Multilateral Aid 2015: Better Partnerships for a Post-2015 World

Highlights
MULTILATERAL AID 2015

Highlights

The multilateral system has stood the test of time. Over the past fifty years it has proven to be resilient and responsive to changing development dynamics and urgent needs, a major source of development expertise and know-how, and a powerful channel for intermediating and allocating resources. As the international community stands on the brink of the post-2015 era, the future role to be played by multilateral organisations could be even more important. Achieving the Sustainable Development Goals’ transformative vision will call for inclusive partnerships that will provide collective, cross-border solutions for eradicating absolute poverty and fostering a new era of economic and social progress, environmental sustainability and peaceful and inclusive societies. The multilateral system at large – global, regional, traditional and new – is uniquely equipped to support this agenda. Multilateral organisations are politically neutral conveners of global partnerships, vehicles for upstream pooling of resources, facilitators for multi-stakeholder cross-border operations, and setters of global standards and norms. Further thinking about how to improve the functional features of the interactive relationship between providers, shareholders and the institutions themselves will be necessary.

This fifth OECD report on multilateral aid aims to inform these global reflections. It comes at a crucial time, contributing to broader discussions on the implementation of the Sustainable Development Goals and suggesting recommendations for more effective multilateral partnerships in the post-2015 era. It provides a comprehensive baseline of data and analysis regarding the volume and nature of resources provided by Development Assistance Committee (DAC) members and providers beyond the DAC to support the activities of leading multilateral organisations. It assesses the state of play regarding the policies, funding mechanisms and interactions of provider countries vis-à-vis these institutions – and implications for their efficiency and effectiveness. It also provides an essential stocktake on how multilateral organisations themselves are gearing up for the post-2015 era.

DAC member countries have been strong supporters of the multilateral system over time: in 2013, they channelled USD 59 billion to and through multilateral organisations – approximately 41% of their total gross official development assistance (ODA) (Figure 1). Large sovereign providers from beyond the DAC have been increasing their multilateral spending, which is estimated to have totalled USD 1.2 billion in 2013, while representing a small part of their total concessional development finance. Continued widespread support for the multilateral system bodes well for the future.

To be fit for purpose, however, multilateral organisations will need to implement a challenging change agenda to both address the unfinished business of ongoing internal improvements and adapt their skills and toolkits to respond to a fast-changing global environment. Fundamental institution-specific reforms require further effort, including greater internal coherence and co-ordination, better alignment of all funding to strategic priorities, and actions to ensure that instruments and programmes are tailored to specific country contexts.
Existing organisations will also need to adapt rapidly and flexibly to an increasingly complex operating environment. New multilateral organisations are emerging along new geopolitical axes; examples are the Asian Infrastructure Investment Bank and the New Development Bank. New vertical funds are also emerging; an example is the Green Climate Fund, likely to be the largest vertical fund ever established, and which has a quasi-universal membership of advanced economies and developing countries with an equal voice. In this context, multilateral organisations will need to demonstrate and enhance their comparative advantages and reinforce co-operation and information-sharing with others in order to reduce risks linked to increased competition, volatility of funding to developing countries and possible funding gaps.

Figure 1. **41% of combined DAC ODA goes to and through multilateral institutions**

Composition of gross ODA disbursements (excluding debt relief), current USD billion

Bilateral ODA (excl. multi-bi) = 85.9 billion

Multi-bi / non-core = 18.2 billion

Multilateral ODA = 41 billion

Total bilateral ODA = 72% of ODA

Total use of multilateral organisations = 41% of ODA

Multilateral ODA = 28% of ODA

2013 Total ODA (excluding debt relief) = 145 billion

Source: Authors’ calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

The international donor community has a role to play to support multilateral organisations in implementing necessary changes. Donors’ multilateral policies and practices affect the workings of multilateral organisations, notably through the incentives and disincentives that different funding practices create. For this reason, the report goes beyond its customary remit of analysing current global trends in the multilateral landscape and relevant DAC members’ policies and practices (Part I) to include additional thematic chapters on issues where action is needed to improve the workings of the multilateral aid system (Part II). Strengthening partnerships in a post-2015 world will call for: (i) making best use of all resources available for investing in development, including earmarked (“non-core”) funding, which is the fastest growing component of multilateral funding; and (ii) integrating new actors, institutions and funds in global efforts around the forthcoming universal sustainable development agenda.
Part I.
TRENDS AND PRACTICES IN THE GLOBAL MULTILATERAL LANDSCAPE

