (DFID) lead department when making any decisions on supporting a new trust fund. In principle, this should allow the lead department to assess, for example, whether Umbrella Facilities – rather than a new trust fund mechanism – would provide an appropriate framework in a particular case. It would also ensure, in principle, that all funding decisions align to the prioritisations made by the Bank’s Board. Although this is a promising reform, more time is needed before the United Kingdom can determine whether these guidelines have resulted in more coherent and effective provision of earmarked funding. In addition, **a few members with no explicit policy on earmarked funding have general provisions that favour joint approaches, predictable financing and harmonised procedures.** For example, Belgium’s 2011 Multilateral Policy Note explicitly discourages *ad hoc* financing to multilateral organisations. Similarly, Denmark’s guidelines on multilateral development co-operation establish that contributions to trust funds may be provided for special interventions in fragile states, but that priority should be given to multi-donor arrangements.

Scattered decision making on earmarked funding

20. **Donor decision making on earmarked funding is largely scattered – either split across the various departments and/or decentralised to the field.** For each DAC member various ministries/institutions and several departments within the same ministry can provide earmarked resources to multilateral organisations. Moreover, in the case of several DAC members, core and earmarked resources to the same multilateral organisation are not managed by the same ministry/institution or by the same department in a given ministry/institution. This is because the core contributions of many DAC members to UN entities are made by line ministries – e.g. by the Ministry of Agriculture to the Food and Agriculture Organisation (FAO) or by the Ministry of Environment to the UN Environment Programme (UNEP) – while non-core resources to the same entities are extended by the ministry/department in charge of the bulk of the member’s development co-operation, reflecting the donor’s efforts to look for partnerships to implement the bilateral programme on the ground. The OECD/DAC 2012 Survey on the Levels of Decentralisation to the Field confirms the degree of decentralisation of earmarked funding, pointing out that 15 of the 19 development co-operation agencies that responded to the question (79%) reported that their “multi-bilateral” aid (earmarked resources) is partly or very decentralised (Figure 8).

Figure 8. Fairly decentralised earmarked funding across DAC members’ agencies



Source: Responses to the 2012 Survey on the Levels of Decentralisation to the Field

21. While the number of departments/institutions involved in decision making on multilateral funding does not necessarily imply sub-optimal allocations of funds, ensuring co-ordination and coherence of funding is an issue for most donors. This scattered decision-making model results in uncoordinated decisions with three main negative impacts. First, donors **lack a comprehensive overview of the total earmarked resources channelled through the multilateral aid system and of their overall impact.** Most DAC members do not know how many trust funds they contribute to or the amounts involved. Therefore, asking the organisations directly is sometimes the only way they can obtain the information. This is confirmed by the fact that several DAC members indicated that compiling the information on trust

funds to respond to the 2013 OECD/DAC Survey on Multilateral Aid Allocations was challenging. To address this issue, some organisations, particularly the World Bank Group, have started to offer donors portfolio reviews to provide them with a consolidated view of their contributions. The World Bank has conducted portfolio reviews with ten main donors so far, including Australia, Canada and the United Kingdom (see the following section on the “demand side”).

22. Second, **dialogue with multilateral organisations on earmarked resources takes place mainly at the operational level with little scope for strategic engagement.** However, only engagement at a strategic level can help donors identify shared priorities and the most effective tools to achieve them. Instead, the dialogue between donors and multilateral organisations currently focuses for the most part on operational details, making these organisations implementing agents rather than institutional partners. In this respect, the strategic consultations the World Bank Group started in 2013 (and that some UN entities have with main donors) represent a positive start to help donors and multilateral organisations reflect on what they want to achieve together and how. For example, the United Kingdom has recently established annual portfolio reviews with UNDP and UNICEF that could potentially take the country’s discussions with these organisations to a strategic level. According to the Survey, ten DAC members report having regular portfolio reviews¹⁷ to assess and rationalise their multilateral funding. These exercises are limited in scope for the most part, as they only cover either the World Bank (encouraged by the donor portfolio reviews the Bank is now offering) or selected multilateral organisations, or funding from one ministry/institution. They do, however, represent a positive start to thinking through multilateral funding, its objectives and the best ways to achieve shared priorities. **Carrying out strategic consultations and portfolio reviews could represent emerging good practice for the management of earmarked funding.**

23. Third, **without systematic feedback from and to upper management, decisions on earmarked funding often over-ride reform processes agreed at a higher level.** For example, middle-level management is often unaware of reforms relating to earmarked funding and can therefore unknowingly act in ways that run counter to these initiatives. DAC members should therefore invest in providing clear guidance on earmarked funding and ensuring a co-ordinated flow of information from the top of their administrations to the bottom, and vice versa. In this respect, establishing an office in charge of centralising all information on earmarked funding and supporting field offices, as in the case of United Kingdom, could be an effective step for some donors.

17. These countries are: Australia, Belgium, Canada, the Czech Republic, Italy, Korea, New Zealand, Switzerland, the United Kingdom and the United States.

Allocations of earmarked funding across multilateral organisations

24. **The share of earmarked funding in total multilateral funding ranges widely**, from a low of 2% for the Czech Republic and 3% for France to a high of 58% for Australia and 61% for Iceland, with a DAC average of 31% (2012 data). Looking across each DAC member's funding¹⁸ to 20 main multilateral organisations¹⁹ allows this analysis to be refined, showing that in 2012, although most DAC members did not have a very large share of earmarked funding,²⁰ only eight²¹ provided a small share of earmarked funding to most of the multilaterals they funded while the remaining DAC members had either higher variability²² across multilateral organisations or higher average shares²³ of earmarked funding (Figure 9).

25. This is true because **most donors provide a very different mix of core and earmarked funding depending on the multilateral organisation**. As suggested by responses to the Survey, DAC members provide earmarked funding on a case-by-case basis, influenced by factors such as their own assessment of agency effectiveness, alignment between the multilateral organisation's policy mandate and their own development policy priorities, the mandate and international role of the multilateral organisation, and their own capacity to influence the organisation. Therefore, the same donor can provide mainly core contributions to some multilaterals and almost exclusively earmarked funding to others. In 2012 all DAC members that report data on earmarked funding provided shares of earmarked funding over total funding (core plus earmarked) ranging from 0:100 to 100:0 across multilaterals. For example, Norway provided all

18. These DAC members did not report earmarked contributions for 2012: Greece, Poland, the Slovak Republic and Slovenia.

19. The World Bank Group, six UN funds and programmes (UNDP, UNFPA, UNHCR, UNICEF, UN Relief and Works Agency for Palestine Refugees in the Near East [UNRWA], WFP), nine UN agencies (FAO, the International Fund for Agricultural Development [IFAD], the International Labour Organization [ILO], OHCHR, the UN Department of Peacekeeping Operations [UNDPKO], the UN Economic Commission for Europe [UNECE], the UN Educational, Scientific and Cultural Organization [UNESCO], the UN Office for the Coordination of Humanitarian Affairs [OCHA] and WHO), the UN Secretariat, and three regional banks (the African Development Bank [AfDB], the Asian Development Bank [ADB], and the Inter-American Development Bank [IADB]).

20. 16 out of 23 had a share less or equal to 45% of total funding.

21. These DAC members are: Belgium, the Czech Republic, France, Germany, Italy, Korea, New Zealand and Portugal. In Figure 9 they are highlighted in the darkest shade of blue.

