

## Executive Summary

In 2006, gross official development assistance (ODA) by Development Assistance Committee (DAC) member countries amounted to USD 117 billion. Multilateral ODA of USD 28 billion accounted for over a quarter of this. Around a further USD 11 billion was channelled through multilateral organisations as grants to trust funds and other earmarked contributions. The proportion of development assistance channelled through the multilateral system – over a third of total ODA – indicates that bilateral donors see multilateral organisations as knowledgeable, neutral and generally effective development actors.

In recent years the multilateral aid system has become more complex. There are more agencies and more instruments. As a result, donors – as major shareholders in the system – are increasingly focusing on the performance of multilateral organisations and their ability to adjust to development challenges, including achievement of the Millennium Development Goals (MDGs), when allocating aid. Donors have thus expressed a need for a better understanding of the multilateral aid system.

To meet this need, the Organisation for Economic Co-operation and Development (OECD) Development Co-operation Directorate (DCD) has produced this report on multilateral aid, the first of its kind. The report gives an overall picture of multilateral aid architecture. It maps out patterns of multilateral aid (mainly from DAC member countries), financial flows, and multilateral aid strategies and policies. The report also touches upon issues such as fragmentation of aid, the effectiveness of multilateral organisations and reform processes, and gives the views of some partner countries on multilateral organisations.

### *Multilateral aid at a glance*

Over the last two decades multilateral ODA has risen by nearly 50% in real terms, from USD 19.1 billion in 1987 to USD 28.2 billion in 2006 (at 2006 prices and exchange rates). The proportion of ODA channelled through multilaterals was relatively stable in this period, ranging from 27% to 32% net of debt relief (Figure 0.1). However, the proportion of aid from DAC member countries channelled through the multilateral system varied widely. For example, in 2004-06 Italy channelled 72% of ODA through the multilaterals and the United States 12%. The three multilateral organisations that receive the most core contributions from donors are the European Commission (EC) accounting for 36%, the World Bank accounting for 24% and the United Nations system accounting for 20%.<sup>\*1</sup>

The EC is unique because it plays a dual role. It receives development funds from EU Member States and channels funds through other multilateral organisations (Box 3.5).

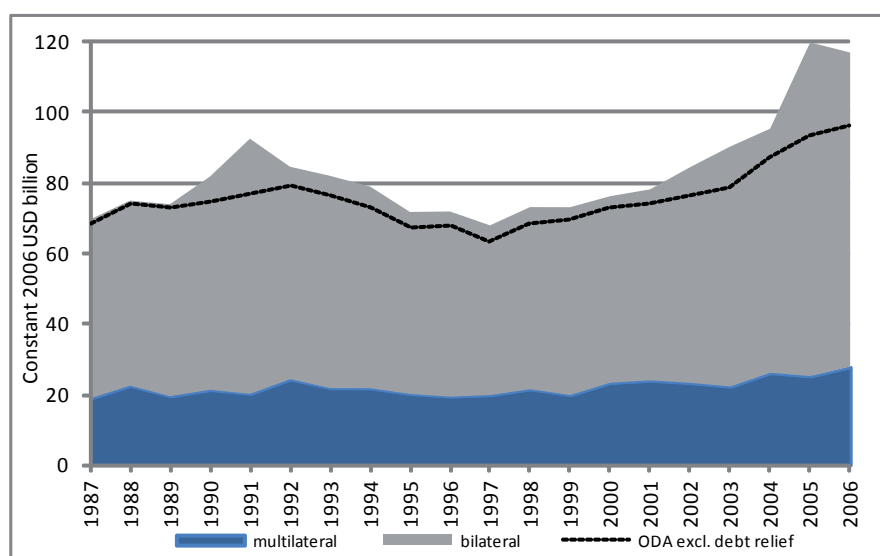
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\* The United Nations system refers to the whole network of international agencies, treaties and conventions that were created by the United Nations. Note that the information in this report covers the entire UN system and does not break down information for each part of the UN system.