Recent trends in funding to multilateral organisations and multilateral outflows

In 2013 resources to multilateral organisations reached an all-time high of USD 59 billion after a two-years decline, a trend mirroring the declines and rebound of gross ODA. Both resources to multilateral organisations’ general budgets (core funding) and resources tied to projects for specific regions, countries, themes or sectors (non-core funding or earmarked funding) increased in 2013 (Figure 2). Between 2007 and 2013, the share of multilateral ODA in total ODA remained stable at 28%, down from a high of 32% in 2001. Overall use of the multilateral system (core + non-core) rose from 36% to 41% over the same period mainly due to increases in non-core funding.

Figure 2. Funding to multilateral organisations rebounds in 2013

Gross disbursements

Source: Authors’ calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
Note: Data collection on non-core funding started in 2004.

Over 60% of total multilateral funding continues to be concentrated on the European Union (EU), the World Bank Group and the United Nations (UN) funds and programmes, which in 2013 received 21%, 22% and 20%, respectively, of total core and non-core flows (Figure 3). The distribution of core and non-core resources across these institutions as well as other UN entities, regional banks and other multilateral organisations has been fairly stable over time.
Definitions of terms used

The following OECD DAC definitions regarding multilateral organisations and multilateral aid are used in this report.

**Multilateral organisations:** The multilateral organisations covered in this report are those to which providers' contributions are reportable either in whole or in part as ODA. These are international institutions with governmental membership that carry out developmental activities. The DAC maintains a list of ODA-eligible organisations which is publicly available.

**Multilateral ODA/core contributions:** These are official contributions to multilateral agencies, whether negotiated, assessed or voluntary, for which the governing boards have the unqualified right to allocate as they see fit within the organisation's charter.

**Non-core/earmarked/multi-bi funding or contributions:** These are resources to ODA-eligible multilateral agencies over which the donor retains some degree of control on decisions regarding disposal of the funds. Such flows may be earmarked for a specific country, project, region, sector or theme. They are bilateral resources channeled through a multilateral agency, and therefore technically qualify as part of bilateral ODA. These resources can be administered through trust funds, either as single or multi-donor trust funds.

**Total use of the multilateral aid system:** This term means all funds channeled to and through multilateral organisations, or the sum of core and non-core resources. It therefore encompasses multilateral ODA and a part of bilateral ODA (which is earmarked funding).

**Multilateral outflows:** The three above mentioned flows (core, non-core and the sum of the two) are all inflows into multilateral organisations. However, the OECD/DAC statistical system also tracks flows from multilateral organisations to partner countries, or multilateral outflows.

**Imputed multilateral ODA:** by definition, when extending core resources to multilateral organisations providers do not have control on their allocations. However, it is possible to approximate how much of a provider's contribution to a specific multilateral organisation was allocated for specific sectors and countries through a methodology developed by the OECD/DAC. Put simply, the basic reasoning applied is that if Germany provided to UNICEF the amount $X$ in core contributions and UNICEF spent $Y\%$ of its core contributions in the health sector, then the imputed multilateral ODA on health (for UNICEF) is $X$ times $Y\%$.

**Funding to the EU is a special case, given the dual nature of this institution.** The EU is a member of the DAC as are 19 of its member states. It is also a donor in its own right, with its own resources. The resources underpinning the EU's development co-operation efforts are determined through the EU budget process in accordance with the EU Treaty. For statistical and analytical purposes, the EU is treated in this report as a multilateral organisation.
Figure 3. **Over 60% of core and non-core contributions from DAC countries is concentrated on the European Union, the World Bank Group and the United Nations funds and programmes**

The composition and patterns of funding to and through multilateral organisations differs significantly. The picture is varied: core funding i) has been declining for UN funds and programmes, ii) fell for the EU in 2010-12 before rebounding in 2013 (yet remaining below its 2009 peak of USD 14.2 billion in real terms), and iii) is on a variable yet overall growing trajectory for the World Bank Group. The figure below shows that i) the EU’s total funding has not been impacted much by non-core funding patterns given their insignificant shares (1-2% in 2008-13); ii) non-core funding has helped the World Bank Group smooth episodic declines in core funding and establish a broadly upward overall growth trend, and iii) growth in total funding to UN funds and programmes is mainly due to increases in non-core funding, upon which UN funds and programmes are increasingly reliant – they represented 76% of all funding in 2013 compared to 58% in 2007 (Figure 4).