22. Eight DAC members (Austria, Denmark, Finland, Japan, Luxembourg, the Netherlands, Sweden and Switzerland) had a fairly low average share of earmarked funding across the 20 multilateral organisations (45% or less) but higher variability (most multilateral organisations received a larger than average share of earmarked funding). For example, in 2012 Austria provided, on average, only 19% of its total funding as earmarked resources, but among the 20 multilateral organisations most of those funded by Austria received a share of earmarked funding above 19% (11 out of 19, or 58%). (In Figure 8 these are the members highlighted in a lighter shade of blue)

23. Four DAC members (Ireland, Norway, the United Kingdom and United States) allocated a larger share of earmarked funding (46-50%) to most of the multilateral organisations they funded (little variability). Three DAC members (Australia, Canada and Spain) provided the largest average share of earmarked funding (over 50%) and most of the individual multilateral organisations they funded received a share of earmarked funding exceeding 50%. For example, Australia provided, on average, 58% of its funding as earmarked, but 76% of the multilateral organisations it funded received more than 58% of total funding from Australia as earmarked. For Spain, large shares of earmarked funding are mainly explained by cuts in core funding made under domestic fiscal constraints. As earmarked funding commitments are usually multi-year, it appears that Spain preferred to maintain commitments that had already been made despite its cutbacks. Figures for Spain in 2011 and earlier years show much smaller shares of earmarked funding in total funding.

funding to OCHA as earmarked resources, over 80% of funding to UNESCO, ILO and FAO as earmarked resources (93%, 86% and 87%, respectively), and almost exclusively core resources to IADB (100%), IFAD (98%), OHCHR (85%) and UNRWA (82%).

26. While OCHA received 100% of funding as earmarked resources by most DAC members, other multilateral organisations such as FAO, IFAD and UNFPA received 100% as earmarked funding from some DAC members and entirely core funding from others. The reasons for this are not clear. It could suggest either that multilateral organisations' performance is not a key determining factor for decisions about the core/non-core balance, or that donors' perceptions of multilateral organisations' performance diverge. It could also suggest that, apart from OCHA, DAC members rely to a different extent on various multilateral organisations for emergency operations or for implementation of their bilateral programme in the field. Further research could help shed light on this point.

Figure 9. Shares of earmarked funding in total funding across 20 main multilateral organisations (2012)

DAC member	max	min	average	dispersion	above average*	
Czech Republic	100% (OHCHR)	0% (WB, UNESCO, WHO)	8%	44%	38%	8 DAC MEMBERS: MOs receive on average less than 35% of funding as earmarked resources. Less than half of MOs funded receive a share which exceeds the average
Belgium	100% (OCHA, WFP)	6% (WB)	21%	33%	47%	
France	100% (WFP)	6% (FAO)	6%	37%	47%	
Germany	100% (OCHA)	1% (UNDPKO)	21%	30%	39%	
Italy	100% (OHCHR, UNESCO, UNHCR, UNRWA)	2% (IFAD)	13%	44%	50%	
Korea	100% (OCHA)	0% (UNDPKO, AsDB)	24%	37%	37%	
New Zealand	76% (WHO)	14% (UNFPA)	29%	24%	20%	
Portugal	67% (UNDPKO)	0% (WB)	24%	43%	22%	
Austria	100% (OCHA, UNICEF, UNFPA, OHCHR)	0% (UNESCO, AfDB)	19%	40%	58%	8 DAC MEMBERS: MOs receive on average less than 45% of funding as earmarked resources, but over half of individual MOs funded receive a share larger than the average
Denmark	100% (OCHA)	2% (AsDB)	38%	29%	47%	
Finland	100% (OCHA, UNDPKO, UNOHCHR)	3% (AfDB)	40%	37%	55%	
Japan	100% (OCHA, OHCHR)	0% (AfDB)	24%	41%	58%	
Luxembourg	100% (OCHA, UNRWA)	4% (WB)	37%	34%	53%	
The Netherlands	100% (AsDB)	3% (UNFPA)	42%	30%	63%	
Sweden	100% (IFAD, OCHA, OHCHR)	7% (AfDB)	45%	34%	63%	
Switzerland	100% (OCHA, IADB)	6% (AsDB)	42%	31%	53%	
Ireland	100% (OCHA)	3% (UN Secretariat)	46%	30%	35%	4 DAC MEMBERS*: MOs receive on average less than 50% of funding as earmarked resources. Less than half of individual MOs receive a share that exceeds the average share.
Norway	100% (OCHA)	2% (IFAD)	46%	30%	47%	
United Kingdom	100% (OCHA, UNECE)	0% (UNDPKO, UN Secretariat)	48%	38%	55%	
USA	100% (OCHA, UNCHR, UNRWA, WFP)	0% (AfDB, AsDB, UN Secretariat)	46%	40%	42%	
Iceland	100% (OCHA)	9% (FAO)	61%	38%	13%	3 DAC MEMBERS: MOs receive on average more than 50% of funding as earmarked resources and more than half of individual MOs receive a share that exceeds the average share.
Australia	100% (FAO, ILO, OCHA, OHCHR, UNDPKO, UNESCO, WHO)	12% (UNFPA)	58%	34%	76%	
Canada	100% (OCHA, UNDP, UNESCO)	8% (AsDB)	51%	31%	61%	
Spain	100% (IFAD, OCHA, UNDP, UNICEF, UNFPA, UNCHR, WB, WFP)	0% (UNDPKO)	57%	43%	65%	
Greece						4 DAC MEMBERS: did not report earmarked contributions
Poland						
Slovenia						
Slovakia						

*Above average = the share of multilateral organisations receiving a larger proportion of non-core than the average proportion the donor allocates across the 19 multilateral organisations.

Source: Authors based on OECD/DAC Creditor Reporting System (CRS) data.

27. The share of earmarked funding in total multilateral funding is not the only useful parameter to consider. The total volume of earmarked funding is also telling. This is because for some donors, such as the United Kingdom and the United States, there may not be a large share of earmarked funding in their total use of the multilateral system (because they also provide much core funding). However, **these countries do provide large volumes of earmarked funds, thanks to which they become extremely influential partners for some multilateral organisations.** For example, in 2012 the United Kingdom alone provided 25% of total earmarked funding to the World Bank, Japan provided 19% of total earmarked

funding to UNDP, and Canada, Japan, Norway and the United States together provided more than half of all earmarked funding to UNICEF.²⁴

28. **Large providers of earmarked funds are more likely to request customised reporting on the use of resources**, as in the case of the United Kingdom, which has requested the World Bank to adopt a specific due diligence policy for trust funds since 2013, and which is currently negotiating framework agreements with UNDP, UNFPA and UNICEF that establish specific accountability and reporting standards for that country's funds. From the perspective of multilateral organisations, it may be worthwhile to respond to requests for customised reporting from countries making large contributions even if these are an extra burden. In that respect, the organisation acts as a service provider and the donor as a client agreeing to a contract for the provision of a service. However, such a "market-like" approach may pose some challenges. In particular, when not fully recovered, the cost of administering activities funded with earmarked resources may be subsidised by core resources. In addition, donors' low tolerance for fraud and corruption may give rise to conditions that could be reasonable in a private market context but controversial in the context of a multilateral organisation. This is the case, for example, with respect to conditions for recovering funds where there is fraud when the organisation has not recovered the funds itself, which *de facto* translates into subsidisation of earmarked resources (paid by one or more donors) with core resources (paid by the full membership of the organisation).

29. **Preferences for the type of earmarking also vary across donors.** In interviews with selected organisations it was pointed out that DAC members' preferences vary in terms of soft or hard earmarking²⁵ and single or multi-donor arrangements. However, quantitative information regarding the various types is not available with which to further understand these patterns.

Choosing the appropriate modality to maximise effective use

30. **The various funding arrangements used by donors** (e.g. single-donor and multi-donor trust funds in an existing multilateral organisation, new vertical funds, new financial intermediary funds) **have different implications with respect to the influence donors can exert, the cost borne by donors and multilateral organisations, fragmentation, and country ownership.** While future research could provide more in-depth analysis of the implications of using each of the tools mentioned above, some preliminary observations are made below.