This report reflects this dichotomy: it reports on the EC both as a multilateral organisation and as a donor. Reporting on the EC as a multilateral organisation is consistent with longstanding statistical practice and treatment in other DAC publications such as the annual *Development Co-operation Report*. In reporting on the EC as a donor in the sections on allocations, objectives and policies for engaging with multilateral organisations (see Appendix) the EC is treated in the same way as other DAC members. The EC acts as a multilateral organisation only with respect to EU Member States. This means that, when comparing how DAC members use the multilateral system, the results when multilateral ODA *includes* the EC are different from when multilateral ODA *excludes* the EC. When looking at ODA channelled through the multilateral system *excluding* the EC, the proportion ranges from 9% for Greece and 12% for Portugal, to 28% for Canada and Norway, and 29% for Italy.

Figure 0.1. **Gross ODA by DAC member countries 1987-2006**

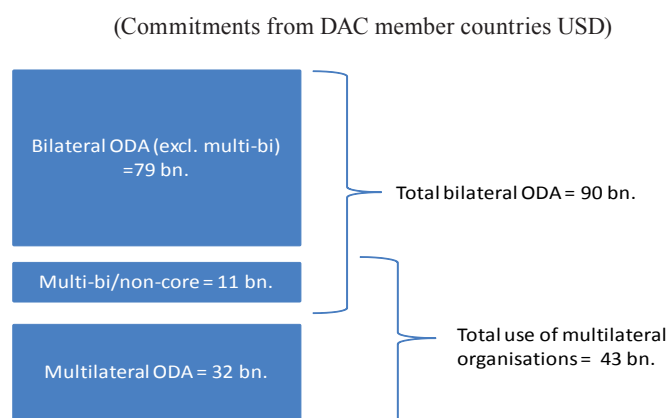
Gross disbursements (constant USD million)



Source: DAC Aggregate Statistics

DAC member countries also channel large amounts of multi-bi or non-core aid through the multilateral system. This is aid that is earmarked for specific sectors, themes, countries or regions. DAC members report these funds as bilateral ODA in DAC statistics (Figure 0.2). Hence, the multilateral ODA data presented above do not include aid channelled *through* multilateral organisations. In 2006, non-core funds amounted to some USD 11 billion of commitments. By adding these non-core funds to the core commitments of USD 32 billion, we estimate that USD 43 billion (35%) of total ODA, was routed through the multilateral system in 2006. The data for non-core funding are not as accurate as they could be as not all DAC members fully report the channels through which they deliver their aid. To improve understanding of the multilateral aid system DAC members are encouraged to urgently improve the accuracy and detail with which they report.

Figure 0.2. Relationship between bilateral, non-core and core multilateral ODA in 2006



Source: DAC Aggregate Statistics and Creditor Reporting System supplemented by a few member country estimates of non-core funding.

South-South co-operation is increasing. However, it is not possible to get a full picture of aid from non-DAC donors because of the lack of data from large players, such as Brazil, China and India. Moreover, they are expected to increase their aid commitments in the next few years, as are the new EU members who have committed to specific targets for 2010 and 2015. Multilateral organisations could play a large role in channelling much of these increases in aid – the EC in the case of the new EU members and other multilaterals for other emerging donors. Multilaterals may also play a larger role in channelling ODA from long standing, large bilateral donors such as China Taipei, Kuwait and Saudi Arabia who currently channel 5% or less of their aid through the multilateral system.

### *Multilateral aid policies in DAC member countries – key messages*

DAC member countries engage with multilateral institutions for many reasons. These include the ability of multilaterals to provide economies of scale, access to know-how, ensure political neutrality, provide public goods, and reduce burdens on donors and partner countries.

*Large number of multilateral partners:* DAC member countries show considerable differences in how they use the multilateral aid system. Most of them channel a large share of their multilateral aid through just a few strategic partner organisations and the remaining small share through a large number of organisations. While spreading multilateral allocations so broadly may serve political purposes, it may also mean that some DAC member countries might not be making best use of their resources and influence. Some DAC member countries could have more influence in the multilateral system if they took a more focused approach.

*Main objectives and priorities of multilateral policy:* The overarching aims of multilateral engagement, aims that nearly all DAC member countries stress, are to reduce poverty and achieve the Millennium Development Goals (MDGs). Other priorities are health, gender equality, climate change and support for fragile states. Countries also emphasise that their engagement with multilaterals should be effective and efficient, and that reform is a main concern.

