



2010 DAC REPORT ON MULTILATERAL AID EXECUTIVE SUMMARY

This second DAC Report on Multilateral Aid covers recent trends in multilateral aid and total use (core and non-core) of the multilateral system, with a special focus on UNDP and World Bank trust funds. It explores development perspectives of the climate change funding architecture, and provides an overview of the response of multilaterals to the financial and economic crisis. It also includes an update on members' multilateral strategies and assessment approaches.

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EXECUTIVE SUMMARY

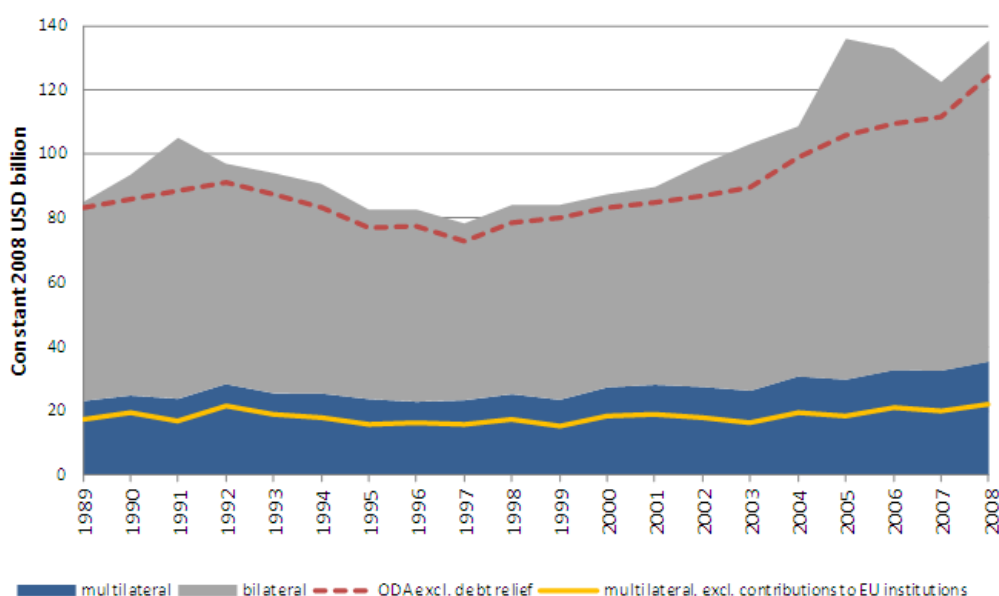
1. The first *DAC Report on Multilateral Aid* was discussed in draft by the DAC in December 2008, and then published in June 2009. This second report takes up and updates the 2009 publication. It covers recent trends in multilateral aid; total use (core and non-core) of the multilateral system – with a special focus on the United Nations Development Programme (UNDP) and World Bank trust funds; development perspectives on climate change funding architecture; and finally an overview of the response of multilaterals to the financial and economic crisis. It provides an update on members' multilateral strategies and assessment approaches.

General Trends in the Multilateral System

2. Today, DAC members report contributions to over 200 multilateral agencies in DAC statistics. In turn, 23 of those agencies report their outflows to the DAC.

3. In the 20 years from 1989 to 2008, multilateral official development assistance (ODA) increased from USD 23 billion to USD 35 billion (Figure 1). The multilateral share of total ODA was relatively stable in that period, ranging from 27% to 33%, excluding debt relief. Not counting contributions to EU Institutions (which rose faster than other components), the share of multilateral ODA declined slightly – from 22% in 1989 to 20% in 2008.

Figure 1. Gross ODA provided by DAC member countries 1989-2008



Source: DAC Aggregates.