31. While single-donor trust funds are generally believed to increase transaction costs for donors and multilateral organisations, they do not necessarily increase fragmentation at field level. There have been cases in which these trust funds were even showcased by some multilaterals as examples of tools that had strengthened partner country ownership. Although single-donor trust funds are often more costly for multilaterals (according to some of the interviews conducted), they have sometimes allowed partner countries a stronger say in projects and programme design through direct negotiations with donors, with the multilateral organisation acting primarily as a trustee for the funds. In addition, while multi-donor trust funds can theoretically reduce the administrative burden associated with customised monitoring and reporting requests from individual donors, this is often not the case. Although they signed off on a multi-donor trust fund, some donors still informally act to influence allocations or request additional reporting.

32. There is also a wide array of financial intermediary funds, which have no implementing capacity and which channel resources to other multilaterals. They have various governing structures, examples of

24. These figures refer to all earmarked funding from DAC members.

25. Soft and hard earmarking refers to the level of detail of earmarking. For example, funds that are earmarked only thematically are more softly earmarked than those that are earmarked both thematically and geographically.

which come from the World Bank or the UN's Multi-Partner Trust Fund Office (MPTF Office). These funds can be designed for specific development purposes or to fill a gap in the aid architecture; they can lift some of the administrative burden from downstream multilateral organisations and also result in greater harmonisation. At the same time, they make the aid value chain longer, increasing total administrative costs and reducing the volume of resources going to the final beneficiaries.

33. These funding arrangements may still leave unmet the need for more streamlined set-ups for pooling earmarked funds through organisations at the country level. For example, in the case of the UN agencies and funds, multilateral organisations still need to report against the requirements of each donor and sign different contribution agreements for small pooled funds at the country level not managed by the MPTF Office.

4. THE “DEMAND SIDE”: POLICIES AND PRACTICES OF MULTILATERAL ORGANISATIONS

Main features and implications of earmarked funding from the multilateral organisation perspective

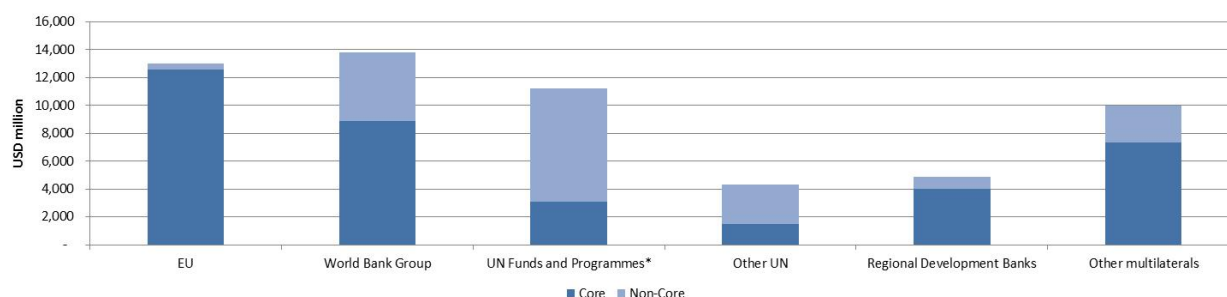
34. **The UN and the World Bank Group are the largest recipients of earmarked funding within the multilateral system** (Figure 10). They received USD 11 billion and USD 5 billion²⁶ respectively in 2012 (Figure 10). Along with the IADB (55%), UN entities and the WBG also have the highest “earmarked funding-dependency rate” (earmarked funding as a share of total funding), respectively 73% and 36%. From the perspective of multilateral organisations, growth in earmarked funding reflects both the preference of many “traditional” donors for earmarked funding and the broadening of the funding base to new state and non-state actors. In 2012 funding to UN entities from private charities, non-governmental organisations (NGOs) and other multilateral organisations (e.g. global funds), which all qualify as earmarked funding, amounted to around USD 4.7 billion (UN, 2014).

35. **Within both the UN and the WBG, earmarked funding takes a variety of forms.** Although nearly 40 UN system entities receive earmarked funding for development activities, almost 80% of the funding is concentrated on five of them – WFP, UNDP, UNHCR, UNICEF and WHO (from largest to smallest recipient; see Figure 11). All UN entities have trust fund mechanisms to manage earmarked funds received from donors and vertical funds. In addition, the Multi-Partner Trust Fund Office housed by UNDP was established in 2004 as a one-stop shop fund which consolidates funding from multiple partners for implementation by one or multiple UN agencies and provides the UN system and national governments with dedicated administrative services for earmarked funds. The MPTF Office currently hosts 55 trust funds. Unlike the World Bank, it only acts as the trustee while all decisions on allocations (implementation) are made in the field. The World Bank Group hosts over 1000 trust funds, with funding from around 200 different donors. It classifies trust funds according to three main categories:

- International Bank for Reconstruction and Development/International Development Association (IBRD/IDA) trust funds used to support activities implemented/supervised by the IBRD/IDA, which can be either bank-executed or recipient-executed
- Financial Intermediary Funds, which are multilateral financial mechanisms that finance global development initiatives (the World Bank acts as financial trustee and provides financial intermediary services)
- International Finance Corporation (IFC) trust funds, which support IFC advisory services and investment initiatives and are managed by IFC.

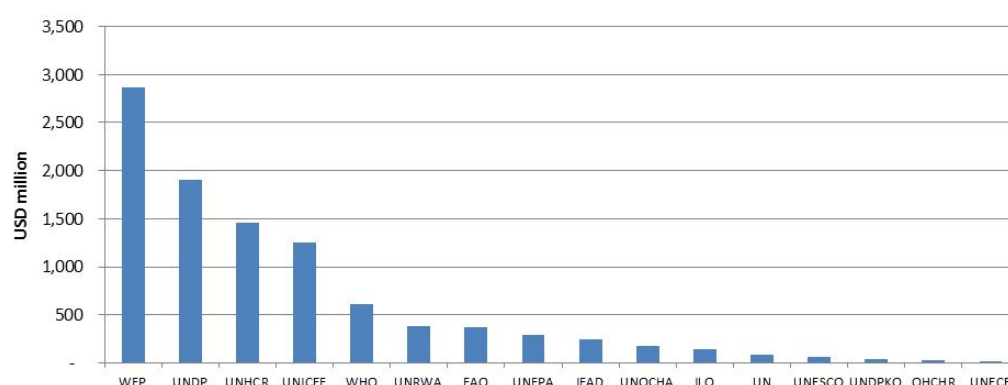
26. This figure does not include the amounts provided to large World Bank trust funds such as the Global Environment Facility (GEF) and the Global Fund to Fight AIDS, Tuberculosis and Malaria, which are recorded in the DAC statistical system as core multilateral aid. If these trust funds are also included, the WBG would have received a total of USD 29.2 billion in earmarked funding for 2012 (WB, 2012).

Figure 10. Core and earmarked (non-core) funding to multilateral organisations in 2012



Source: Authors based on OECD/DAC Creditor Reporting System (CRS) data.

Figure 11. Earmarked funding across UN entities in 2012



Source: Authors based on OECD/DAC Creditor Reporting System (CRS) data.