Multilateral outflows as well as earmarked funds are strongly focused on least developed countries (LDCs), although this has diminished over time. Outflows to LDCs grew considerably in 2012 and 2013, reaching USD 19.5 billion and representing 45% of total outflows. This share falls short of the high point reached in 2007 (54%). Earmarked resources are even more concentrated on LDCs (59%, or USD 6.5 billion in 2013), mainly due to flows to Afghanistan.
Major developments in the multilateral landscape on the eve of the post-2015 era

Over the past two years, there has been important innovations in the ways multilateral organisations – both old and new – operate and are funded, and shifts in the overall architecture of the multilateral system.

The replenishments of the International Development Association (IDA), the African Development Bank (AfDB), the Global Fund and Gavi signalled overall continued support by the donor community for these organisations. Negotiations with the two development banks resulted in decisions to increase future allocations to fragile state recipients, partially shifting away from country performance-based allocations.

New institutions are emerging, including vertical funds and development banks largely financed by developing countries. The successful pledging conference of the Green Climate Fund suggests it could become the largest vertical fund ever. It has quasi-universal membership, where developed and developing countries have equivalent voice and decision-making powers. The recent creation of the Asian Infrastructure Investment Bank under the leadership of People’s Republic of China has rallied support from a large group of countries both advanced and developing and is expected to play a major role in filling the infrastructure financing gap in Asia. The establishment of the New Development Bank embodies the ambition of the BRICS countries to act as a unified geopolitical collective and create alternative options for international collaboration and development.

Figure 4. Multilateral organisations exhibit different funding patterns

Index, 2007 = 100

Note: The EU has provided the following clarification: “The EU is unique among DAC members in that it plays a dual role in development assistance. Although the EU is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources, it is often presented as a multilateral organisation in DAC publications for statistical purposes. This report reflects this dichotomy.”

Source: Authors’ calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
The traditional multilateral organisations are aware of the need to adapt to emerging international development priorities and challenges. Both the World Bank Group and UN system have been conducting internal discussions regarding their strategic positioning in order to be “fit for purpose” in a post-2015 world. The United Nations development system is carrying out a reflection on its future role through a special UN Economic and Social Council (ECOSOC) dialogue. Multilateral development banks are also assessing their comparative advantages and institutional “toolkits” for supporting post-2015 challenges. Against this backdrop, many multilaterals continue to implement ongoing institutional reform programmes, such as the UN’s 2012 Quadrennial Comprehensive Policy Review and the World Bank Group’s organisational restructuring and trust fund reform.

Creative approaches for financing multilateral operations are emerging. The UN system is mainly working on securing a critical mass of core resources and attracting more flexible earmarked funding, while the development banks are taking innovative steps to leverage additional funding using both concessional and non-concessional instruments. For example, the Asian Development Bank has reformed its financing model through the merger of its concessional and non-concessional lending windows in order to increase its capital base – and therefore its lending capacity. As well, for the first time concessional loans – instead of grants – were used to finance the IDA replenishment and the International Fund for Agricultural Development (IFAD). Good practice guidelines will need to be devised and applied in the future if and when concessional loans finance multilateral organisations.

A proposal for establishing new vertical funds and global pooling mechanisms in support of specific Sustainable Development Goals has been put forth. Such mechanisms could provide impetus for mobilising resources, including from the private sector. However, care should be taken to ensure that new funds and/or institutions reflect lessons learned from the past and minimise the costs and inefficiencies of an ever-expanding multilateral aid system.

**Recommendations**

- When making use of concessional loans to finance multilateral organisations, consideration should be given to ensure the right balance between loan and grant financing.

- When considering the establishment of new institutions and/or funding mechanisms, apply the lessons of the past in terms of governance structures and business models, and factor in the costs and inefficiencies of supporting an increasingly growing number of multilateral organisations.

**Hard facts about DAC members’ use of the multilateral system**

There is a considerable degree of heterogeneity among DAC members when it comes to the volumes and composition of funds they provide to and through the multilateral aid system (Figure 5), as well as their evolution over time.

