

Draft Report (16 March 2007)
Informal Experts' Workshop
Performance and Coherence in Multilateral Development Finance
Berlin, 29-30 January 2007

Co-organised by the German Ministry for Economic Co-operation and Development (BMZ),
the OECD (Development Centre and Development Co-operation Directorate)
and InWEnt (Capacity Building International Ltd.)

Two Workshop Objectives...

The international development finance has become highly complex. New actors, both public and private, have emerged as important sources of finance. Traditional donors have begun using new financing instruments and special-purpose funds to channel their aid. And the goals of development assistance – already numerous – have broadened to include global public goods.

Policy makers from both donor and recipient countries are now looking for guidance on how to deal with this complexity. An important concern for them is the evolving multilateral system, and its ability to deliver results. This Informal Workshop, which brought together one hundred experts from bilateral and multilateral donor institutions, recipient-country governments, think tanks and civil-society organisations, had two goals:

- a. To shed light on the growing complexity of the multilateral development finance system.
- b. To explore options for making this system more coherent and effective.

... and Three Recommendations

The Informal Workshop began with a thorough discussion on coherence in the multilateral development finance system. Unsurprisingly, participants agreed that the system was becoming more complex. More surprisingly, perhaps, participants also agreed that this complexity was here to stay – in the absence of an “architect”, a rational “redesign” of the system was not a feasible option.

Instead, participants called for a pragmatic search for opportunities to render the multilateral system both more effective and coherent. In sum, their recommendations were threefold:

1. Developing countries need support in dealing with the growing complexity of multilateral development finance.
2. More collective action is needed in monitoring, assessing and evaluating the performance of multilateral agencies.
3. A better understanding of duplications and gaps, as well as comparative advantages, in the multilateral system would provide opportunities for greater system-wide coherence and effectiveness.

These three recommendations are outlined in greater detail below.

Recommendation 1

Developing countries need support in dealing with the growing complexity of multilateral development finance.

The growing complexity in international development finance has serious implications at the country level. Whilst an abundance of financiers and instruments has given recipient countries more choice in financing their development, many lack the governance structures and administrative capacity to exercise this choice effectively.

Workshop participants largely agreed that improving coordination processes at the country level would help reduce the transaction costs for recipient countries dealing with a multitude of official donors and other actors. In this regard, a number of proposals were discussed:

- the “Delivering as One” initiative of the High-level Panel on United Nations System-wide Coherence;
- the proposal of the German Development Institute towards an improved division of labour in EU development co-operation;
- the OECD Development Centre proposal of a system of delegated co-operation based on National and Sectoral Coordination Councils, drawing on the experience of the Education for All Fast-Track Initiative.

In addition to better co-ordination, further work is required on identifying administrative capacity gaps faced by developing countries in mobilising, tracking and harnessing diverse financial flows for development. Several workshop participants welcomed initiatives such as the Aid Management Platform, seeking to strengthen the capacity of treasuries to develop and comprehensive strategies on development finance, including aid.

Many participants agreed that increasing ownership – or “leadership” – of such strategies was not only a question of administrative capacity, but also of local governance structures. More participatory processes were required to foster “democratic ownership”, involving parliaments and other civil-society organisations, including local non-governmental organisations.

Recommendation 2

More collective action is needed in monitoring, assessing and evaluating the performance of multilateral agencies.

Ahead of important replenishment negotiations for the International Development Association (IDA) and other funds, such as the Asian Development Fund (ADF), development policy makers in donor countries are looking for guidance on their allocation decisions. Following their commitments to increase aid, they are also under increasing pressure to show that their disbursements are achieving results. The Workshop thus devoted one session to the monitoring, assessment and evaluation of multilateral performance.

Following a discussion on various performance assessment and evaluation mechanisms, participants identified four areas in which collective action would help performance evaluation.

Firstly, they agreed that the internal evaluation units of multilateral banks were a crucial pillar of performance assessment. They welcomed greater cooperation between these units through the Evaluation Cooperation Group (ECG), and through initiatives such as the Common Performance Assessment System (COMPAS), which seeks to establish common benchmarks as a better basis for results reporting. While several participants called for greater independence for these units, others also called for external quality assurance mechanisms, through ISO-style ratings or stronger external auditing.