36. **Earmarked funding has allowed both the UN and the WBG to expand their activities beyond what would have been possible with core funding alone.** As the growing component of multilateral funding in an environment of stagnating core contributions, earmarked funding has allowed both the UN and the WBG to expand their activities. In the case of the UN, this increase has translated into an expansion of development and humanitarian activities compared to its norm- and standard-setting activities. Earmarked funding (trust funds) has allowed the WBG to fund operations where its lending instruments are unavailable, such as in cases where the borrower is not a World Bank member country or (in the case of IDA) has allowed higher levels of funding to fragile states.²⁷

37. **Earmarked funding can be transaction heavy for multilateral organisations and costs are not always recovered.** While donors point to the cost of additional human resources as a major downside of earmarked funding, managing earmarked funds can also be extremely burdensome for multilateral organisations due to negotiating efforts aimed at reaching agreement on the uses of funds as well as additional administrative costs, including those stemming from added reporting requirements linked to earmarked funding. Multilateral organisations charge donors a percentage fee as a recovery cost, but there are diverging positions between institutions and donors on the adequateness of the fee levels. Several donors claim the fees are not transparent and would like to receive an itemised report of incurred costs to

27. The Bank also stresses that trust funds have allowed it to scale up work on global public goods, such as knowledge or climate change, and to pilot innovations (WB, 2012).

make sure earmarked resources do not subsidise core activities. On the other hand, multilateral organisations claim that core resources are actually subsidising non-core activities,²⁸ with fees often not allowing incurred costs to be fully recovered. This issue is also presented as core contributors subsidising donors that provide earmarked resources. As it is mainly “traditional donors” (DAC members) that make use of earmarked resources,²⁹ this issue could be source of tension among shareholders of the multilateral system, in which “emerging donors” and recipient countries could potentially be subsidising some of the additional costs associated with the administration of earmarked funds. This is a main reason why the question of cost recovery features prominently in the reform agenda of both the UN and the World Bank,³⁰ as detailed below.

38. Overall, **earmarked resources are intrinsically unpredictable, which makes it difficult for multilateral organisations to carry out integrated planning for core and earmarked resources.** Most donors make multi-annual commitments for non-core resources, which means that once secured, these resources may be even more predictable than core resources.³¹ However, earmarked resources remain uncertain by nature, as multilateral organisations do not know at the outset whether they will be receiving such resources. For example, it was estimated that while total year-to-year movements of total earmarked contributions to UN entities were fairly smooth, earmarked funding from individual sources was more volatile, with 62% of 2011 earmarked contributions by main donors changing by more than 20% compared with the previous year.³²

39. **Separate decision-making processes for core and earmarked resources have also hampered strategic and coherent allocations, although good practices are emerging.** At the start, both in the UN and WBG, earmarked resources had separate negotiation, implementation, and monitoring processes. The World Bank Group has made progress in integrating its trust funds into its core business from an operational point of view, so that the same business processes are applied to all Bank-funded activities.³³ For many UN entities, however, the decision-making processes for core and earmarked resources are still separate, although the implementation of the Quadrennial Comprehensive Policy Review (QCPR) requires the adoption of integrated budgets for UNDP, UNFPA, UNICEF and UN Women (see also the section on QCPR below).

28. For example, see UN (2012).

29. In the past few years non-DAC members have significantly stepped up their financial contributions to multilateral organisations with a developmental mandate. However, their share of earmarked contributions is still small compared to that of DAC members. While comprehensive data are not available on non-DAC members’ earmarked contributions to all multilateral organisations, if funding to the UN from its top 50 donors is considered, non-DAC members provided 6% of total non-core resources. See data in the statistical annex to UN (2012).

30. The World Bank moved from a marginal cost recovery approach, which was justified when earmarked funding constituted a small addition to its overall portfolio, to one of full cost recovery. In addition, in 2012 the Bank launched a Trust Fund Simplification Study to explore options to further simplify IBRD/IDA trust fund fees and reduce the need for customised arrangements.

31. The United Kingdom presents an interesting case, as core contributions are conditional on performance (as assessed, for example, through the Multilateral Assessment Review, MAR) and thus more unpredictable, while earmarked funding is not.

32. See UN (2014).

33. Recipient-executed trust funds (RETFs) follow the operational processes that apply to regular Bank loans and credits, and Bank-executed trust funds (BETFs) follow the processes that apply to the Bank’s administrative budget. In addition, in 2012 the Bank launched a new initiative on Trust Fund Business Process Integration on its Operations Portal and developed the Integrated Planning System (IPS) to integrate BETF administrative expenditures in budget planning (WB, 2013).

UN reforms – an ambitious agenda

40. **Agency-specific and system-wide reforms have run along parallel tracks and need to be better aligned.** Compared to the World Bank Group, management of earmarked funding in the UN system presents a higher level of complexity, as UN funds, programmes and agencies operate according to different business models and procedures, including for funding windows and trust fund mechanisms. Over the past decade, several individual UN funds programmes and agencies have adopted specific measures to address funding issues either directly³⁴ (e.g. strategies to diversify and consolidate their resource base) or indirectly (e.g. institution-wide reforms to improve performance³⁵ and communication). At the same time, the UN system as a whole has put in place several reforms with important implications for its financing system and performance, including Delivering as One, the Multi-Partner Trust Fund and the 2012 Quadrennial Comprehensive Policy Review (QCPR). These initiatives signal the UN's commitment to undertake the needed transformations to respond to today's development challenges. Some of these initiatives have fostered substantial improvements. The specificities of the individual agencies and some elements of the configuration of the overall UN system could, however, challenge full implementation of these reforms. **Donors have a role to play in bridging system-wide reforms with reforms adopted by individual UN entities.** In addition, donors themselves need to align to these UN reforms, so that their behaviour and allocation decisions do not stand in the way.

Adopting the 2012 Quadrennial Comprehensive Policy Review

41. **A promising set of reforms that introduced multi-year strategic plans and integrated budgets,** the QCPR Resolution is celebrated by donors and UN agencies alike as a major achievement as it provides clear strategic priorities and direction for reforming the UN development system. With respect to financing, the QCPR stresses the importance of core resources while acknowledging the increasing weight of earmarked resources, requesting:

- a definition of “critical mass of resources”
- implementation of full cost recovery
- adoption of integrated budgetary frameworks comprising core and non-core resources.

42. In response to the QCPR, the Executive Boards of UNDP, UNFPA, UNICEF and UN Women developed multi-year strategic plans for the period 2014-17 and introduced integrated budgetary frameworks comprising core and non-core resources. These frameworks will allow an allocation of both core and non-core resources that is more in line with the multilateral organisations' strategic priorities. They will also offer donors the opportunity to provide contributions that fit more closely with the UN agencies' strategic priorities and more predictable, covering up to the entire three-year span of the strategic plans.

34. For example, to reduce the transaction costs entailed by single-donor trust funds and increase the flexibility of earmarked resources, UNFPA has established two thematic trust funds: the Global Programme to Enhance Reproductive Health Commodity Security, and the Maternal Health Thematic Fund. Similarly, UNICEF has established nine thematic trust funds for the seven priority areas of its 2014-17 strategic plan as well as for gender and humanitarian aid.

35. For example, in a report prepared for UN DESA for the QCPR, it was highlighted that the various UN agencies interviewed for the study had implemented many initiatives aimed at improving results-based management in their respective organizations (Bester, 2012).

43. In addition, the Executive Boards of UNDP, UNFPA and UNICEF, decided to **introduce a harmonised cost classification and implement new cost recovery rates to improve the transparency and consistency of development project costing**, thereby addressing a long-standing concern that core resources may have subsidised non-core activities. Currently each agency applies support costs according to its respective policies, with some establishing lower support costs for large trust fund projects. The UN Secretariat and specialised agencies (e.g. FAO, ILO, UNESCO and WHO) generally have a standard support cost rate of 13% for funds-in-trust, while the UN programmes and funds (e.g. UNDP, UNFPA, UNICEF and WFP) have generally had a standard indirect support cost rate of 7%, which has been raised to 8%.

44. **The QCPR includes some highly promising reforms.** Touching on core issues relating to the quality of earmarked funding (e.g. greater alignment to strategic priorities, multi-year and multi-donor funding, less cross-subsidisation), these changes are highly promising. However, UN officials point out that different management systems and approaches present a major challenge for implementation. The current reform discussion nevertheless provides an excellent window of opportunity for donors to bring their positions to the table and help find ways to implement these positions. For example, the Executive Boards of the funds and programmes could consider facilitating structured dialogues on funding-related topics in 2014 to discuss ways to improve the quality and predictability of earmarked funding.