In 2013 the United Kingdom, Spain, Iceland, Switzerland, and Italy recorded the largest increases in the total use of the multilateral aid system (core + non-core funding), while the largest decreases were registered for Australia and Canada. For the United Kingdom,
increased funding to multilateral organisations has been a key instrument for reaching the 0.7% ODA/GNI target in 2013, representing 52% of ODA growth.

**The United Kingdom became the largest multilateral provider in 2013, surpassing the United States; otherwise donor “rankings” remained largely unchanged compared to 2012.** France and Germany are among the ten largest providers to the multilateral system overall, mainly by virtue of their core contributions. Conversely, some middle-sized donors (e.g. Australia and Norway) are among the largest providers of non-core contributions – but do not rank in the top ten in terms of core contributions.

**Across DAC members large differences exist in the use of the multilateral system.** Excluding contributions to the EU, the United Kingdom was the largest contributor of the multilateral system in 2013, with 58% of its gross ODA channelled to and through multilateral organisations. It was followed by Italy (56%), Canada (55%), and Finland (52%). Portugal had the smallest share (10%). Including contributions to the EU, the ranking changes significantly, with Poland being the largest multilateral provider in relative terms (86%), followed by Greece (82%), Slovak Republic (82%) and Italy (76%). The lowest share was 25% for Japan.

**Smaller providers do not systematically make greater use of the multilateral aid system.** Providers with smaller overall aid budgets are usually thought to be better served using multilateral channels given opportunities for achieving economies of scale and efficiency gains through pooling of resources and for extending the reach of assistance across many countries. However, there is no significant relation between the size of the donor and its use of the multilateral system: several smaller-sized providers, such as Iceland, Luxembourg, New Zealand and Portugal, do not rely heavily on the multilateral system for channelling their development assistance.

**Figure 5. DAC countries use the multilateral system differently**

Source: Authors’ calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
Key features of DAC members’ multilateral policies and practices

Policy frameworks reflect a strong commitment to multilateralism. DAC member countries place great importance on working with multilateral organisations in their overall development co-operation efforts. Many DAC members (11 out of 29 in total) have an explicit strategy in place that provides insights and information about how they envisage their interaction with the multilateral aid system and what they hope to achieve by doing so. While policy documents are no guarantee of more effective multilateral allocations, they can provide an opportunity for developing a comprehensive and forward-looking vision of shared priorities for partnering with multilateral organisations – and can help providers disseminate this vision across their administrations and diverse funding bodies. Multilateral policy frameworks also enhance transparency with respect to the objectives and expected results of such partnerships vis-à-vis multilateral organisations and the wider public.

Source: Authors’ calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
There are strong complementarities between the composition of DAC members’ bilateral programmes and the composition of their multilateral allocations, both in terms of sectors and regions. A recurring motivation for engaging with multilateral organisations is their comparative advantages with regards to specific issues, sectors and regions. Actual allocations reveal that – for most DAC members – (imputed) core multilateral allocations target different sectors and geographic areas compared to bilateral programmes. Figure 6 provides some examples of complementarity between bilateral programmes and multilateral funding, both sectorally (top row) and geographically (bottom row).

Most DAC members have regular discussions about their bilateral versus multilateral ODA allocations – but very few have quantitative targets. The balance between bilateral and multilateral ODA is explicitly discussed by 14 of 22 DAC members responding to the 2013 OECD DAC Survey (either when development policies are formulated or when the ODA budget is being developed), but generally no quantitative targets are set for this balance (only two DAC members set targets).

Some bilateral practices can undermine the performance of recipient multilateral organisations

Multilateral funding decisions are dispersed across numerous government entities, which can challenge co-ordination and reduce the strategic focus of overall allocations. For core allocations, most DAC members tend to concentrate decision-making in one agency/institution. Decision-making is more scattered (especially across departments and field offices) for non-core funding. Contributions to the same multilateral organisation often come from different ministries or institutions or different departments. In the absence of adequate co-ordination across extending entities and of a comprehensive overview of where funding is going, scattered decision-making can undermine the strategic focus and coherence of providers’ funding.

Volatility of funding is increasing. Although many DAC members have adopted good practices for making multi-annual commitments, overall funding to individual organisations varies considerably from one year to the next, particularly for non-core resources. As some multilateral organisations are more reliant on non-core funding, their funding base is becoming more volatile, with negative implications for planning and delivering assistance.