4. **Why provide multilateral ODA**, and what might explain its flat or eroding share of growing official development assistance? Some well-known arguments for providing multilateral aid were advanced by donors in the *2008 DAC Report on Multilateral Aid* (economies of scale, political neutrality and legitimacy, large scale of capital and knowledge resources, lower unit costs, and the provision of

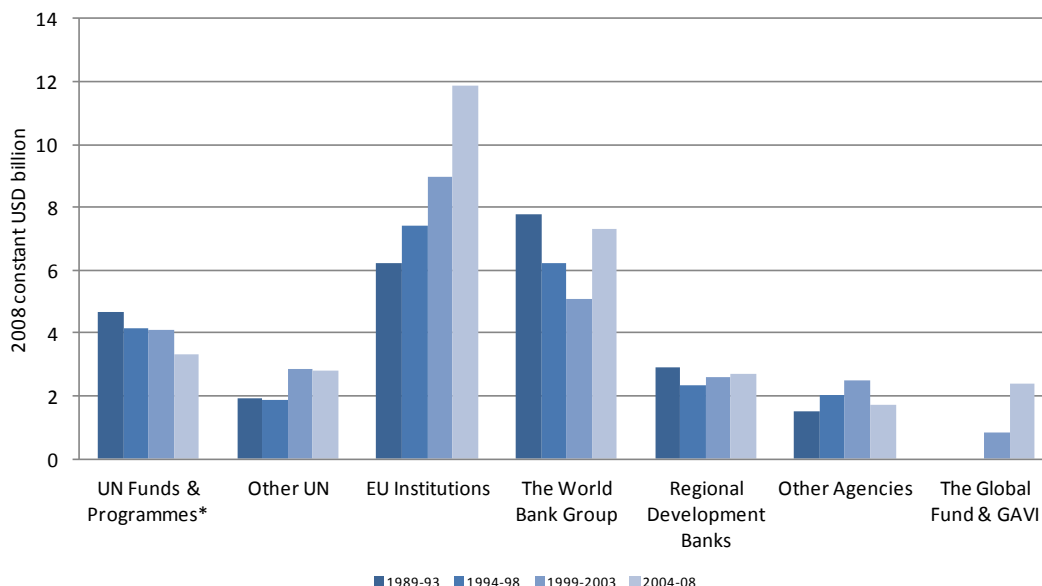
public goods). In addition to these, the current report considers the speed and flexibility of response from major multilaterals to the financial and economic crisis. It also looks at evidence that multilateral aid may be less geographically fragmented than bilateral aid and that it delivers a higher proportion of country programmable aid (CPA) than might be expected, given the proportion of overall aid that is multilateral in the first place.

5. Conversely, there are arguments typically advanced against providing multilateral aid. These include multilateral agencies' perceived institutional complexity, procedures which can be cumbersome or time-consuming, lack of transparency, higher absolute costs and salaries, remoteness and lack of accountability. Core multilateral aid which is pooled before being allocated to partner countries also reduces the visibility of a donor's assistance. More generally, DAC members (see Chapter 6) continue to report insufficient evidence of the effectiveness of multilateral aid – particularly as regards development impact and value for money – despite agencies' high levels of investment in evaluation, assessment, disclosure, and communication systems.

6. **The Big Six.** In 2004-8, 82% of multilateral ODA was allocated to just six “clusters” of multilateral entities: EU Institutions (37%), the International Development Association (IDA) of the World Bank Group (21%), UN Funds and Programmes (10%), the Global Fund (6%), and African and Asian Development Banks (4% and 3%). Multilateral ODA to EU Institutions, the largest contribution at USD 13 billion, also makes up the majority of EU members' multilateral ODA (51%).

7. The longer-term drop in multilateral ODA to UN Funds and programmes, together with the increase in that allocated to EU Institutions and – more recently – to the Global Fund and the World Bank Group, appears to be a continuing trend (Figure 2). The DAC average share of multilateral ODA to UN Funds and Programmes fell from 15% to 10% between the periods 1999-2003 and 2004-8. Over these same two periods, the share of resources allocated to the Global Fund increased from 2% to 6%, to EU Institutions from 33% to 37%, and to the World Bank Group from 19% to 23%.

Figure 2. Aid provided by DAC countries to select multilaterals (five-year average)



Source: DAC Aggregates.