The Multi-Partner Trust Fund Office

45. Hosted by UNDP, the MPTF Office provides fund administration services to the UN system and national governments. It receives funds from donors, invests them, transfers them, and receives financial reporting on results. The MPTF Office then compiles the information in annual reports for donors. This model accommodates various ways of raising and allocating resources. Unlike the World Bank, however, the MPTF Office always acts only as the trustee, making no decisions on how the money is spent.³⁶

46. There are **reduced costs for donors, but higher costs for implementing agencies**. The key objectives of establishing the MPTF were to reduce transaction costs and increase coherence and co-ordination. Indeed, donors and UN entities with no implementing capacity such as the Peacebuilding Fund (PBF) see a clear advantage in fund administration by the MPTF Office because of the reduced transaction costs, increased transparency on cash and shifted fiduciary responsibility. UN entities with implementing capacity, however, sometimes have less of a clear incentive to delegate funds administration to the MPTF Office, preferring direct administration of resources. A recent evaluation³⁷ highlighted that the MPTF Office lowered transaction costs mainly for donors, while it increased them for the resident co-ordinator office (which plays a role in allocation decision making to ensure that country priorities are met and overall UN coherence is preserved) and the implementing agencies. Increased transaction costs mainly stem from the new processes established to ensure greater co-ordination, coherence and national ownership, showing that increased coherence and co-ordination come at a significant short-term cost of organisational and staff

36. For example, the UN Peacebuilding Fund (PBF) does most of its fundraising at HQ level. Donors transfer funds directly to the MPTF Office, which administers them and transfers them to the implementing agencies based on the allocations decided by the joint steering committee in the field, which is co-chaired by the national government and the UN with a broader membership representing national and international stakeholders. For many UN agencies, instead, the funds administered by the MPTF Office are raised directly in the field and allocation decisions require the involvement of the resident co-ordinator.

37. See Downs (2011).

time.³⁸ Therefore, the system needs to be prepared to support these costs and at the same time attempt to streamline co-ordination processes.

47. **The MPTF Office has been successful in promoting softer earmarking, but predictability and flexibility are still key challenges.** The MPTF mechanism was also expected to improve the quality of funding to UN agencies by increasing the predictability and flexibility of funding thanks to multi-year funding arrangements and softer earmarking. However, as suggested by interviews with UN agencies, MPTF funding is declining and it represents a shrinking share of funding for many UN entities. Furthermore, it is often less predictable and less flexible than other earmarked financial sources because of late decisions by the MPTF Steering Committee, approvals on a project-by-project basis and tighter monitoring. In addition, while some high profile UN priorities have received greater continuity in funding by a large set of donors, the evaluation³⁹ does not find clear evidence of more frequent multi-year commitments under the MPTFs than under other donor funding agreements. Interviews carried out with UN staff and the MPTF evaluation both suggest, however, that earmarking with respect to the funds administered by the MPTF Office is softer today than in the past, and that earmarking is softer under the MPTFs than in trust funds managed by individual UN entities.

48. **The MPTF is considering introducing financial thresholds to increase strategic focus.** To ensure that funds are used for strategic objectives and to reduce transaction costs for the MPTF, there are discussions about setting a financial threshold for the creation of trust funds. Different thresholds could be set depending on the administrative agent, to reflect its cost structures and the services provided or on the likely number of allocations or time-horizon of the fund.

Adopting a system-wide reporting on UN operational activities for development

49. **The UN is taking concrete steps to improve accountability.** An integral part of implementation of the QCPR is the setting of a QCPR monitoring framework, which was developed by UN DESA and presented in the Secretary-General's report on monitoring the implementation of the General Assembly's February 2014 resolution on the QCPR (UN, 2014).

50. The QCPR monitoring framework is another important step in UN efforts to improve the reporting and accountability of its development-related operational activities at a system-wide level. With this same aim, important improvements were made in the 2010 and 2011 funding reports (UN, 2012; UN, 2013c). These reports provide better coverage and comparability of system-wide funding and include, for the first time, a breakdown of earmarked contributions by four main funding streams (multi-donor trust funds, thematic funds, local resources, and programme- and project-specific funding). UN DESA, which is responsible for these funding reports, has started to collaborate with the OECD/DAC with the aim of reconciling DESA funding totals with those of OECD/DAC in regard to UN operational activities for development and enhancing the overall coherence and comparability of these two sources of statistics.

World Bank Group reforms – an on-going effort

51. **Moving from operational to strategic alignment of trust funds,** in 2007 the World Bank launched a series of reforms under the Trust Fund Management Framework (WB, 2007). The Bank's trust fund reform has been under way since then, with a focus on increased alignment, risk management and

38. The evaluation also suggests, however, that the trust funds hosted by individual agencies may be a more appropriate choice for receiving single or multi-donor funds when these are meant to be used solely by the recipient agency or to be used by partners working completely under the programmatic mandate and responsibility of the recipient agency.

39. See Downs (2011).

efficiency. The new strategy of the World Bank Group emphasises the importance of partnerships and highlights trust funds as a key instrument – if not *the* instrument – for engaging with partners beyond World Bank membership. The new strategy also offers an unprecedented opportunity to move efforts to align trust funds from an operational and procedural level to a strategic level. Some of the key elements of the recent trust fund reform are outlined below.

Streamlining and consolidating

52. Compared to the fiscal year 2011, the number of active trust fund accounts in 2012 decreased from 1072 to 1064. These figures reflect a decline in the number of IBRD/IDA trust funds from 748 to 720, an increase in the number of IFC trust funds from 273 to 290, and a slight increase in the number of financial intermediary funds, which represent the largest share of funds held in trust (61%). The aggregate dollar value of these trust funds has not varied significantly. The value of the funds held in trust by means of financial intermediary funds grew by 68% between the fiscal years 2008 and 2012, mainly because of the expansion of the Global Fund and the GEF and the creation of the Climate Investment Funds (CIF) (WB, 2012).

53. **This encouraging start in consolidation is the result of the World Bank’s efforts to enter into strategic consultations with donors and offer them portfolio reviews.** Through these consultations the Bank aims to help donors rationalise the number of accounts by closing down dormant funds or shifting smaller funds into larger accounts. For example, DFID reduced its portfolio from 220 to 175 accounts within one year. Many donor countries have conducted strategic reviews (Joint Donor Trust Fund Portfolio Reviews) of their growing trust fund portfolios, which has supported efforts to consolidate accounts. Between 2011 and mid-2013, the Bank conducted trust fund portfolio reviews with ten major donors⁴⁰ and strategic consultations with several donors.⁴¹

54. **The World Bank also appears to have been successful in encouraging donors to close down single-donor trust funds.** Over the last five years, 144 single-donor trust funds have been closed and multi-donor trust funds now account for about 50% of active trust funds, up from 30% five years ago (WB, 2012). Concerning multi-donor trust funds, the Board recently endorsed the “exit letter”, an instrument proposed by the Bank to enable donors to leave on-going programmes while avoiding uncertainty about what will happen with respect to the residual contributions of the donor that is leaving. The Bank has encouraged the establishment of multi-donor instead of single-donor trust funds by introducing a threshold of USD 1 million for single-donor trust funds in 2008, raised to USD 2 million effective July 2013.

Innovative approaches – Umbrella Facilities

55. **The World Bank is seeking to better match donor interest with Bank priorities for more strategic use of the funds.** Following the recommendations by the Independent Evaluation Group (IEG, 2011), the Bank has worked towards greater “upstream” selectivity, including through the establishment of Umbrella Facilities. The Bank considers these a good practice, as they help match donor interest with Bank priorities for more strategic use of funds. Moreover, since donors cannot earmark specific activities with Umbrella Facilities, this is a fairly flexible source of funding. The Bank has currently established such arrangements for capacity building, gender, trade and education.