Unsustainable accountability processes. Increased scrutiny of aid budgets in OECD countries over recent years has encouraged a proliferation of bilateral assessments of multilateral organisations with no end in sight. In 2012-14, 205 assessments of multilateral organisations were carried out by DAC members alone. As a result some organisations are assessed on multiple occasions in a given year. To a large degree these bilateral assessments have neither promoted more rational and informed donor allocation decisions nor encouraged better performance by multilateral organisations.
Recommendations

- Base partnerships with multilateral organisations on strategic considerations and evidence of effectiveness and/or impact.
- Ensure adequate co-ordination across and within different ministries and institutions providing core and non-core resources to multilateral organisations.
- Increase the predictability of both core and non-core funding by making – to the extent possible – multi-annual commitments linked to the strategic plans of multilateral organisations.
- Use existing information on multilateral organisations’ performance, including that produced by multilateral organisations’ own independent evaluation units.
- Work in a “multilateral mode” by using board discussions as the key platform and instrument for fostering institutional change.
Part II.
GEARING UP TO SUPPORT POST-2015 PARTNERSHIPS

Making earmarked funding more effective: practices and reforms of bilateral providers and multilateral organisations

Earmarked resources are the fastest growing part of funding to multilateral organisations. Financing needs for implementing the Sustainable Development Goals will be considerable, and multilateral organisations will need to maximise all available funding options including earmarked funding. In aggregate terms it has become an important source of finance for the multilateral system: in 2013 earmarked funds accounted for 31% (USD 18.2 billion) of total DAC member use of the multilateral system, or 13% of total gross ODA. Individual organisations rely on earmarked funding to differing degrees. The UN and World Bank Group are the largest recipients of earmarked funding, for which it accounts for 76% and 28% of total funding, respectively. These resources have also been the fastest growing component of funding to multilateral organisations, increasing by 93% over the period 2007-13 as opposed to 24% in the case of core contributions (Figure 7).

Figure 7. Earmarked funding has grown in volume and as a share of total funding to multilateral organisations

Earmarked funding creates challenges and opportunities for all stakeholders. Earmarked funding provides resources for responding to specific, time-sensitive needs, such as humanitarian crises and unforeseen development challenges. It also underpins specific
activities, platforms and initiatives that make it possible to establish partnerships leveraging resources from a variety of actors, such as sovereign countries, private foundations, corporations and intergovernmental organisations. However, a wide variety of financial arrangements are used to deliver earmarked funding, adding significantly to the complexity of the global development co-operation architecture and heightening the risk of duplication, incoherence and higher transaction costs. For providers and multilateral organisations alike, the way these funds have been provided and managed has hampered coherent and effective expenditure practices.

DAC members have similar motives but different policies and allocations concerning earmarked funding. They state that their main motivations for making increased use of earmarked funding are: i) the importance of ensuring the visibility of bilateral ODA funds vis-à-vis domestic audiences, ii) the scope it affords for greater influence in shaping a multilateral organisation’s development agenda, and iii) the opportunities it presents for having a degree of oversight regarding how resources are spent – partly to respond to perceived inefficiencies of multilateral organisations. However, despite the widespread use of earmarked funding, only a few DAC members have developed policies and guidance for this funding modality. Decision-making is often diffuse and uncoordinated, which in practice limits the scope for understanding the full breadth and implications of earmarked resources. These factors affect DAC members’ strategic engagement with multilateral organisations and coherent allocation of these funds. While some bilateral providers have worked to improve the coherence and complementarity of funding to the multilateral system, for most there is scope to adjust policies and practices to ensure more predictable, more flexible and more strategic funding.

Multilateral reforms for enhancing the effectiveness of earmarked funding need to be further supported. Earmarked funding has allowed multilateral organisations to expand their activities beyond what would have been possible with core funding alone. However, there is a link between performance of multilateral organisations and their funding: the unpredictable and disparate decision-making and business processes governing earmarked funding make it difficult for multilateral organisations to plan and allocate resources most effectively. In addition, the increasing reliance on earmarked funding affects the incentive structure of organisations, especially those with normative functions. To improve the operational and strategic alignment of earmarked funding to institutional core priorities and to promote a more effective use of overall funding, both the World Bank Group and UN have launched a series of reforms. These create an excellent window of opportunity for bilateral providers to support this reform agenda and implement corollary reforms to improve the way they finance multilateral organisations.

