The Multilateral Development Finance Non-System

A Mapping of the Multilateral Development Finance System

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1. Rationale for Mapping Multilateral System
2. The Current Multilateral Complexity
3. Mapping Multilaterals and the MDGs: Towards a Role Assignment
4. Rules of Policy Assignment
5. Reforming the Aid System
1. Rationale for Mapping Multilateral System

- System complexity => high transaction and administrative costs for donors & recipients
- => High benefit potential for consolidation, which requires mapping
- Mapping helps address fragmentation and poor coordination of agencies at country level
- => raises attractiveness of multilaterals as partner for donor agencies
- Mapping helps identify comparative advantages
- => supports role assignment and prioritisation
2. The Current Multilateral Complexity

ODA-Eligible Institutions

<table>
<thead>
<tr>
<th>Broad category of channel</th>
<th>Channel code</th>
<th>Name of category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>10</td>
<td>Donor government/Extending agency</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>Recipient government</td>
</tr>
<tr>
<td></td>
<td>20</td>
<td>NGO - in donor/third country</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>NGO – in recipient country</td>
</tr>
<tr>
<td></td>
<td>22</td>
<td>NGO – international</td>
</tr>
<tr>
<td></td>
<td>30</td>
<td>PPP</td>
</tr>
<tr>
<td>NGO</td>
<td>40</td>
<td>Multilateral - UN</td>
</tr>
<tr>
<td></td>
<td>41</td>
<td>Multilateral - WB/IMF/Regional Banks</td>
</tr>
<tr>
<td>Multi</td>
<td>42</td>
<td>Multilateral - other</td>
</tr>
<tr>
<td>PPP</td>
<td>50</td>
<td>Churches</td>
</tr>
<tr>
<td></td>
<td>51</td>
<td>Foundations</td>
</tr>
<tr>
<td></td>
<td>52</td>
<td>Universities/research institutes</td>
</tr>
<tr>
<td></td>
<td>53</td>
<td>Enterprises</td>
</tr>
<tr>
<td>Private</td>
<td>60</td>
<td>Other</td>
</tr>
</tbody>
</table>

The CRS Directives for ODA Reporting Instructions list as ODA eligible:

- 23 DAC members with a varying number of agencies
- 47 UN agencies, funds and commissions
- 4 EC bodies
- 2 IMF trusts, 5 World Bank Group bodies
- 12 regional development banks and funds
- 97 other multilateral institutions (incl. GEF and GFATM)
- 32 international non-governmental organisations
- and 5 main public-private partnerships

This defines the international aid system of the “old” actors. Increasingly, flows from new donors outside DAC.
2. The Current Multilateral Complexity

Public

**Bilateral Donors**
- 23 DAC donors
  - Bilateral development banks and agencies

**Multilateral Donors**
- World Bank
- IMF
- UN
- Regional development banks and agencies

**Global Programmes**
- GFATM, GAVI & other health funds
- Global Environment Facility
- Fast Track Initiative/ Education for All
- UN Specialised Agencies

**NGOs**
- International NGOs (e.g. Oxfam)
- National NGOs in donor countries
- National NGOs in developing countries

**Private Philanthropy**
- Foundations such as Gates, Rockefeller, Ford, Wellcome Trust
- Households (e.g. remittances and other private transfers)
- National NGOs in developing countries

**Private Commercial Sector**
- Firms (e.g. foreign direct investment, Corporate Social Responsibility)
- Commercial Banks (e.g. loans, export credits, financial guarantees)
- Private Investors (e.g. portfolio and equity investments)

Private

Indicates observer status in DAC.
2. The Current Multilateral Complexity

- Recipients at times complain about the “cost of doing business” with multilaterals as paperwork for monitoring, implementation of standards, etc. raise financing cost.

- There is a fairly recent tendency for some to migrate to bilateral non-DAC donors for funding, such as China, Brazil or Venezuela.

- Impact on Debt Sustainability Framework.

- BWIs risk losing the financial leverage they need to promote ‘good’ policies as their client base is moving either to non-DAC donors or private markets.
2. The Current Multilateral Complexity

- There has been a strong dynamic in the creation of both public and even more private institutions in the Development Finance Non-System.

- All in all, the UNDP has counted 1000 (sic!) by 2004.