40. These are: Australia, Canada, Denmark, Finland, Italy, Korea, the Netherlands, Norway, the Russian Federation, Sweden, Switzerland, the United Kingdom and the European Commission.

41. These included: Denmark, Finland, Korea, the Netherlands, Norway, Sweden, the United Kingdom and the European Commission.

56. **While they are good practice for the World Bank, donors may have some concerns about Umbrella Facilities.** For example, for donors they may have limited ability to participate in fund management and to obtain both financial and results reporting tailored to their needs. The Bank appears to be working to address these concerns, however, through measures such as improvements to its results frameworks. The new Management Framework for Partnership Programs and Financial Intermediary Funds will also be relevant, as it will clarify participation in governance, decision making and risk management. Another source of criticism is that although allocations of Umbrella Facility resources are made through block grants,⁴² the thematic focus of Umbrella Facilities can hinder a cross-sectoral perspective and fragment dialogue at the partner country level. Both the World Bank Group strategy and interviews with Bank officials point out, however, that the Bank is fully aware of these risks and plans to work towards minimising them. For example, the World Bank Group strategy emphasises that “The WBG also needs to ensure that its global engagements complement country programs and that any conflicts are productively reconciled. [...] Trust funds and partnerships must be managed to contribute to and align with the WBG’s country-based work and global program initiatives” (WBG, 2013: para 76).

Enforcing standardised governance clauses

57. New trust funds include certain standardised governance clauses to facilitate management. Sunset clauses set a clear end date for the trust fund instrument and clarify what happens with respect to residual funds. These clauses reflect the idea that trust funds should be temporary financing mechanisms for specific aims, and they prevent the growth of dormant funds. Standardised fees also reduce the Bank’s transaction costs. If donors wish to maintain specific requirements, standardised yet differentiated fees that reflect the additional burden imposed on the Bank could increase the incentive for donors to provide un-earmarked contributions to trust funds.

58. Donors have asked the Bank, however, to refine its lifecycle approach. In other words, donors are asking the Bank to introduce clear principles for entry and exit and to be stricter in closing trust funds that are either no longer needed or where the Bank does not play an important role. Donors have called for refinement of the criteria for setting up a trust fund. At its July 2013 Board Meeting, donors suggested that the Bank consider the impact that a trust fund may have on further fragmentation of the multilateral aid landscape and include an additional criterion on “external fragmentation”.

42. Block grants are *a priori* principle-based funding allocations to Bank units that are then further managed in the context of strategic priorities the Vice Presidential Units (VPUs) and consistent with the trust funds’ objectives and results frameworks.

5. EMERGING RECOMMENDATIONS: TOWARDS SOME REPLICABLE GOOD PRACTICES?

59. Earmarked funding has increased dramatically in the last decade and has become a conspicuous source of funding for multilateral organisations working on development. Earmarked funding entails opportunities and challenges for all stakeholders involved. This is why increasing the effectiveness of earmarked funding features prominently on the international political agenda.

60. This paper has outlined the main features of donors and multilateral organisations' practices in managing earmarked funding, and has discussed some reforms put forward to address key challenges posed by this type of funding. UN and World Bank reforms have similar objectives, aiming at alignment and a consolidated and more strategic dialogue on earmarked funding with funding partners. These reforms present an excellent window of opportunity for donors to look for ways to support the transformations that multilateral organisations need to undergo in order to respond more effectively to development challenges in a post-2015 sustainable development framework.

61. Like multilateral organisations, donors need to improve their management and allocation practices so they are geared towards building an enabling environment for a well-functioning multilateral system. However, donor behaviour has not yet fully aligned to multilaterals' reforms, which hampers them in achieving their full potential.

62. The review of the demand and supply side of earmarked resources leads to a number of recommendations:

- **Donors should base their use of earmarked funding on evidence and strategic considerations about when and why earmarked funding may be the most suitable option.** Donors should not use earmarked funding when other funding options can achieve better outcomes or when the same outcome could be achieved through core resources. When they choose to earmark funds, they should select the arrangement/modality for channelling earmarked resources that is most likely to maximise impact. This will require continued efforts from donors to support the evidence base needed to inform their decisions. It will also require deeper internal reflection on the overall balance between bilateral and multilateral co-operation, including earmarked funding, and on the various funding instruments available. Finally, it will require strategic discussion with multilateral organisations on shared objectives to achieve through earmarked contributions.
- **Donors should provide guidance on the use of earmarked funding with a view to support good practices and enhance internal coherence.** It is important that those reforms, supported at the top management level of donor agencies, are not over-ridden by day-to-day practices at other administrative levels. For this reason, top management commitments on earmarked funding reforms should translate into clear staff directions. A better flow of information is also needed, from bottom to top, to create a comprehensive view of earmarked contributions and collect first-hand experiences of what works better. For some donors it could be useful to establish a central unit for earmarked funding tasked with providing guidance and assistance and centralising information flows on earmarked funding.

- **When extending earmarked funding, donors should carefully consider the implications of their requests and the conditions they set.** Donors should especially consider the consequences of their special requests vis-à-vis the broader membership of the multilateral organisations, so that conditions negotiated bilaterally do not undermine the commitments the multilateral organisations have to other members. In addition, donors should support multilateral organisations in strengthening their overall result frameworks and standards and avoid *ad hoc* formal and informal monitoring and reporting on earmarked funding.
- **Multilateral organisations should move to transparent and multi-year budget and strategy cycles that integrate all resources and allow transparent reporting and dialogue on results.** Integrating processes and procedures for core and earmarked resources will be an important step to ensure more strategic and coherent use of all resources available. Greater transparency with respect to results will be key to engaging in more meaningful dialogue with all partners.

63. Some of these recommendations build on existing emerging practices, showing that donors and multilateral organisations are on a good track but can do more and have much to learn from one another. Some emerging donor good practices can prove useful for other donors, just as the UN and the World Bank Group – albeit very different – face similar challenges and can learn from one another. These recommendations are a first step to promote a use of the multilateral system that maximises impact for partner countries and mitigates the risks associated with earmarked funding. Based on the analysis in this paper, Figure 12 summarises key issues related to earmarked funding, how they are being currently addressed, and the room for improvement that the recommendations aim to address in order to enhance the effectiveness of using the multilateral system.

Figure 12. Summary of key challenges and recommendations

Some key challenges	Reforms	Reform limitations	Recommendations	
Scattered decision-making & a lack of strategic dialogue on earmarked funding with multilaterals that undermines strategic and coherent allocations	Providing guidance for the use of earmarked funding, through specific policies, guidelines, or a central support unit.	Most DAC members do not have policies, guidelines, or criteria for using earmarked funding.	Donors should base their use of earmarked funding on evidence and strategic considerations about when and why earmarked funding may be the most suitable option.	DONORS
	Holding strategic consultations and portfolio reviews.	Only ten DAC members report having regular portfolio reviews and these are, for the most part, limited in scope.	Donors should provide guidance on the use of earmarked funding with a view to support good practices and enhance internal coherence	
High management and administrative costs for donors	Currently no reforms	-	?	