A critical mass of core resources and better quality earmarked funding will be essential going forward. Core resources will remain fundamental for multilateral organisations to be able to carry out their mandates. At the same time, the sectoral focus of the forthcoming Sustainable Development Goals, and the need to leverage greater public and private resources to finance them, means that non-core funding will continue to be relevant going forward. Therefore, donors and multilateral organisations alike will need to manage earmarked funding in ways that maximise its benefits while keeping its costs and inefficiencies to a minimum, subject to wider political contexts regarding earmarked funding.
Recommendations

- Use earmarked funding based on evidence and judicious considerations about when and why earmarked funding may be the most suitable option.
- Provide guidance on the use of earmarked funding with a view to support good practices and enhance internal coherence.
- When extending earmarked funding, consider carefully the implications of the requests and conditions that are attached to it.
- Support multilateral organisational reforms aimed at multi-year strategic frameworks and achieving results.

How effective are vertical funds and other earmarked funding mechanisms at country level?

More resources from a growing array of earmarked funding mechanisms are now available to developing countries. Vertical funds, global pooled funding mechanisms and other instruments to earmark resources accounted for 29% of multilateral funding to developing countries in 2013 – and over 50% to many small island and fragile/conflict-affected states. In Tanzania, 26% of all funding from and through multilateral organisations was earmarked and disbursed through over 30 different earmarked funding mechanisms.

Earmarked funding mechanisms have different strengths and weaknesses in terms of their ability to (i) promote country ownership; (ii) provide stable and predictable flows; (iii) improve the co-ordination of development partners and reduce fragmentation; (iv) leverage resources and knowledge from partners beyond DAC members; and (v) promote innovation.

Vertical funds – such as Gavi and the Global Fund – have been successful in leveraging financial resources and knowledge from non-DAC providers (especially from private foundations) as well as creating incentives for businesses to invest in new technologies and solutions. These mechanisms have been highly innovative in their inclusive governance structures and business models. They have also been innovative in their approaches to development challenges, especially in specific, targeted areas. However, the evidence concerning their ability to promote country ownership is mixed, they often rely on parallel co-ordination mechanisms, and there is evidence that funding is more volatile. Year on year volatility of disbursements may be linked, however, to the programme’s life cycle, in which case it would not result in actual lack of predictability for partner countries. Future research could further unpack these issues.

Country-specific multi-donor trust funds (MDTFs) – such as the post-tsunami reconstruction fund for Aceh and Nias in Indonesia and the Afghanistan Reconstruction Fund – were originally designed to promote ownership and co-ordination, but faulty design features or donor behaviours, such as the use of parallel structures and earmarking of resources within the pooled fund, have at times undermined ownership. These funds have been only marginally able to innovate and leverage resources and knowledge from providers beyond the DAC.
The One UN Fund, a specific MDTF, was conceived as a gap-filler for UN country programmes which, overall, are strongly supported by partner countries due to a highly consultative process throughout the programme cycle. However, funding to the One UN Fund is declining. Further, although accepted by prevailing UN guidelines, donors are increasingly earmarking resources within this fund which ultimately undermines the utility of consultations and negotiations with the partner country – and limits partner country ownership overall. As the UN plans to take the “Delivering as One” initiative to a global scale, it will be important to promote further harmonisation at headquarters, simplify co-ordination procedures, and create the right incentives for UN entities to co-ordinate. UN MDTFs generally provide an opportunity to engage with a broader set of stakeholders. Providers beyond the DAC are increasing their funding albeit from a small base, particularly for humanitarian purposes.

Performance by other earmarked funding mechanisms depends on the extent to which they are integrated into the processes and procedures of the parent multilateral organisation. In the case of the UN, this type of funding needs to fall within the set of priorities identified by the UN Development Assistance Framework or UN Development Assistance Plan. Accordingly, unless defined too broadly, earmarked funding of this kind is generally aligned to UN processes and procedures. In the case of the World Bank Group, activities funded through trust funds are currently managed fairly independently by trust fund managers at country level (or at headquarters) and may or may not feed into in-country co-ordination discussions or structures.

Recommendations

- Use the most suitable funding modality for earmarked contributions based on evidence of the comparative strengths and weaknesses of different multilateral funding options.
- Help address the key challenges these mechanisms face and learn from the lessons of the past when establishing new funding mechanisms.