*Contributions to six UN Funds and Programmes are separately identifiable in DAC members' reporting: UNDP, UNICEF, UNRWA, WFP, UNHCR, and UNFPA. Other UN Funds and Programmes are aggregated under the "Other UN" category.

Note: "Other Agencies" includes GEF, Montreal Protocol, the IMF and residual multilaterals.

8. **The “long tail”.** Conversely, multilateral ODA to the remaining “long tail” of multilaterals – which number over 200 – accounts for the other 18%, a share that is slowly shrinking. The vast majority of these institutions do not report their outflows to developing countries to the DAC. However, many are known to have normative, standard-setting, technical mandates which are not best gauged in terms of their resource transfers alone. Such mandates may oblige them to maintain broad geographical representation. Moreover, from the perspective of the countries they advise, they may not generate transaction costs comparable to those of small additional donors.

9. The *2008 DAC Report on Multilateral Aid* examined the internal allocation processes of each DAC member, both between bilateral and multilateral aid and across multilaterals. In practice, these multilateral allocations are not determined simultaneously and often not within the same ministry. Political decisions at the margin, made under fiscal pressure and in consideration of geographic and thematic priorities and (often) the balance between loans and grants, are the rule not the exception. It is exceptional, however, though not unknown, for countries to zero-base their contributions to some multilaterals, rather than maintain them at extremely low levels with minimal staff capacity for oversight.

10. **A portfolio view.** DAC donors allocate strikingly different portions of their multilateral portfolios to the same major multilateral organisations. Luxembourg, for example, provides 13% of its non-EU multilateral aid portfolio to the IDA, compared to Germany’s 53%. The range for UN Funds and Programmes is from 5% (France) to 45% (Norway), and even the relative share of the EU covers wide variations among its members.

11. Such large portfolio variations are significant in global policy terms to the extent that contributions to each cluster are considered to be voluntary and fungible with contributions to other organisations. For IDA replenishments, participants negotiate contributions which are, in principle, discretionary, although they may be heavily influenced by historic shares. Contributions to UN Funds and Programmes, the Global Fund and the African and Asian Development Funds are similarly voluntary. EU institutional funding is a mix of multi-year replenishments of European Development Fund (EDF) assistance to Africa, the Caribbean and the Pacific (based on negotiations and unanimous decisions as to each member’s contributions); of annual EU budget allocations (in keeping with European Parliament’s and Council of Ministers’ decisions); and to those other components of EU external action which qualify for ODA. A smaller fraction of overall multilateral funding – of particular relevance to UN Specialised Agencies – is driven by assessed contributions, which can be considered conditions of membership.

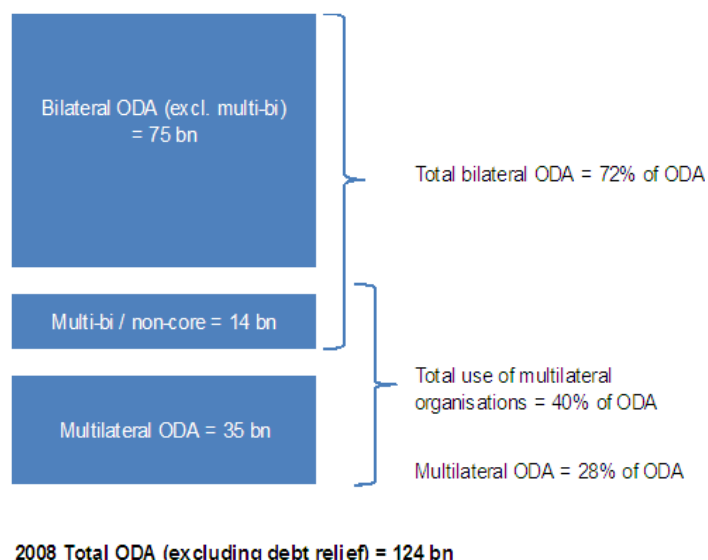
12. **Non-DAC providers of multilateral support.** Nineteen non-DAC members, of which Saudi Arabia is the largest provider, report their aid flows to the DAC. They account for USD 8.8 billion of total non-DAC aid, estimated between USD 12 and 14 billion, or 9% to 10% of global ODA, according to recent OECD estimates. Their multilateral share is, on the whole, higher than the DAC’s, given that the majority are recent EU members without large bilateral programmes of their own. This, however, is unlikely to be true for the BRIC countries. They are members of many multilateral agencies and are increasingly becoming contributors to concessional funds, yet their bilateral programmes are growing even faster. Finally, mention should be made of large foundation grants – overwhelmingly from the Bill and Melinda Gates Foundation – to some of the global health partnerships, most notably the Global Fund and Global Alliance for Vaccines and Immunisation (GAVI).