Some key challenges	Reforms	Reform limitations	Recommendations	
The unpredictability of earmarked funding makes it difficult for multilaterals to carry out integrated planning of core and earmarked resources. Separate decision-making and business processes for core and earmarked resources have hampered strategic and coherent allocations and increased transaction costs.	UN: integrated budgets set in the QCPR. WB: downstream alignment (integration of TFs in CAS products) as well as greater upstream selectivity (through UF).	Decision-making and business processes for core and earmarked resources still separate for many UNs. As for the WB, many donors still do not align to the UFs. In addition, the thematic focus of UFs can hinder a cross-sectoral perspective and fragment dialogue at the partner country level.	Multilateral organisations should move to transparent and multi-year budget and strategy cycles that integrate all resources and allow for a transparent reporting and dialogue on results.	MULTILATERALS
	Consolidation UN: MPTF and some agency-specific global thematic “pots” for earmarked funding. WB: strategic consultations, portfolio reviews, a higher threshold for single-donor trust funds (USD 2 million).	Donor alignment to these reforms is still limited to produce expected results.		
No agreement on a suitable cost recovery policy for the administrative work associated with the management of earmarked funding.	UNDP, UNFPA, UNICEF: harmonised cost classification and implement new cost recovery fee. WB: full cost recovery approach and exploring options to further simplify fees and reduce the need for customised arrangements.	Not all donors seem to be on board with these reforms. This calls for better dialogue on this issue to find a shared solution. Increased transparency on funds management and results could be part of the solution.	?	

REFERENCES

Bester, A. (2012), Results-Based Management in the United Nations Development System: Progress and Challenges. A report prepared for the United Nations Department of Economic and Social Affairs, for the Quadrennial Comprehensive Policy Review. United Nations Department of Economic and Social Affairs (UN DESA), www.un.org/esa/coordination/pdf/rbm_report_10_july.pdf

Downs, C. (2011), Operational Effectiveness of the UN MDTF Mechanism. Final Report, United Nations Development Group (UNDG), www.undg.org/docs/11980/Final-Report---MDTF-Operational-Effectiveness-Study---31-May-2011.pdf.

ECOSOC (UN Economic and Social Council) (2011), “How to define the concept of “critical mass” of core resources?” Concept Note prepared for the 2011 ECOSOC operational activities segment – Panel 1, 18 July 2011, www.un.org/en/ecosoc/julyhls/pdf11/oa-2011-concept_note-critical_mass.pdf.

Francioni, F. (2000), Multilateralism a la Carte: The Limits to Unilateral Withholdings of Assessed Contributions to the UN budget, *European Journal of International Law*, Vol. 11 (1):43-59, <http://www.ejil.org/article.php?article=519&issue=39>.

Graham, E. R. (2012). Money, Power, and Accountability at the United Nations: Examining the Causes and Consequences of Voluntary Funding.

IEG (Independent Evaluation Group) (2011), Trust Fund Support for Development. An Evaluation of the World Bank’s Trust Fund Portfolio, World Bank Group, Washington, D.C., http://ieg.worldbankgroup.org/Data/reports/tf_eval.pdf.

Jenks B. and B. Jones (2013) *United Nations Development at a Crossroads*, Center on International Cooperation, New York University Press, New York.

Kharas, H and M. Blomfield (2013), “Rethinking the Role of Multilateral Institutions in an Ever-Changing Aid Architecture”, in *Multilateral Development Cooperation in a Changing Global Order*, H. Besada and S Kindornay (eds.), Palgrave, London.

Mahn, T.C. (2012), The Financing of Development Cooperation at the United Nations: Why more means less, DIE Briefing Paper 8/2012, German Development Institute/Deutsches Institut für Entwicklungspolitik (DIE), [www.die-gdi.de/CMS-Homepage/openwebcms3.nsf/\(ynDK_contentByKey\)/ANES-8XVGD5/\\$FILE/BP%208.2012.pdf](http://www.die-gdi.de/CMS-Homepage/openwebcms3.nsf/(ynDK_contentByKey)/ANES-8XVGD5/$FILE/BP%208.2012.pdf)

OECD (2011), 2011 OECD Report on Division of Labour: Addressing Cross-country Fragmentation of Aid. OECD Publishing, Paris, www.oecd.org/dac/aid-architecture/49106391.pdf.

OECD/DAC (2010), 2010 DAC Report on Multilateral Aid, OECD Publishing, Paris, www.oecd.org/dac/aid-architecture/45828572.pdf.

OECD/DAC (2011), 2011 DAC Report on Multilateral Aid, OECD Publishing, Paris, www.oecd.org/dac/aid-architecture/49014277.pdf.

OECD/DAC (2012), Multilateral Aid Report, OECD Publishing, Paris, [www.oecd.org/dac/aid-architecture/DCD_DAC\(2012\)33_FINAL.pdf](http://www.oecd.org/dac/aid-architecture/DCD_DAC(2012)33_FINAL.pdf).

OECD (2013), Decentralisation of DAC Members' Development Co-operation Systems, Reporting on the 2012 OECD/DAC Survey on the levels of decentralisation to the field. OECD, Paris.

Reinsberg, B. (2013), "Is multi-bi financing additional? The perspective of multilateral aid institutions", paper prepared for the Conference "Fragmentation or Pluralism? The organisation of development cooperation revisited", organised by the German Development Institute in Bonn, 10-11 October 2011.

Thalwitz, M. (2013), Fragmentation and Proliferation in the Multilateral System: The Role of Trust Funds. A Study of Incentives, prepared for the Senior Level Donor Meeting on Multilateral Reform, Berlin, April 2013.

Thompson, A. (2006). "Screening Power: International Organizations as Informative Agents." In *Delegation and Agency in International Organizations*, edited by Darren Hawkins, David Lake, Daniel Nielson and Michael Tierney. Cambridge University Press.

Tierney, M. (2006). *Delegation under anarchy: States, international organizations and principal agent theory*. In: D. G. Hawkins, D. A. Lake, D. L. Nielson, M. Tierney (Eds.), *Delegation and agency in international organizations*. Cambridge University Press.

UN (United Nations) (2012), Report of the Secretary-General: Provisional analysis of funding of operational activities for development of the United Nations system for the year 2011. United Nations, New York.

UN (2013a), 67/226. Quadrennial comprehensive policy review of operational activities for development of the United Nations system. Resolution adopted by the General Assembly.

UN (2013b), Joint Informal Executive Board Presentation on Cost Recovery, 8 January 2013.

UN (2013c), Analysis of funding of operational activities for development of the United Nations system for the year 2011. Draft funding report of the Secretary-General, 14 June 2013.

UN (2014), Report of the Secretary-General. Implementation of the General Assembly Resolution 67/226 on the quadriennial comprehensive policy review of operational activities for development of the United Nations System (QCPR). United Nations, New York.

WB (World Bank) (2007), *A Management Framework for World Bank-Administered Trust Funds*. Concessional Finance and Global Partnerships Vice Presidency, September, World Bank, Washington, D.C.

WB (2012), *Trust Fund Annual Report*, World Bank, Washington, D.C.

WB (2013a), *Trust Fund Reforms. Progress to Date and Future Directions*. World Bank, Washington, D.C.

WB (2013b), World Bank Group Trust Funds. Working together towards alignment and selectivity, presentation prepared for the World Bank Donor Forum, Paris, May 2013.

WB (2013c), “Staff Statement to the Board”, prepared for the Board Meeting on 9 July 2013. World Bank, Washington, D.C.

WB (2013d), Statement by Gino Pierre Alzetta et al. on WB Document Trust Fund Reforms: Progress to Date and Future Directions, document prepared for the Board Meeting on 9 July 2013. World Bank, Washington, D.C.

Weinlich, S. (2010), Reforming Development Cooperation at the United Nations. An analysis of policy position and actions of key states on reform options, DIE studies 59, German Development Institute/Deutsches Institut für Entwicklungspolitik (DIE), Bonn, www.die-gdi.de/en/studies/article/reforming-development-cooperation-at-the-united-nations-an-analysis-of-policy-position-and-actions-of-key-states-on-reform-options/.