Leveraging knowledge and resources from providers beyond the DAC to enhance post-2015 partnerships

To implement the emerging Sustainable Development Goals, multilateral organisations will need to foster global partnerships that leverage knowledge and resources beyond the DAC, including from the private sector and non-DAC sovereign states. While several of these actors have a long track record of transferring resources and expertise to other nations to promote welfare and shared prosperity, some have recently expanded their development co-operation in parallel with their growing economic standing. In 2013, an estimated 13% of global concessional development finance was provided by non-DAC countries. Engagement of these countries with multilateral organisations promoting development is also growing in importance.

Multilateral funding from seven non-DAC providers of concessional development finance is growing, although it represents in general a small part of their total concessional development finance. Brazil, China, India, Saudi Arabia, South Africa, Turkey
and the United Arab Emirates (also referred to as “focus countries” in this report) increased funding to multilateral organisations from USD 794 million in 2009 to USD 1.2 billion in 2013 (Figure 8). These countries’ contributions to multilateral organisations have become an important part of international efforts to address humanitarian and developmental needs, such as those arising during the Arab Spring and the recent Ebola crisis. For five of the seven focus countries, however, the use of the multilateral channel accounts for less than 7% of their total concessional development finance.

Focus countries have prioritised different multilateral organisations and themes. While China has focused largely on regional banks (66% of its multilateral funding), all the other focus countries have instead engaged mainly through the UN system and the World Bank Group. All focus countries have increased funding to multilateral organisations in response to humanitarian needs. Brazil, China, India and Turkey have also increased their engagement to foster South-South co-operation and knowledge exchange, and to improve their own institutional and implementation capacities.

Figure 8. Focus countries considerably increased their funding to multilateral organisations in 2009-13

For most focus countries there are signs of lasting support for both “traditional” and “new” multilateral organisations in part driven by motivations and aspirations linked to their growing economic power and geopolitical influence. Recent developments, such as increases in funding to existing multilateral organisations and the creation of a series of institutions and funds (such as the New Development Bank and the Asian Infrastructure Investment Bank), suggest that Brazil, China, India and South Africa will likely play an increasingly important role in supporting and shaping the multilateral landscape going forward. Turkey’s accelerating engagement with multilateral organisations also seems destined to continue in the future, propelled by its desire to play a leadership role in
international processes. Saudi Arabia and the United Arab Emirates have long been high-income countries, and the recent growth of their multilateral funding could be a passing phase mainly driven by humanitarian motives.

**Obstacles remain that limit the engagement of the focus countries with multilateral organisations, especially with the “traditional” institutions.** These include organisational constraints (several countries are in the process of setting up or consolidating their development co-operation systems, including the processes and frameworks that facilitate funding to multilateral organisations), economic deterrents (multilateral channels reduce the scope for expanding trade and investment opportunities through bilateral and South-South co-operation) and political considerations (contrasts between South-South and Western approaches to development co-operation and the importance of visibility for these providers to maintain domestic support for their aid effort).

**The global trend towards a more complex constellation of multilateral organisations portends greater opportunities – but also risks.** Regional and sub-regional multilateral systems, largely financed by developing countries, will continue to evolve and grow and an additional system focused on infrastructure finance will take root in Asia. Substantial benefits are in the offing: more resources will be mobilised, more financing options and opportunities will be available, and developing countries will have greater voice and influence regarding the nature and direction of global development finance. The increased diversity of institutions will doubtless spur innovative methods to combine and package finance, including private capital, and to create new platforms for sharing development experience and alternative development models and approaches. Furthermore, the emergence of potentially competing sources of multilateral finance could stimulate a tighter focus on institution-specific comparative advantages and thereby improve the efficiency of the multilateral system as a whole. However, there are also risks for multilateralism more generally, including duplication of efforts, increased transaction costs for client countries, inadequate safeguards to address harmful externalities and excessive competition.

**Recommendations**

- Accelerate reforms of the governance arrangements of multilateral organisations to enhance these institutions’ legitimacy and dissipate the prospect of disenfranchisement and disengagement by under-represented countries.

- Enhance transparency and information exchange, as well as the scope for more horizontal co-operation across existing and emerging multilateral institutions, in order to limit funding gaps and “aid orphans”, identify complementarities and synergies, and enhance comparative advantages and the division of labour across the system.