Source: I. Kaul & P. Conceicao (2006), The New Public Finance
2. The Current Multilateral Complexity

- **New Entrants: Multi-actor Global Funds**
  - promise an aggressive focus on results, to the point of withholding funding to non-performing recipients,
  - seek to realize the benefits of multi-stakeholder collaboration,
  - are seen as magnets to raise additional funds from both public and private sources.
Multiactor Global Funds

- But three influential observers* warn:
- Only a few provide truly global public goods (e.g. CGIAR),
- Often compete with or turn to country assistance programmes for resources or attention,
- The finance mobilised does not outweigh the added cost of resource mobilisation and program organisation,
- Increase the transaction cost of doing business for poor countries and donors by using own procedures.

2. The Current Multilateral Complexity

- The number of aid projects in the CRS database of the OECD nearly tripled between 1995 and 2003.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>10,327</td>
</tr>
<tr>
<td>1996</td>
<td>10,626</td>
</tr>
<tr>
<td>1997</td>
<td>10,310</td>
</tr>
<tr>
<td>1998</td>
<td>14,790</td>
</tr>
<tr>
<td>1999</td>
<td>20,692</td>
</tr>
<tr>
<td>2000</td>
<td>20,847</td>
</tr>
<tr>
<td>2001</td>
<td>28,739</td>
</tr>
<tr>
<td>2002</td>
<td>25,716</td>
</tr>
<tr>
<td>2003</td>
<td>27,876</td>
</tr>
</tbody>
</table>

- Source: D. Roodman (2006), Aid Project Proliferation and Absorptive Capacity, UNU-WIDER Research Paper No. 2006/04
2. The Current Multilateral Complexity

- Meanwhile, the UN system is weakened as it is subject to ‘cherry picking’, with selected voluntary contributions rising strongly while core universal functions remain underfinanced.

- The flat yellow curve denotes core ODA to the UN system; the dynamic turquoise curve includes non-core ODA channeled through the UN.

In principle, competition is to be welcomed as it undermines donor cartels, which should be good news for recipients.

Note: Donor fragmentation is measured as 1 – the Herfindahl Index of Donor Concentration, summing the squared shares of aid over all aid agencies covered by DAC.

Is donor fragmentation a problem for developing countries?

- Donor fragmentation is associated with low-quality administrations in recipient countries.
- One explanation: the best are poached away from local bureaucracies to work for donor projects.
- => Aid agency competition may be fine, but bundle service delivery on the ground.

Donor Fragmentation and the Erosion of Bureaucratic Quality

[Diagram showing a scatter plot with donor fragmentation (residual) on the x-axis and bureaucratic quality change (residual) on the y-axis.]

OECDOECD
3. Mapping Multilaterals and the MDGs: Towards a Role Assignment

Selected Multilaterals Working on the Millennium Development Goals

<table>
<thead>
<tr>
<th>MDG / thematic area</th>
<th>Main multilaterals</th>
<th>Other multilaterals with a role</th>
</tr>
</thead>
<tbody>
<tr>
<td>MDG 1: Eradicate extreme poverty and hunger</td>
<td>UNDP, World Bank, AfDB, AsDB, IFAD, EC, FAO, WFP</td>
<td>CGIAR, IADB</td>
</tr>
<tr>
<td>MDG 2: Achieve universal primary education</td>
<td>World Bank, UNICEF, UNESCO</td>
<td>UNFPA, UNRWA</td>
</tr>
<tr>
<td>MDG 3: Promote gender equality and empower women</td>
<td>UNDP, World Bank, UNIFEM, UNICEF</td>
<td>UNFPA</td>
</tr>
<tr>
<td>MDG 4: Reduce child mortality</td>
<td>WHO, UNFPA, UNICEF</td>
<td>World Bank, WFP, UNRWA</td>
</tr>
<tr>
<td>MDG 5: Improve maternal health</td>
<td>WHO, UNFPA</td>
<td>World Bank, WFP</td>
</tr>
<tr>
<td>MDG 6: Combat HIV/AIDS, malaria, and other diseases</td>
<td>UNAIDS, World Bank, WHO, UNDP, UNIFPA, UNICEF</td>
<td>UNIFEM</td>
</tr>
<tr>
<td>MDG 7: Ensure environmental sustainability</td>
<td>UN Habitat, World Bank, AsDB, UNDP</td>
<td>CGIAR, UNIDO</td>
</tr>
<tr>
<td>MDG 8: Develop a global partnership for development</td>
<td>World Bank, EU, UNDP, UNIDO, ILO, UNCTAD</td>
<td>UNDP</td>
</tr>
<tr>
<td>Human Rights</td>
<td>OHCHR</td>
<td>UNIFEM</td>
</tr>
<tr>
<td>Conflict &amp; humanitarian emergencies</td>
<td>UNHCR, OCHA, ECHO, WFP, UNICEF, WHO</td>
<td>UNDP</td>
</tr>
</tbody>
</table>