*Overall multilateral strategies:* Almost half DAC member countries have recently developed – or are in the process of developing – an overall multilateral aid strategy. The strategies vary in style and scope. Some strategies are more effective than others in guiding allocation of multilateral aid. Some define priorities as well as implementation processes. Others set general directions and give little guidance on framing policy and making decisions on allocation. For the strategies to be useful they need to be strengthened, by stimulating new ways of working with multilaterals, for example.

*Managing multilateral aid:* The way in which DAC member countries manage and organise multilateral assistance internally also varies. The usual arrangement is for the ministry of finance to manage core contributions and lead policy dialogue with the International Monetary Fund (IMF), the World Bank Group and other major development banks, and for the ministry of foreign affairs and/or the development agency to be responsible for relations with most other multilateral agencies. In all cases the ministry of foreign affairs coordinates policies on multilateral organisations with other line ministries. Promoting greater coherence among ministries responsible for different aspects of multilateral aid is still a challenge for DAC member countries.

*Follow up on DAC peer reviews:* Most DAC member countries – at varying rates and to different extents – have addressed recommendations with respect to multilateral assistance made by DAC peer reviews. For example, in some cases a peer review has prompted countries to develop an overall multilateral strategy. Peer reviews recommend that DAC member countries should avoid allocating a large share of assistance to non-core funding to reduce the risk of “bilateralising” multilateral aid. Countries channelling significant amounts of non-core funds, earmarked for specific sectors or countries, through multilaterals can skew or redirect their priorities and diminish their multilateral character. Some argue that an increase in earmarked funding to UN agencies could impede the “One UN” reform; others say that an increase in earmarked funding could be a key mechanism for influencing, directing the focus of programmes and increasing the effectiveness of UN agencies.

### *Multilateral and bilateral distribution of aid*

*Geographical:* Multilateral organisations direct nearly two-thirds of their aid to sub-Saharan Africa, and South and Central Asia. In contrast, DAC member countries direct just over one-third of their bilateral aid to these regions. Multilateral aid focuses somewhat more than bilateral aid on fragile states, although maybe not to the extent that the multilateral strategies of DAC member countries would suggest.

*By income:* For the most part, the priority of DAC member countries in engaging with the multilaterals is to reduce poverty. Multilateral organisations reflect this and direct two-thirds of their aid to least developed and other low-income countries. In contrast, just one-third of bilateral aid is directed to these countries.

*By sector:* The sectoral distribution of multilateral and bilateral aid is similar but multilaterals direct a smaller share to education and humanitarian sectors than bilateral donors and a larger share to general budget support and the productive sectors.

### *Proliferation of organisations eligible for ODA*

Currently 263 international organisations are eligible for ODA, against 15 in 1940. By 1960 there were 47. Over 80 agencies became eligible in the 1960s and 1970s, including 10 environmental agencies and 10 agricultural research institutions. In the 1980s proliferation

slowed and “only” 30 agencies became eligible. Another 45 eligible organisations emerged in the 1990s and by 2006 a further 20 were created, notably in the health sector.

In 2006, donors committed USD 43 billion core and non-core funding to these agencies. But, two thirds of this was committed to just five agencies (EC, International Development Association, Global Fund, Asian and African Development Banks). In contrast, over 100 agencies each manage less than USD 20 million annually and collectively account for only 2% of the total core and non-core funding of multilateral organisations.

The mandates of the 29 agencies in agriculture, livestock and fishing show little overlap. But, while just one agency deals with livestock, there are eight crop-specific agencies each receiving less than USD 50 million a year. Of the eight other research agencies, only the Consultative Group on International Agricultural Research (CGIAR) receives over USD 100 million.

In 2009, more analysis will be done to gain a better understanding of the range of agencies as a possible first step towards rationalisation. The 2009 report will also examine the 1 000 World Bank Trust Funds, and UN earmarked funds and accounts.

### *Reducing fragmentation through division of labour*

The Accra Agenda for Action (AAA) commits donors and developing countries to “complete good practice principles on country-led division of labour” and to “start dialogue on international division of labour across countries by June 2009”. This means that division of labour is as firmly on the agendas of multilateral donors as on the agendas of bilateral donors. This report examines aid fragmentation and concentration with a special focus on the multilateral agencies. A better understanding of fragmentation will enable donors to make adjustments in aid allocations among agencies and countries.