Total Use of the Multilateral System

13. In addition to multilateral ODA, donors choose to give non-core funding, earmarked for specific sectors, themes, countries or regions and routed through multilateral agencies, as illustrated in Figure 3

below. Core multilateral ODA combined with non-core multilateral ODA constitutes the total use of the multilateral system. This represented 40% of total ODA in 2008, similar to the 2006 share. This proportion may give a better indication of the role multilateral institutions play in the overall aid architecture today.

Figure 3. Gross ODA disbursements in 2008
(Excluding debt relief, contributions from EU Institutions, and Korea)



Source: DAC Aggregates and Creditor Reporting System.

Non-Core or “Multi-Bi” Aid

14. Australia, Norway, Spain, and the United States, have the highest non-core multilateral ODA as a share of the reported total use of the multilateral system, well above the DAC average of 29%. France, Greece and Germany have the lowest shares, though this may be partly due to under-reporting. The volume of non-core funding has been rising quickly from a relatively low base. But since this rise coincides with significantly better reporting, it is too early to tell if it forms a sustainable trend. Until recently, EU Institutions did not accept earmarked funds, which explains their very small share of non-core multilateral ODA. When contributions to the EU Institutions are excluded (both core and non-core), the DAC average rises to 39% and the same top four donors emerge.

15. There are inherent tensions and complementarities in providing both core and non-core contributions to multilateral organisations. **From the donor’s point of view**, non-core funding of multilateral organisations makes it possible to target resources to specific sectors, regions or countries of interest with the kind of visibility that can help mobilise and maintain public resources for development.

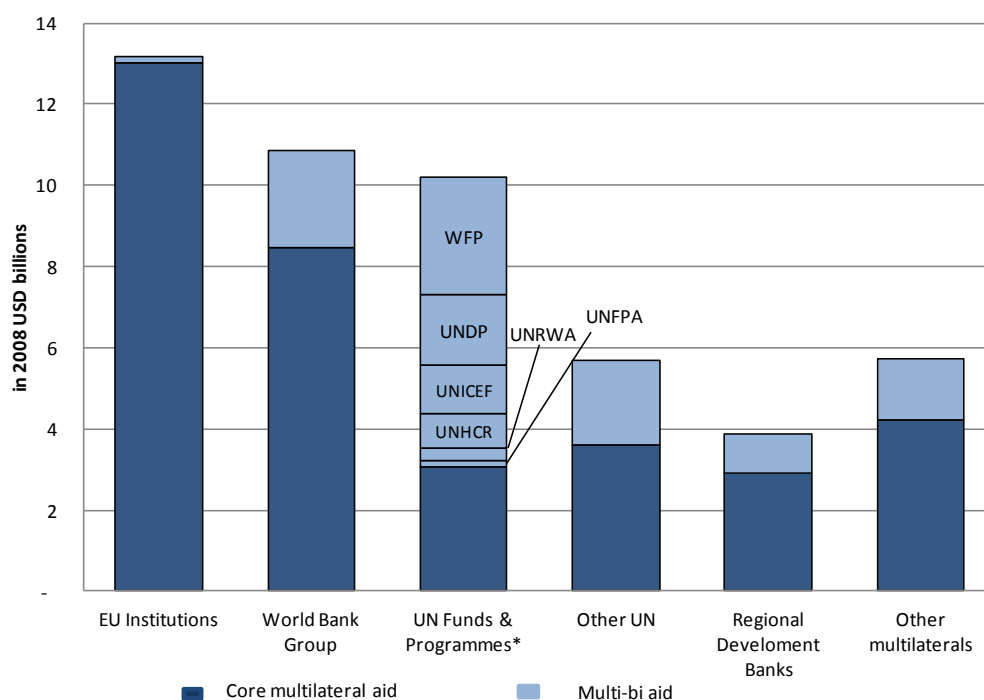
16. **From a multilateral organisation’s perspective**, non-core funding can shift its overall balance of activities. Non-core resources may incur higher transaction costs for the receiving organisation, given the additional monitoring and reporting requirements that may be imposed. Governance arrangements of earmarked funds may also offer less say to partner countries in the decision-making process and/or limit institutional oversight. On the other hand, non-core funds increase the overall envelope of resources available to multilateral entities, allowing them to engage in a wider range of activities while using existing institutional structures.