- Encourage reflection, analysis and discourse across the international development community to further the scope for a shared, strategic vision to enhance the reach and impact of a larger multilateral system.
Navigating future frontiers in the multilateral landscape

As stakeholders and major investors in multilateralism, what new and additional frontiers do we need to be thinking about now, on the eve of the Sustainable Development Goal era? What are the questions we need to pose, the issues we need to explore, and the research we need to carry out? An emerging set of policy issues – briefly sketched out below – is taking shape that could be explored in future multilateral development finance reports and more broadly by the international community going forward.

Capitalising on new funding models and instruments for sustainably leveraging the trillions that will be needed. Multilateral organisations will be playing a major role in mobilising large volumes of finance by combining and blending different instruments and sources of finance in complex financial “packages” and by deploying risk mitigation tools and developing new pooled funding mechanisms to bring in private resources from banks, institutional investors and the enterprise sector. They can partner with other multilateral institutions – from the wide array of regional, sub-regional and emerging infrastructure-focused banks in Asia – to co-finance essential cross-border investments to address infrastructure deficits, health-related challenges and climate change needs. They can also mobilise large volumes of market-related public financing by capitalising on their own institutional resources – their profits and their capital base – to raise additional resources from international capital markets. Mobilising the broader development finance needed for the post-2015 era will require an in-depth understanding of how best multilateral agencies can minimise risks in order to develop viable financing models. It will also call for new ways of measuring and tracking these resources – for example through the proposed Total Official Support for Sustainable Development (TOSSD) – in order to ensure transparency, the exchange of experience, and accountability regarding the emerging financing for development agenda.

Assessing how “graduation” criteria and transition phases can be updated and reshaped. Many developing countries have experienced strong growth over the past decade. This has lifted billions of people out of extreme poverty. At the same time, however, this growth has moved many countries into higher per capita income groupings – which are a key eligibility determinant for access to both bilateral and multilateral concessional finance. Countries experiencing this shift still have widespread poverty and significant development challenges to face – but it will take time for them to strengthen their domestic revenue-raising capacity and their international creditworthiness. Thus, at a critical juncture in their development path, these countries – particularly those who have moved to lower-middle-income status – may well find it difficult to finance their development needs. Reflection is thus needed to consider how the international community can more flexibly adapt eligibility criteria and procedures for accessing concessional finance. On current trends, it will be increasingly important to ensure that adequate and reasonably priced financial products can be provided to “graduating” countries, particularly those who have exceptional development challenges (e.g. high levels of absolute and chronic poverty, vulnerability to climate change, income inequalities, small island development states and land-locked countries).
**Exploring the complementarity and coherence of the range of organisations operating in the multilateral sphere.** Avoiding duplication and building on what already exists is essential. Multilateral agencies have very different mandates, operating modalities, areas of expertise, funding options, legitimacy/universality, governance arrangements, presence at country level and reach across the globe. They will need to play a pivotal role in helping to mobilise the broad means of implementation as set out in the post-2015 development agenda. In particular, they have an important and unique role to play in supporting collective action across the international community to provide the global public goods needed to tackle problems transcending borders that jeopardise development gains and prospects. Further critical reflection on the shape and scope of multilateralism – particularly its evolution in response to new priorities and greater development complexities – will be needed. The multilateral system and its stakeholders will need to do much more in the post-2015 era to enhance global governance and collective action to deliver international solutions to pressing development challenges.

**Establishing a “policy space” for discussing strategic, system-wide multilateral policy issues.** Informed discussions are needed regarding the overall impact of individual allocation decisions across the multilateral landscape. In the absence of a central oversight body that could rationalise, streamline and ensure close co-ordination among multiple actors, there is a need to establish and reinvigorate co-operation frameworks to reduce volatility, limit funding gaps and “aid orphans”, identify complementarities and synergies, and enhance comparative advantage and division of labour across the system. Increasingly, it seems that multilateral organisations have opportunities to work together and contribute more collectively than individually – but no mechanism exists for assessing this. As the multilateral system grows and diversifies, there’s also a need for enhanced transparency and information-sharing to address prudential, moral hazard and debt sustainability concerns. A system-wide view and policy making is required in order to foster an effective and fit-for-purpose multilateral system.
Full report available in July 2015

For more information visit:
http://www.oecd.org/dac/aid-architecture/multilateralaid.htm