Whether or not an agency is present in a partner country is largely determined by the agency’s mandate. The EC is present in 149 out of the 153 developing countries eligible for ODA. UN agencies are present in over 100 countries except for UNRWA (UN Relief and Works Agency for Palestine Refugees in the Near East), which has a country-specific mandate. Organisations with regional mandates are present, on average, in 21 countries.

The report uses the proportion of partner countries to which an agency extends more than the agency’s share of global aid as a measure of concentration. By this measure, multilateral agencies concentrate their aid more than bilateral agencies. The Global Environment Facility (GEF) is the only multilateral agency with less than 50% whereas 15 bilateral agencies have less than 50%.

Out of a possible 15 multilateral agencies covered by the analysis, 14 were present in 15 partner countries. Twelve partner countries also had 15+ DAC member countries working in their country. Multilateral agencies provide the majority of aid in nearly half the countries in sub-Saharan Africa, the Middle East and North and Central America. Multilateral agencies provide the majority of aid in 14 of the 22 fragile states in Africa.

The greatest opportunities for the multilateral agencies to concentrate their aid are in the 35 countries where nine or more multilateral agencies together provide less than 10% of total aid. A matrix in this report shows the countries in which multilateral agencies operate. Multilateral agencies could use this matrix when discussing with partner countries and other donors how the Accra Agenda for Action (AAA) undertaking to “improve allocation of resources within sectors, within countries, and across countries” could be

met. This could be done, for example, if multilaterals focused on fewer partner countries but played a bigger role and concentrated on fewer sectors. However, it may be a challenge for multilateral agencies to concentrate their efforts as their members from developing countries may continue to expect to receive some funding, however small a part of their total aid this might be.

The Secretariat is working to produce matrices for the major sectors to identify areas where there is scope for concentration. However, the analysis will be limited as only a few multilateral agencies provide disaggregated data on their activities. More detailed reports from multilateral agencies could enhance discussions on division of labour. The International Aid Transparency Initiative (IATI), which was signed in Accra by the EC, Global Alliance for Vaccines and Immunization (GAVI), UNDP, World Bank, nine bilateral donors, and the Hewlett Foundation gives a clear signal that for the UN and the World Bank providing more detailed and timely information is a priority.

The international good practice principles on in-country division of labour call for partner countries to lead the process. Multilaterals actively support partner country leadership in division of labour. This means considerable changes for some major agencies in the way they operate. In the past, they have often been called on to lead donor coordination groups or to be the “lead donor” in a sector. While this will change, nevertheless, some specialised UN agencies may still be obvious candidates to be lead donor in their field of expertise.

A study in Tanzania found that almost all of the UN agencies work on HIV/AIDS and gender issues. In the case of HIV/AIDS this indicates excessive fragmentation. The study went on to note that the “One UN” reform process in Tanzania is leading to clearer prioritisation of sectors and assignment of lead roles within the UN system. The study also showed that while the Sector Wide Approach (SWAp) in the health sector has improved coordination, harmonisation, policy, planning and resource allocation, it has not brought down donor transaction costs because coordination and consultation processes are complex. Moreover the SWAp is being bypassed by new global funds and initiatives, which “offer sizable financial resources negotiated at high government level while ignoring existing SWAp structures and mechanisms”.

### *Multilateral aid effectiveness – Paris Declaration Survey and other tools*

In 2005, twenty-five international organisations, along with 90 countries, adopted the Paris Declaration on Aid Effectiveness. The 2008 survey of progress in implementing the Paris Declaration shows that, while the scores of multilaterals are higher than the scores of bilateral donors on most indicators, multilaterals need to accelerate progress to reach their commitments for 2010. They particularly need to accelerate progress in reporting a larger proportion of aid flows on partner country budgets, in using country public financial management and procurement systems (where the quality of those systems permits), and in making their aid predictable. The multilateral organisations have progressed faster than the bilateral donors on five Paris Declaration indicators, but only significantly faster in aligning and coordinating technical co-operation, and reducing parallel implementation structures.

There is considerable duplication of effort in assessing the effectiveness of multilateral agencies. But current assessment tools do not provide a full picture and all have strengths and weaknesses. Assessment studies undertaken by individual donors often seek the same kinds of information from multilaterals, and surveys of development stakeholders at country level often ask the same questions. This duplication of effort wastes the time of key

decision-makers. Answering questions about aid effectiveness diverts them from their core business of improving the effectiveness of aid.