Source: National Audit Office (2005), DIFD – Engaging with Multilaterals
4. Rules of Policy Assignment

Tinbergen Assignment

“The Tinbergen rule of policy assignment … applies to institutional mandates as well. It is more efficient to have institutional specialisation – a World Bank for long-term development finance, an IMF for global financial system stability and short-term macroeconomic management, an ILO for labour issues and the WTO for trade.”

(T.N. Srinivasan & E. Zedillo (2006), The risk of a rerun: little progress since Cancùn, D+C)
4. Rules of Policy Assignment

- However,

- (1) countries which receive aid from a wide variety of donors experience much lower sector aid unpredictability than countries relying on one or two large donors, and

- (2) a number of individual donors appear to be associated with relatively unstable aid flows.

- These donor-specific effects account for quite a large fraction of the observed cross-country variation in aid unpredictability, both for sector aid and for programme aid.

4. Rules of Policy Assignment

- **Country Allocation:** most overlap in Central Asia (ADB, EBRD, BWIs)

- **Aid Modality:** big move toward grants => less instruments diversification, more overlap

- **Performance Criteria**
  1. Efficiency in reaching the poor
  2. Selectivity in response to policy quality
  3. Building sense of ownership
  4. Alignment with country systems in aid delivery and management
  5. Agency procedures (speed, transaction cost, coordination with other donors)
4. Rules of Policy Assignment

4. Rules of Policy Assignment

- **Multilateral Performance Measures**

- Growing evidence about the effectiveness (*x-efficiency*) of multilateral organisations (but weak links to MDG contribution). Focus on management systems (current management orthodoxy), partnerships, alignment with country systems

- **Sources:** DAC peer reviews, country programme evaluations, reports by civil society, Global Monitoring Reports, Multilateral Effectiveness Framework by DIFD and other bilateral agency assessments, MOPAN, COMPAS

- **Focus:** not the entire organisation but its *evaluation system* and the assessment if the institution has a professional and credible mechanism in place to evaluate the programmes it is provided resources for
Multilateral Assessment Frameworks

- Performance measures may help improve multilaterals' performance, hence raise x-efficiency;

- but they will not improve multilateral coherence, i.e. allocative efficiency for donor funds.
## 4. Rules of Policy Assignment

### 1. Strengths and weaknesses of multilaterals identified by DFID staff

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater scale, scope and leverage</td>
<td>Overall system architecture not fit for purpose</td>
</tr>
<tr>
<td>More effective because aid is predictable and</td>
<td>Weak governance and management</td>
</tr>
<tr>
<td>coordinated</td>
<td></td>
</tr>
<tr>
<td>Neutral, transparent and accountable</td>
<td>Excessively bureaucratic and inflexible</td>
</tr>
<tr>
<td>Legitimacy; can set global norms</td>
<td>Policy conditionality</td>
</tr>
<tr>
<td>More voice for developing countries</td>
<td>Held back by weakest member</td>
</tr>
<tr>
<td>Concentration of expertise</td>
<td></td>
</tr>
</tbody>
</table>

Source: DFID staff at NAO workshop on DFID's high level policy on multilaterals
5. Reforming the Aid System

Reform from outside the aid system
- Low feel of ownership
- Speed of reform, Budget control

Reform from inside
- Vested interest in agency survival
- More voice for poor countries

System Complexity

Agency Coordination
- Low policy choice
- Scope, Predictability, Accountability

Agency competition
- ODA pushing
- Less donor cartelisation
5. Reforming the Aid System

- Break circles of agency patronage.
- Involve finance, health, environment and other ministries in the assignment process at cabinet level, in order to cover all players.
- Provide high-level mandate to replicate *Delivering as One* (UN reform proposals advanced 9th Nov 2006) for the entire non-system of development finance.
- Unlike those UN-reform proposals, consider explicitly possibilities of merger and closure.
- Broaden the agenda of evaluation networks beyond multilateral performance assessment, to include core aspects of system-wide coherence.
Thank you for your attention!