ANNEX: 2013 SURVEY ON MULTILATERAL ALLOCATIONS

2013 Survey on Multilateral Allocations



Development Assistance Committee (DAC)

The main purpose of this survey is to better understand how providers of development co-operation make multilateral aid allocations. This includes how they determine: (i) bilateral and multilateral shares of aid; (ii) allocations across multilateral organisations; and (iii) core and non-core ODA shares to multilateral organisations.

The present survey builds on the 2011 OECD DAC survey on multilateral allocations, and expands its scope by including a number of questions on non-core (or earmarked) contributions to multilateral organisations. The survey responses will be used to inform the preparation of policy documents, including the next *Multilateral Aid Report*.

A donor can provide core funding to multilateral organisations (or unearmarked contributions), whether negotiated, assessed or voluntary. The governing boards of multilateral organisations have the unqualified right to allocate core budget resources as they see fit within the organisation's charter.

Furthermore, a donor can provide non-core (or earmarked) resources to multilateral agencies over which it retains control on decisions regarding disposal of the funds. Such flows may be earmarked for a specific country, project, region, sector or theme and channelled through a multilateral agency. These resources can be administered through trust funds, either as single or multi-donor trust funds.

To assist you in completing this survey, please find attached a snapshot of the information currently available on your country's multilateral allocations as reported to the DAC (as an excel file).

We kindly ask donors with multiple ministries/institutions in charge of multilateral core and non-core contributions to please provide co-ordinated responses. To assist in this co-ordination you may find it useful to first complete the Annex, which requests basic information on which ministry or other agency in your country is responsible for core and for non-core funding for the main multilateral bodies.

Please send your response to Piera Tortora (Piera.Tortora@oecd.org) by **15th October 2013**. Should you wish to provide your answers over the phone, please let us know.

For any clarification, please do not hesitate to contact us.

We thank you for your co-operation.

Piera Tortora

Economist/Policy Analyst
Development Architecture and Global Governance,
Development Co-operation Directorate
email: Piera.Tortora@oecd.org
tel: +33 1 45 24 90 30

Suzanne Steensen

Manager
Development Architecture and Global Governance,
Development Co-operation Directorate
email: Suzanne.Steensen@oecd.org
tel: +33 1 45 24 76 23

QUESTIONNAIRE

A) Core contributions

1. Is the balance between bilateral and multilateral aid allocations explicitly discussed within your government?
If yes, in what forum/committee does this take place and how frequently?

2. Are there any limits or restrictions (legal or discretionary) on either: (a) the overall share or amount of multilateral ODA, or (b) the contributions towards specific multilaterals or categories of multilaterals (e.g. UN agencies)?

3. What is the time horizon of your core contributions to UN funds, programmes, and specialised agencies (e.g. are they annual or multi-annual contributions)? Please specify.

4. What considerations or evidence does your government use to inform and determine multilateral aid allocations across multilateral agencies?

5. If your country is a Multilateral Organisation Performance Assessment Network (MOPAN) member, do (or will) the results from the Common Approach impact your multilateral aid allocation processes? If yes, how? Please provide an example.

6. Are you taking any steps, on the governing boards or through other specific actions, to improve the effectiveness of the multilateral system? Please describe.

B) Non-core contributions, including trust funds

Policy and governance

1. Do you have a policy on the proportion between core and non-core contributions to multilateral organisations?

2. If multiple ministries, departments and/or agencies are involved in core and non-core funding decisions for individual agencies, please describe how coordination and coherence is ensured and which ministries, departments and/or agencies are involved.

3. Do you have criteria, guidelines and norms for contributing to trust funds, including ceilings for funding? If yes, please specify.

4. Please fill in the annex and indicate to what extent you are able to influence the geographical and sectoral allocation of the trust funds (if applicable), rating them as follows: (a) a trust fund whose allocations you can influence fully; (b) one that you can influence to a great extent; (c) one that you can influence to some extent; and (d) one whose allocations you can influence very little or not at all.

Management and reporting

5. Do you regularly review your funding portfolio with multilateral organisations? If yes, what are the main objectives of such reviews?

6. Do you have an inventory of the trust funds to which you contribute? If yes, could you please share it with us?

7. If you provide non-core contributions, do they require the multilateral agency to undertake specific monitoring and reporting beyond the agency's standard requirements (e.g. requests for qualitative and quantitative assessments of the governance, programmes, budgets and human resources of the trust funds)?

8. In your view, what are the main advantages of contributing earmarked funding to multilateral organisations, for example to a trust fund, rather than providing *core* resources?

9. In your view, what are the main advantages of contributing earmarked funding to multilateral organisations, for example to a trust fund, rather than providing bilateral funding for the same theme/initiative?

10. What are the main challenges your organisation faces when providing non-core resources (e.g. to a trust fund) as compared to providing core resources?

11. Concerning funding and management of your non-core contributions/trust funds, which practices do you consider successful/promising and applicable by other donors?

12. Are you aware of any multilateral organisations' reforms or initiatives to rationalise trust fund management? If yes, which ones and how successful are these initiatives in your view?

Allocations

13. If you provide non-core resources, what was the proportion in the 2011 calendar year between un-earmarked and earmarked funds (thematic trust funds; sector-, country- regional-level or specific project earmarking)?

14. How many trust funds did your country contribute to during the 2011 calendar year? Of these trust funds, how many were existing trust funds and how many were newly created?

15. Can you provide the details of the time horizon of your *core* contributions (e.g. are they annual contributions or multi-year)?

16. Can you provide the details of the time horizon of your *non-core* contributions, including those to trust funds (e.g. are they annual contributions or multi-year)?

Annex: Contributions to Multilateral Organisations/Programmes

Organisation	Ministry/Department/Agency responsible for ODA allocation (<u>core funding</u>)	Ministry/Department/Agency responsible for ODA allocation (<u>non-core funding</u>)	Indicate the extent to which you can influence the geographical and sectoral allocation of the trust funds (see question 5).
Development Banks			
▪ African Development Bank			
▪ African Development Fund			
▪ Asian Development Bank			
▪ Asian Development Bank Special Funds			
Other International Finance Institutions			
▪ International Bank for Reconstruction and Development (IBRD)			
▪ International Development Association (IDA) - World Bank			
▪ Inter-American Development Bank (IDB)			
▪ IDB Fund for Special Operations			
▪ International Monetary Fund (IMF)			
European Union Institutions			
▪ EC - Budget			
▪ European Development Fund (EDF)			
United Nations			
▪ Food and Agriculture Organisation (FAO)			
▪ International Fund for Agricultural development (IFAD)			
▪ United Nations Development Programme (UNDP)			
▪ United Nations Educational, Scientific and Cultural Organization (UNESCO)			
▪ United Nations Department of Peacekeeping Operations (UNDPKO)			
▪ United Nations Population Fund (UNFPA)			
▪ United Nations High Commissioner for Refugees (UNHCR)			
▪ United Nations Children's Fund (UNICEF)			
▪ World Food Programme (WFP)			
▪ World Health Organization (WHO)			
Trust Funds/ Financial intermediary funds			
▪ Central Emergency Response Fund			
▪ Clean Technology Fund			
▪ Climate Investment Funds (World Bank)			
▪ Common Humanitarian Funds			
▪ European Bank for Reconstruction and Development Trust Funds			
▪ Forest Investment Program (FIP)			
▪ Global Environment Facility (GEF) Trust Fund			
▪ Global Partnership on Education (former Education for All - Fast Track Initiative)			
▪ The Global Agriculture and Food Security Program (GAFSP)			
▪ IFFIm/GAVI			
▪ IMF Trust Funds			
▪ ONE UN funds			
▪ Pilot Program for Climate Resilience (PPCR)			
▪ Scaling-Up Renewable Energy Program			
▪ UN Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD)			
▪ UNDG TFs for Iraq/Haiti etc.			
▪ UN Peacebuilding Fund			
▪ Other (please specify)			