*Ways forward:* Bilateral donor assessments of the effectiveness of multilateral agencies could become unnecessary if the multilaterals themselves assessed their own effectiveness sufficiently and comprehensively to satisfy bilateral information requirements. This makes a strong case for bilateral donors to change the way they advocate for multilateral reform. Instead of making opaque assessments of multilateral effectiveness from the outside, bilateral representatives on multilateral executive boards could unite to advocate for change from within and better reporting on effectiveness. One way forward is to build on initiatives such as the Common Performance Assessment System (COMPAS), a joint attempt by the multilateral development banks to improve reporting of their results.

A shift towards self reporting by multilaterals would be a way to apply Paris Declaration principles to contributions to multilaterals. Further work by the DAC on analysing the multilateral system could examine this application of Paris Declaration principles. The issues in funding multilaterals have strong parallels with aid effectiveness at country level, lack of predictability, over prescriptive donors, multiple reporting systems, for example. Applying Paris Declaration principles would encourage multilateral agencies to “own” aid channelled through them. It would mean that donors would need to align with and make use of multilaterals’ existing systems for reporting and encourage mutual accountability for results. Such a shift would, of course, need to reflect that there are differences in the effectiveness of multilateral governance structures and how well they operate. Until self reporting is adequate, separate external assessments may still be needed. Nevertheless, a strong case can be made for bilateral donors: (a) to conduct assessments collectively to reduce duplication and transaction costs, and (b) to develop a consensus on the minimum requirements and appropriate standards to guide the design of assessments, and a common position on advocacy for improving multilateral reporting itself.

### *Partner country views on multilateral organisations*

Most assessments of multilateral effectiveness are carried out for and by bilateral donors. Assessments are, therefore, primarily geared to meeting donor needs, rather than the requirements of partner countries. In the context of the Paris Declaration and the move towards greater country ownership, more input from partner governments should be sought when developing and revising methods to assess multilaterals. Survey responses indicate that “partner countries clearly want to be heard” and suggest that an important issue in the multilateral reform process is how to address partner country demands for “voice”. Without input from partner countries, financing decisions and aid may be less effective.

### *Reforming multilateral organisations*

Reforming the multilateral system is currently a high priority for DAC member countries and will continue to be for some years, as it is not possible to design and put in place reforms that deliver results “overnight”. Nevertheless, many multilateral organisations are making progress with reform initiatives although it is still too early to assess the results. Time will tell whether or not the reforms currently underway will simplify the multilateral system and, hence, enhance the effectiveness of multilateral assistance.\*

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\* The report does not reflect the discussion of major Bretton Woods reform following the financial and economic crisis of autumn 2008.

For reforms of the multilateral system to be successful they must be integrated throughout the development system – among donors, development organisations and partner countries. Within the multilateral organisations themselves it is likewise vital that any reform – its ideas, instruments, and aims – is owned by *all* staff. If staff does not “own” the reform it will be just another initiative. The issue is how DAC and other donors can take the multilateral reforms forward on management boards, and in HQs and partner countries. What needs to be borne in mind is that reforms need to simplify and modernise, and to improve coordination and policy coherence. They must not just add to bureaucracy. To promote effective reform bilateral donors serving on multilateral boards need to keep their distance from day-to-day workings in order to maintain their independence and retain an objective view.

This report responds to the demand for a clearer picture of the multilateral aid architecture. It is an analytical report, issued on the Secretariat’s authority, and fills some of the information gaps about multilateral aid. The report makes suggestions to inform future policy discussions; it does not propose specific recommendations for endorsement. It is hoped the report will inform and inspire a dialogue between bilateral donors and the multilateral system on the role of multilateral agencies and the development of common tools to assess their effectiveness. This dialogue should actively involve partner countries and the major multilateral agencies in line with the Paris Declaration principles for the effective provision of aid. The examination of DAC member policies towards multilateral organisations could help in developing principles of “good multilateral donorship”. The analysis of the proliferation of multilateral organisations and fragmentation of aid – together with similar analyses of bilateral aid – may help to inform future discussions on strategies to achieve better cross-country and in-country division of labour.