Secondly, participants called for greater harmonisation in performance assessment mechanisms both within donor countries and among donor countries. Within donor countries, greater coordination was needed between treasuries, foreign ministries and development agencies, each of which had very different approaches to the multilaterals. Internationally, participants suggested

building on the activities of the Multilateral Organisations Performance Assessment Network (MOPAN), rather than introducing new initiatives. More work was needed in comparing approaches, such as the UK's Multilateral Effectiveness Framework (MEFF), Canada's Multilateral Evaluation Relevance and Assessment System (MERA), Denmark's Performance Management Framework (PMF) and the Netherlands' Multilateral Monitoring System (MMS).

Thirdly, there was strong agreement on the need to include recipient-country views in performance assessment and to anchor evaluations more firmly in country-based mechanisms. Several participants called for more regular consultation frameworks, building on the initiatives of the Commonwealth Secretariat.

Fourthly, many participants felt that better data was needed on the development impact of multilateral activities. Several current mechanisms were criticised for being too strongly process-oriented (e.g. MEFF) or perceptions-based (e.g. MOPAN). Moving from input or output-based indicators to outcome-oriented assessments would require not only better data collection, but also a degree of "courage", as measuring results may make it more difficult to achieve high programme success rates. It is worth noting, however, that opinions were divided as to the feasibility of establishing a causal link between aid expenditure and its development impact. Some participants claimed that evaluating declared objectives and processes was both less costly and more realistic.

Recommendation 3

A better understanding of duplications and gaps, as well as comparative advantages, in the multilateral system would provide opportunities for greater system-wide coherence and effectiveness.

Although the complex multilateral landscape does not lend itself to a rational redesign, participants did think that progress could be made in achieving greater system-wide coherence and effectiveness. They pointed to three challenges in which further work on system-wide coherence was required.

Firstly, participants noted the continued absence of a forum in which developing countries could express their needs from the international development finance system and help shape decisions on its functioning. Two proposals were discussed.

- The introduction of a new independent trust fund to help reduce vulnerability and shocks in financial flows to developing countries. Such a fund, jointly governed by developing and donor countries, could help counter aid volatility and financial surges, also by offsetting "herding" behaviour among donors following IMF indicators in allocating their aid.
- Better inclusion of emerging economies in international decision-making processes. Some participants suggested that emerging economies be invited to attend IDA replenishment discussions. Others called for the more ambitious establishment of a representative Group of 25 at heads-of-state level, which would bring together leaders from G8 countries, major emerging economies and other strategic partners

Secondly, participants noted the need for better monitoring of development finance flows, in order to "disentangle" the complex multilateral system. Data collection through the OECD's Creditor Reporting System, for example, could be improved through a better distinction between different aid delivery mechanisms.

Thirdly, there was a call for more work on the incentives and avenues for greater specialisation among bilateral, regional and international agencies. A study was presented on comparative advantages between bilateral and multilateral aid, suggesting that the most likely avenue for greater coherence was a division of labour along sectoral lines. Discussions also raised the need for further dialogue about the roles, comparative advantages and governance structures of regional banks in the multilateral system.

Next steps

This Draft Report will be circulated to all Workshop participants for comments, and its conclusions will be discussed at the forthcoming 1st Annual Plenary of the OECD Global Forum on Development (3 April 2007), which includes a session on *Multilaterals: Performance, Competition and Governance*.

Drawing on the comments received and discussions at the Plenary, the OECD will explore the options in moving ahead within the Global Forum process. A technical meeting on multilateral performance assessment has tentatively been scheduled for late 2007. Other informal workshops are planned on the issue of ownership in the international development finance system.

Ultimately, discussions will feed into the preparations for two major international events:

- The 3rd High-Level Forum on Aid Effectiveness, Accra, Ghana, 2008
- The UN Follow-up Conference on Financing for Development, Doha, Qatar, 2008