17. **From an aid effectiveness perspective**, multi-donor trust funds also have to be compared to the alternative, which might be a proliferation of parallel bilateral initiatives with their corresponding costs and overlaps. However, the more DAC members' multilateral portfolios are shaped by non-core resources with a limited time horizon, the less predictable the overall funding of multilaterals becomes.

18. As illustrated in Figure 4, the World Bank is the second largest single recipient of non-core funding (USD 2.4 billion) after the World Food Programme (WFP) with USD 2.9 billion, which inherently depends on assistance earmarked for specific emergency operations and receives very little core funding. UNDP is the second largest non-core recipient in the UN system (USD 1.8 billion).

Figure 4. Total use of the multilateral system – gross disbursements in 2008

(Excluding EU Institutions and Korea as donors)



Source: Creditor Reporting System and DAC Aggregates.

Contributions to six UN Funds and Programmes are separately identifiable in DAC members' reporting: UNDP, UNICEF, UNRWA, WFP, UNHCR, and UNFPA. Other UN Funds and Programmes are aggregated into the "Other UN" category

19. Non-core ODA earmarked for humanitarian purposes and routed through multilateral organisations is the single most important channel of humanitarian aid in volume. Non-core multilateral ODA also reaches a higher proportion of fragile states: 72% of non-core funds allocated to specific countries go to fragile states as opposed to 36% of core multilateral outflows and 34% of bilateral ODA.

Non-Core Funding of the World Bank and UNDP

UNDP

20. Regular or core resources to UNDP amounted to USD 1.1 billion in 2008 and non-core resources (from all sources) reached USD 3.6 billion, according to UNDP's own records. The top recipient of non-core DAC contributions to UNDP is Afghanistan (USD 383 million), followed by Sudan (USD 75

million), Bangladesh (USD 68 million) and Somalia (USD 63 million). Non-core resources align with UNDP's mandated practice areas, but they do not fall directly under the purview of the Executive Board in the way core resources do.

21. The UN Multi-Donor Trust Fund (MDTF) Office offers a one-stop shop for donors to establish a single agreement with one UN organisation serving as the administrative agent, instead of entering into separate agreements with each relevant UN agency. MDTF activities and programmes are actually implemented by over 40 UN agencies and some non-UN participating agencies. "One UN" and "Delivering as One" funds and other multi-donor trust funds may actually reduce transaction costs both for UN agencies and partner governments and streamline efforts to bridge the financing gap at country level.

The World Bank

22. As a share of combined World Bank disbursements (IDA, IBRD [International Bank for Reconstruction and Development], and trust funds), trust fund disbursements grew from 8% in fiscal year 2004 to 14% in fiscal year 2008. (Trust fund disbursements exclude those of financial intermediary funds which, though administered by the Bank, do not fund its operations). Trust funds have enabled the World Bank to provide additional or complementary financing to support fragile states and non-member countries (e.g. Kosovo, and the West Bank and Gaza), as well as countries facing emergencies or natural disasters. There are also thematic or sector-specific trust funds, such as the Education for All Fast Track Initiative (EFA-FTI). There is some evidence from a recent evaluation of EFA-FTI that core IDA resources for education have been redirected to other country priorities within an overall performance-based country allocation because of additional grant-financed trust funds earmarked for the education sector.

