

**DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE**

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**THE DAC MULTILATERAL AID REPORT IN 2013-14**

**DAC Meeting, 3 December 2013**

*This paper is submitted for DISCUSSION under Item 8 of the Draft Annotated DAC Agenda [DCD/DAC/A(2013)15].*

*The paper presents the new concept for the DAC Flagship Report on Multilateral Aid, which will take the form of a collection of working papers issued separately over two years and then incorporated into a comprehensive publication at the end of the two years. The paper also presents the topics to be covered in the working papers together with a tentative timeline. DAC Members' comments and suggestions are invited.*

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## THE DAC MULTILATERAL AID REPORT IN 2013-14

### I. Introduction

1. The DAC's Multilateral Aid Report, published since 2007, has become a leading reference for understanding developments in the multilateral aid landscape. It complements the Development Co-operation Report by discussing DAC and non-DAC donors' policies and funding for the multilateral system, assessing global trends in multilateral aid, and suggesting ways to improve delivery of multilateral aid for better results.

2. Given new and existing challenges and the likely establishment of Sustainable Development Goals after the Millennium Development Goals expire in 2015, the role of the multilateral institutions will be central. The next two years offer a unique opportunity for donors and multilateral organisations (MOs) to work together to engineer a multilateral aid system able to fully meet its goals, and the Multilateral Aid Report can provide key analysis and policy guidance to assist in this endeavor.

3. This paper explains the proposed new concept for the report (Section 2), suggests topics to be covered (Section 3), and provides a tentative timeline (Annex A). Additionally, key facts on earmarked funding are presented in Annex B.

### II. The next report: a collection of working papers issued over a two-year cycle

4. So far, the Report has been an annual publication, featuring different topics each year, such as: DAC members' rationales and strategies for providing multilateral aid (2008); multilateral climate change funding and multilateral responses to the financial crisis (2010); principles for good multilateral donorship (2011); and fragmentation and principles to reduce proliferation of multilateral channels (2012).

5. However, some DAC members feel the need for more timely analysis given their need to engage with a rapidly evolving development co-operation landscape. To address this concern, the Report will move from an annual publication to a collection of three substantial working papers issued separately, and then incorporated into a comprehensive publication at the end of the two years.

6. Under this new approach, DAC members will be presented with a proposal for the topics to be covered in each cycle. Each paper will also be submitted to a small reference group of researchers and practitioners to increase its outreach, bring fresh external inputs and stay connected to broader thinking.

### III. Overview of topics for the 2013-14 cycle

7. As in the past, the next Report will include a compendium of donor strategies and practices on core multilateral funding, with a statistical annex. Additionally, three working papers are proposed on:

- Donor and MO practices in managing earmarked funding;
- Country-level fit of earmarked funding; and
- The role of emerging donors in the multilateral system.

### ***III.1. Good practices in managing earmarked funding***

#### *Proposal*

8. The existing literature on earmarked funding focuses on donors' and MOs' rationales and incentives for using it. It has suggested that trust funds can help meet specific needs (e.g. humanitarian crises) and evolving development challenges, but can also create demands in terms of co-ordination in and coherence of the international aid system (see for example, OECD, 2010; IEG, 2011; Thalwitz, 2013).

9. To meet such challenges, both the World Bank and the UN system – the main recipients of earmarked funding – are introducing important reforms, viz. the Bank's on-going trust fund reform agenda and the UN's 2012 Quadrennial Comprehensive Policy Review Resolution. Both provide windows of opportunity for donors and MOs to work together to improve the development impact of earmarked funding.

10. The proposed paper will capitalise on these opportunities by analysing policies and practices in managing earmarked funding from both the supply (donor) and the demand (MO) sides, highlighting good practices and identifying action points to further improve the quality of earmarked funding.

11. On the supply side, the paper will analyse donors' criteria, guidelines and norms for establishing trust funds, including ceilings for funding to trust funds, special reporting requirements and requests for qualitative and quantitative assessments of the governance, programmes, budgets and human resources of the trust funds. This analysis will attempt to identify donor corporate practices that promote more effective earmarked funds management, providing learning opportunities for other donors.

12. On the MO side, the paper will assess progress made since the examination in the 2010 Report of World Bank's programme of trust fund reform launched in 2007. The paper will also investigate UN practices in managing trust funds, and UN trust funds reforms aimed at reducing fragmentation and improving efficiency, e.g. by establishing the Multi Partner Trust Funds Office, thresholds on the size of trust funds, rules for single donor trust funds, global thematic funds, cost-recovery policies, etc.

13. The paper will also discuss statistical reporting problems related to the complex architecture of earmarked funding, and outline current DCD work to address these problems.

#### *Methodology and process*

14. This paper will be based on: (i) personal interviews conducted with World Bank and UN agencies' staff (UNDP, UNFPA, UNICEF, UNDG, UN-DESA, MPTFO, etc.); (ii) findings from the 2013 OECD/DAC Survey on Multilateral Aid Allocations; and (iii) desk research.