23. In 2007, the Bank launched a series of reforms aimed at enhancing the strategic alignment, risk management, and efficiency of Bank-administered trust funds. As part of these reforms, the Bank increased the minimum threshold for all new trust funds from USD 200 000 to USD 1 million and introduced a new fee structure. Efforts are currently underway to enhance the alignment of trust funds with Bank strategies and processes.

Development Perspectives for a Post-Copenhagen Climate Funding Architecture

24. The December 2009 Copenhagen Accord promises developing countries scaled up, predictable, and adequate funding to meet the challenges of climate change. Developed countries committed to providing new and additional resources approaching USD 30 billion for the period 2010-12 with allocation balanced between adaptation and mitigation. They also committed to a goal of mobilising USD 100 billion a year by 2020 to meet the needs of developing countries in this regard.

25. Key post-Copenhagen processes, including the next COP16* in Mexico, will need to mobilise further resources and find robust mechanisms to measure climate change flows. Currently, the DAC's "Rio marker" on climate change mitigation and the recently approved new marker for adaptation provide the only systematic way for reporters to identify public finance flows that serve clearly defined adaptation or mitigation objectives. However the markers are not by themselves a sufficient basis from which to pinpoint the volume of spending going to these objectives compared to other development activities. Nor are there agreed baselines against which additionality to ODA can be measured.

26. Despite a number of substantial commitments and much hard work implementing fiduciary and management structures, actual disbursements to address climate change have taken time. Today, total

* The Conference of the Parties (COP16) to the United Nations Framework Convention on Climate Change (UNFCCC).

disbursements by existing global funds for climate change both inside and outside the UN Framework Convention for Climate Change (UNFCCC) have amounted to only USD 2.9 billion since their inception – about USD 246 million per year. In contrast, the World Bank estimates total resources (including, but not limited to, global funds) dedicated to climate change mitigation and adaptation at between USD 9 and 10 billion per year (between USD 8 and 9 billion for mitigation and USD 1 billion for adaptation).

27. It is inadequate to argue that parallel new funds should be created because existing funds have not yet delivered sufficient resources or because the financial gaps for funding climate change mitigation and adaptation efforts are already so large. Instead, it is important to draw lessons from global health funds, starting with an analysis of the functions and purposes of new ventures envisaged in order to determine whether existing institutions fit the bill. Other configurations, including a “networked” approach of separating out functions and institutional responsibilities, may be equally desirable and/or manageable.

28. When plans are prioritised and integrated into a country’s planning process to allow for the active participation of central and line ministries, civil society, and the private sector, stakeholders can effectively lead and steer efforts to address the effects of climate change and mitigate them. The ideal climate fund model will provide flexible external resources to support intrinsically integrated interventions anchored in a country’s climate or national development strategy. New proposal-based systems should be avoided as they usually require complex appraisal systems with high transaction costs for partner countries.

Developments in the Multilateral System

29. All multilateral agencies covered in this report have established specific reform programs to attain one or more of the following objectives: (i) to become more effective and efficient, applicable to all agencies; (ii) to ensure greater policy coherence for development, as in the case of EU Institutions; (iii) to reduce fragmentation, particularly as it affects the UN system; (iv) to achieve governance and voting structures that are more closely aligned with their membership, a challenge faced by the Bretton Woods Institutions in particular.

30. Multilateral agencies reacted quickly to demands from partner countries for additional resources prompted by the economic and financial crisis in 2009. Partly as a result of this high crisis-related demand and subsequently large disbursements, the year 2010 requires donors to make simultaneous decisions on the replenishment and recapitalisation of several major concessional funds and multilateral development banks.