15. The Senior Level Donor Meeting held in Oslo in November 2013 reviewed a preliminary analysis of earmarked funding issues prepared in collaboration with Germany (BMZ). This analysis will be expanded to cover all respondents to the 2013 OECD/DAC Survey on Multilateral Aid Allocations and to provide a more in-depth analysis on the MO side.

### ***III.2. Country-level fit of trust funds***

#### *Proposal*

16. The growth in earmarked resources over the past decade has increased the complexity of the aid architecture, and a panoply of arrangements has developed: single-donor trust funds, multi-donor trust funds hosted within existing MOs, financial intermediary funds, vertical funds, etc. Each set-up has different implications for donors and recipients.

17. The 2011 Report showed that once earmarked funding was attributed to MOs instead of donors, MOs' concentration ratios declined substantially, implying a greater level of fragmentation of MO programmes than traditionally assumed. We could now provide a deeper analysis of the level of proliferation of different earmarked funding channels, and of the broader implications. This would require identifying key typologies of earmarked funding building on the distinction between trust funds associated with the multilateral institutions, and "pass-through multilaterals" without an implementing capacity.<sup>1</sup>

18. The proposed paper will be framed as a case study assessing the implications of various channels of earmarked funding from a partner country perspective (e.g. for the influence that donors can exert, the cost borne by donors and MOs, fragmentation, country ownership and alignment).

#### *Methodology and process*

19. Desk research will be complemented by field visits and information collected through DAC members' embassies.

### ***III.3. The role of emerging donors in the multilateral system***

#### *Proposal*

20. Non-DAC donors now provide about USD 2 billion to the multilateral system, and this is a conservative estimate since a number do not report their multilateral aid allocations to the DAC. The contribution of these countries to the multilateral aid system remains an under-researched topic<sup>2</sup>.

21. The increasing role of emerging economies in international development finance calls for a better understanding of the new landscape of the multilateral aid system, and how it links to the need for reform in the governance structures of its principal institutions. The proposed paper will provide a quantitative analysis and tentative mapping of ODA contributions of selected emerging donors to MOs, focusing on one or two emerging donors, to be selected among Turkey, Russia, Brazil and other non-DAC donors.

#### *Methodology and process*

22. The study will mainly rely on desk research and expert interviews, and will be informed by responses to the 2013 Survey on multilateral allocations from non-DAC members.

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1. See Eichenauer et al. (2013).

2. Some analysed the bilateral portfolio of emerging donors' assistance, see for example Lancaster (2007) on China, and Villanger (2007) on Arab donors. Contributions to the multilateral system were examined in De Haan et al. (2013) for China, and Kararach et al. (2013) on emerging donors' support to gender equality through the multilateral system.

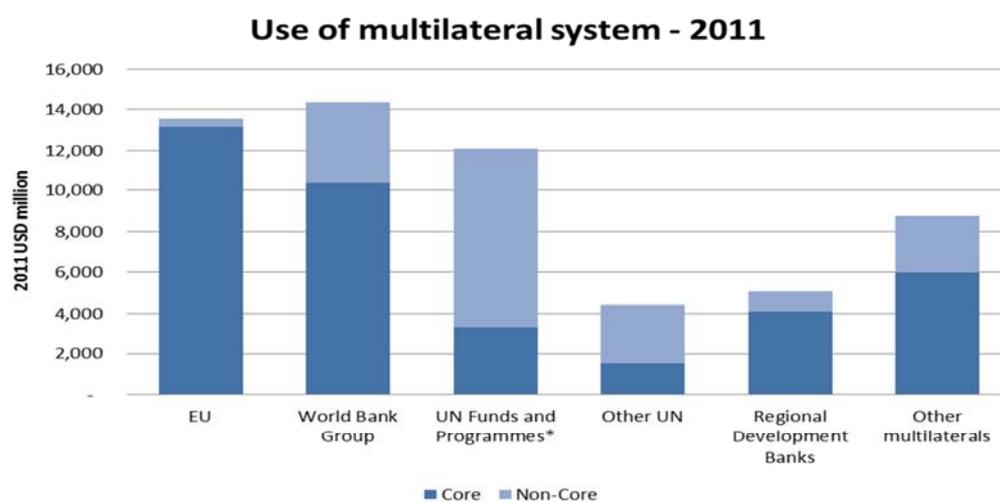
## ANNEX A: TIMELINE FOR THE NEXT MULTILATERAL AID REPORT