Multilateral Strategies and Evaluation 2009-10

31. Finland, Portugal, the Netherlands, and Belgium have developed new multilateral strategies since the 2008 report. Of particular note has been Belgium’s policy of shifting most of its contributions to multilateral agencies towards full core resources, thus decreasing its non-core multilateral ODA over time. As an alternative approach, some donors (*e.g.* the UK) are making additional voluntary core contributions to multilateral organisations, mostly linked to performance targets set by the institutions themselves.

32. For domestic accountability purposes, DAC members continue to report a need for better evidence of multilateral impact and effectiveness – a need made more pressing by post-crisis fiscal stringencies and the large number of major replenishment negotiations held at the same time. They see a growing need to justify multilateral contributions – over which they have less direct oversight – to a sceptical public, and may therefore require even more detailed reporting on the impact of multilateral

organisations in developing countries than they possess for their own operations. How well multilateral organisations report this information back to donors, and how well DAC members in turn represent them domestically, may influence domestic constituents' perception of these organisations as much as the substantive evidence available.

33. As first discussed in the *2008 DAC Report on Multilateral Aid*, reporting by multilateral agencies should ideally be sufficiently comprehensive to satisfy bilateral donor information requirements, making separate donor-driven assessments unnecessary. Indeed, a shift towards self-reporting by multilaterals would be a way to apply the Paris Declaration principles of “ownership” and “alignment” to the funding of these organisations. Until such reporting is deemed adequate, however, collective assessments intended to bring about the full harmonisation of monitoring instruments for multilaterals are at least an improvement over a proliferation of single-donor assessment efforts.

34. Such harmonised efforts include the Multilateral Organisations' Performance Assessment Network (MOPAN), and the work of the DAC's Evaluation Network. The latter is involved in peer reviewing the evaluation capacities of multilateral organisations. It is also developing an approach to joint assessments of the development effectiveness of multilaterals, by combining elements of MOPAN assessments with reviews of organisations' own evaluations of their development results.

35. The *2011 DAC Report on Multilateral Aid* will examine the processes and evidence bases that DAC members use to establish their bilateral and multilateral aid allocations and, in turn, their contributions to the larger multilateral organisations. It will look at whether such choices are made deliberately and coherently or can only be inferred from multiple separate decision points within and across agencies and government departments.

Box 1. Questions for further discussion: issues being reviewed by the DAC

- What explains the flat historical multilateral share of ODA? Which arguments for and against greater pooling have the most traction in the current context?
- Should future work focus on the 15 multilaterals (6 clusters) which claim 82% of multilateral ODA volume, or should it also attempt to rationalise the 18% “long tail”?
- What are the main determinants of large variations in the multilateral portfolio choices across DAC members? Are any likely to be amenable to improved information sharing?
- Are new non-DAC and non-EU funding sources less focused on multilaterals? If so, why, and how might this change?
- Is the EU a special case that requires a different analytical approach? If so, in what way?
- Is there a growing trend towards non-core funding? What might the implications be for development effectiveness?
- How might monitoring “new and additional” funding for climate change be envisaged?
- Future efforts by the DAC's Evaluation Network and MOPAN aim to combine surveys of multilateral effectiveness with better impact reporting by the multilaterals themselves. Is this the right mix?
- Bilateral donors have reported an inability to demonstrate multilateral effectiveness. Is this primarily due to underlying multilateral performance problems, lack of robust data, or communication gaps?