WORKING PAPER	SUBMISSION TO DAC	FINAL	RELATED EVENTS
1. Donors' and MOs' practices in managing earmarked funding	End January 2014 (comments by 14 February)	Early March 2014	<ul style="list-style-type: none"> <li>• Mission to Washington and New York to interview WB and UN staff: October 2013.</li> <li>• Senior Level Donor Meeting in Oslo: 11-12 November 2013 to present preliminary findings, jointly with BMZ.</li> <li>• BB on fragmentation workshop in Uganda: 3-5 December. Presentation of preliminary findings.</li> <li>• Discussion in the DAC: 8 April 2014 (tentative).</li> </ul>
2. Country-level fit of trust funds	eEnd of April 2014	May 2014	<ul style="list-style-type: none"> <li>• First field visit in the last week of February 2014.</li> <li>• Second field visit in the second week of March 2014.</li> <li>• Workshop with relevant stakeholders (donors, MOs, recipients): mid-April.</li> <li>• Discussion in the DAC: 17 June 2014 (tentative).</li> </ul>
3. The role of emerging donors in the multilateral aid system	July 2014	October 2014	<ul style="list-style-type: none"> <li>• Discussion at the SLDM: October 2014</li> <li>• Discussion in the DAC: November 2014 (tentative).</li> </ul>
4. Compendium of donor strategies and practices on core multilateral aid	July 2014	September 2014	<ul style="list-style-type: none"> <li>• Discussion at the SLDM: October 2014</li> <li>• Discussion in the DAC: November 2014 (tentative).</li> </ul>
<b>Multilateral Aid Report (compiled papers + statistical annexes)</b>	December 2014	End of December 2014	<ul style="list-style-type: none"> <li>• Launch event early 2015 (tentative)</li> </ul>

## ANNEX B: SOME FACTS ABOUT NON-CORE FUNDING

1. The UN is by far the largest recipient of non-core funding.

**Figure 1. Use of the multilateral system**

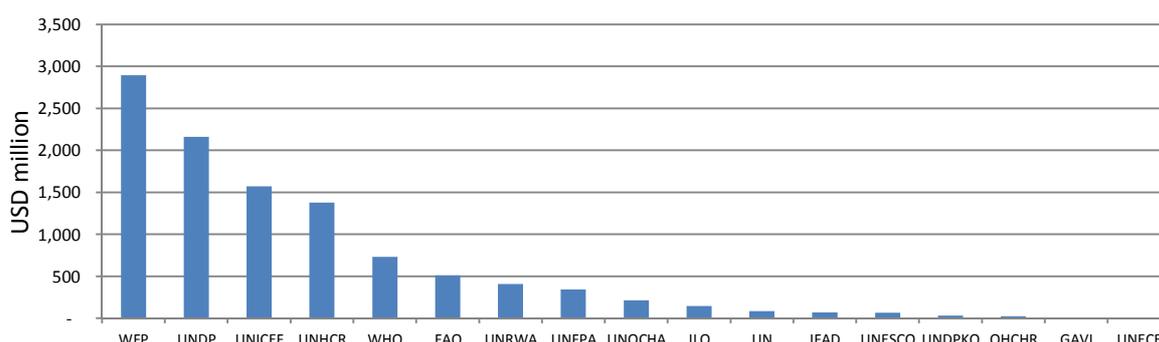


Source: DAC/CRS

data

2. Among UN agencies and funds, the top five recipients of non-core receive over 80% of all non-core funding to the UN. These are: WFP, UNDP, UNICEF, UNHCR, and WHO.

**Figure 2: Non-core funding to UN agencies and funds in 2011**



Source: DAC/CRS data

3. Non-core funding weighs heavily in the total budget of some UN funds/agencies. For example, in 2011 WFP's non-core funding was almost eight times larger than core funding, accounting for 88% of its total financial inflows (see column c of Table 1). The non-core share of total funding was between 78% and 68% for: UNCHR (75%), UNECE (75% times), FAO (73%), UNICEF (70%), and UNDP (68%).

Among the regional banks, only in the Inter-American Bank non-core is slightly larger than core funding, accounting for 55% of total funding.

**Table 1. Weight of non-core on overall funding to multilateral organisations in 2011**

	Core	Non-Core	Non-core share of overall funding
	a	b	b/(a+b)
<b>EU</b>	<b>13,120</b>	<b>420</b>	<b>3%</b>
<b>World Bank Group</b>	<b>10,352</b>	<b>4,002</b>	<b>28%</b>
<b>UN Funds and Programmes</b>	<b>3,319</b>	<b>8,759</b>	<b>73%</b>
<i>of which:</i>			
UNDP	1,001	2,160	68%
WFP	381	2,895	88%
UNICEF	685	1,572	70%
UNFPA	466	343	42%
UNHCR	450	1,379	75%
UNRWA	335	410	55%
<b>Other UN</b>	<b>1,519</b>	<b>2,913</b>	<b>66%</b>
<i>of which:</i>			
FAO	189	513	73%
IFAD	234	69	23%
ILO	190	148	44%
OHCHR	48	25	35%
UNDPKO	282	31	10%
UNECE	1	2	75%
UNESCO	158	65	29%
UN	349	86	20%
UNOCHA	-	216	100%
WHO	401	731	65%
<b>Regional Development Banks</b>	<b>4,098</b>	<b>948</b>	<b>19%</b>
<i>of which:</i>			
African Development Bank	2,052	243	11%
Asian Development Bank	1,617	256	14%
Inter-American Development Bank	156	190	55%
<b>Other multilaterals</b>	<b>5,992</b>	<b>2,774</b>	<b>32%</b>
<i>of which:</i>			
Global Fund	2,588	-	0%
GAVI	494	8	2%
<b>Total</b>	<b>38,400</b>	<b>19,816</b>	<b>34%</b>

Source: DAC/CRS data.

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