Checklist of Main Findings

General Trends in the Multilateral System

- As overall levels of ODA increase, the multilateral share of ODA is either flat or shrinking, when contributions to EU Institutions are excluded. (Paragraph 42)
- In many cases, donors allocate very different shares of their multilateral portfolio to the same multilateral agencies. (Paragraph 53)
- Multilateral aid accounts for a high share of the aid granted by non-DAC EU members reporting to the DAC, although it is unlikely to be as high among the BRICs (who do not report to the DAC). (Paragraph 48)
- In 2004-8, an average 82% of DAC members' multilateral ODA went to six clusters of organisations: EU Institutions, the IDA, UN Funds and Programmes, the Global Fund, and the African and Asian Regional Development Banks (15 institutions in all). Conversely, multilateral ODA to the remaining 200-plus multilateral organisations accounted for only 18%. (Paragraph 51)
- Recent trends indicate a decrease in the core multilateral funding of UN Funds and Programmes and an increase in funding to EU Institutions and the Global Fund. (Paragraph 62)
- Multilateral outflows are, on balance, more flexible in the short term, as demonstrated by their response to the crisis. (Paragraph 65)
- Multilateral outflows are also more geographically concentrated than bilateral flows and deliver 37% of country programmable aid. These figures are, however, subject to qualification. (Paragraphs 66 and 70)
- The total use of the multilateral system by DAC donors (core multilateral ODA plus bilateral earmarked ODA channelled through multilateral organisations) was 40% of total ODA in 2008. Indeed, this proportion may give a better indication of the role multilateral institutions play in the overall aid architecture today. (Paragraph 74)

Non-Core Funding of Multilateral Organisations

- In 2008, 29% of DAC countries' total aid transiting through the multilateral system was earmarked (non-core). This rose to 39% when all contributions to EU Institutions were excluded. (Paragraph 78)
- Donors earmark funds for specific countries and sectors and to gain greater visibility and influence in the multilateral system. (Paragraphs 80 and 81)
- From a multilateral organisation's perspective, excessive earmarking risks weakening its governance and complicates accountability. However, such risks may be preferable to the alternative of multiple, single-donor, parallel initiatives. (Paragraphs 83 and 84)
- Non-core, or earmarked, multilateral ODA is the single most important channel for humanitarian aid. It also targets a higher proportion of fragile states than multilateral outflows or bilateral ODA. (Paragraphs 89 and 90)

Non-Core Funding of UNDP and the World Bank

- UNDP non-core funding is used for the same thematic areas as its core funding. Funding to the Multi-Donor Trust Fund Office helps align donors and UN agencies at country level, *e.g.* through the One UN funds. (Paragraph 104)
- World Bank non-core flows help diversify its portfolio to countries where loan instruments are unavailable, *e.g.* due to arrears or because recipient countries are non-members. (Paragraph 118)

Development Perspectives for a Post-Copenhagen Climate Funding Architecture

- The ideal climate fund model will provide flexible external resources to support intrinsically integrated interventions anchored in a country's climate or national development strategy. (Paragraph 153)
- New, complex, proposal-based systems should be avoided as they usually require complex appraisal systems with high transaction costs for partner countries. (Paragraph 152)
- Instead of creating new funding mechanisms, it may be equally desirable for donors to examine existing functions and determine whether existing institutions can perform them through a "networked" approach in which each institution fulfils an institutional responsibility. (Paragraph 154)
- Total public resources currently dedicated to climate change mitigation and adaptation in developing countries are estimated at roughly USD 10 billion per year. To date, existing climate change funds have disbursed a yearly average of only USD 246 million per year. (Paragraphs 155 and 159)
- As the parties to the UNFCCC discuss the additionality question, it will be important to apply and improve OECD members' reporting by using the markers for climate change mitigation and adaptation as rapidly as possible. (Paragraph 136)

Developments in the Multilateral System and Evaluation

- Multilateral development banks are moving forward with reforms towards a more representative governance structure. Internal reforms also aim to provide more flexible and better adapted instruments for their clients. (Paragraphs 175-178 and 182-184)
- The year 2010 requires donors to make simultaneous decisions on the replenishment and recapitalisation of major concessional funds and multilateral development banks. (Paragraphs 206-208)
- In the longer-term, self-assessments by multilateral agencies should be sufficiently comprehensive to satisfy bilateral donor information requirements and to make separate bilateral evaluations and/or assessments unnecessary. (Paragraph 220)
- Until self-reporting is deemed adequate, collective assessments designed to achieve the full harmonisation of monitoring instruments for multilaterals are encouraged as an improvement over multiple single-donor assessment efforts. (Paragraph 221)