



Earmarked funding to multilateral organisations: how is it used and what constitutes good practice?

October 2020

Key Messages

- Recent evidence shows that donors increasingly earmark their financial contributions to the multilateral development system.
- However, research on the topic remains scant, not least due to the limited availability and granularity of data capturing the use of this funding modality. As a result, significant knowledge gaps remain on the rationale, qualities and implications of donors' earmarked contributions to multilateral organisations.
- This brief takes stock of the existing knowledge on donors' earmarking, and proposes four new categories as a basis for more granular analyses.
- The four categories distinguish between donors' contributions based on their level of thematic and geographic earmarking:
 - (i) country-specific programmatic funding;
 - (ii) global or regional programmatic funding;
 - (iii) country-specific project-type funding; and
 - (iv) global or regional project-type funding.
- By allowing for a more detailed analysis of the rationales behind earmarking, this breakdown aims to support efforts to improve the quality of funding by individual members of the OECD Development Assistance Committee (DAC).¹

¹ This brief was written by Emily Bosch, Abdoulaye Fabregas, and Franziska Fischer. Feedback and comments were gratefully received from Andrea Ries (Swiss Agency for Development and Cooperation); Silke Weinlich, Erik Lundsgaarde, and Max Baumann (German Development Institute); Global Affairs Canada; the French Ministry of European and Foreign Affairs; Nick Rene Hartmann, Janil Greenaway, Jimmy Tang, and Rod Mamudi (UNDP); and the World Bank Group. The paper also benefited from the input of OECD colleagues: Marisa Berbegal-Ibanez, Olivier Cattaneo, Claudio Cerabino, John Egan, Cyprien Fabre, Mags Gaynor, Jieun Kim, Anita King, Rahul Malhotra, Valentina Orru, Ashley Palmer, Santhosh Persaud, and MOPAN.

What we know, and don't know, about DAC countries' earmarked funding

Earmarked contributions account for a growing share of multilateral funding

The practice of earmarkingⁱⁱ contributions through the multilateral development system has gained considerable traction since the 1990s. While the practice was still limited to a few providers of official development assistance (ODA) and select multilateral organisations a few decades ago, nowadays all DAC members employ a mix of funding modalities to support the multilateral system that includes some form of earmarking, although the latter accounts for a variable share of their total contributions to the multilateral development system.

Earmarked funding has considerably increased, both in absolute and relative terms, since the early 2000s. Between 2000 and 2010 alone, the volume of earmarked contributions from DAC countriesⁱⁱⁱ to multilateral organisations rose from USD 2.7 billion to USD 16.1 billion^{iv}. Since then, it has continued on an upward trend, reaching USD 24 billion in 2018.^v Indeed, in 2018, DAC countries provided a total of USD 69.2 billion of gross ODA to the multilateral system, of which USD 45.2 billion was core multilateral ODA. The emergence of earmarking is also apparent in relative terms: the share of earmarked funding in DAC countries' total ODA disbursements has grown from 11% to 15% between 2011 and 2018, and accounts for most of the growth observed in multilateral contributions in the past ten years.^{vi}

The increase observed since 2010 in DAC countries' earmarking seems in part attributable to the spike in humanitarian assistance^{vii} in response to the Syrian civil war and the refugee crises (Box 1). The use of earmarked contributions for the provision of humanitarian aid is often explained by the fact that this remains an area of strength and expertise of multilateral organisations, and that this type of contribution allows stakeholders to directly target unplanned emergencies as they occur.

Previous studies^{viii} have found that donors choose to earmark their contributions for a variety of motives. These can range from increasing the visibility of their contributions, to improving accountability on the use of funds towards taxpayers, fulfilling pledges to support specific causes, directing additional funds to multilateral organisations deemed highly efficient, or ensuring support to priorities that are underfunded, or to countries in arrears unable to access regular funding through concessional windows. Recent research by Eichenauer and Reinsberg (2017^[1]) looked at patterns of development partners' earmarking behaviour through the multilateral system for specific countries, determining that bilateral providers use earmarking to complement and reinforce bilateral investments in the countries where they already have a presence, rather than to expand its footprint where it had no country presence, for example.

Previous studies have highlighted the potentially adverse effects of earmarking on the ability of multilateral organisations to operate effectively and efficiently

The continued rise of earmarking observed over the past two decades has fuelled concerns that it is contributing to the fragmentation of the multilateral system. Researchers and policy makers have pointed out that earmarked funding can shift multilateral development organisations' focus away from the strategic priorities set by their broad membership, and undermine broad-based governance. Ultimately, this means that, to some extent, core funding subsidises the contracting of multilateral entities for purely bilateral purposes (Barder, Ritchie and Rogerson, 2019^[2]). As a result, agencies divert the focus away from core mandates towards more narrowly defined donor-specific priorities.

Recent analyses conducted as part of the *Multilateral Development Finance 2020* report (OECD, 2020^[3]) and interviews with United Nations (UN) partners reveal that these risks are substantiated: multilateral organisations receiving high shares of earmarked contributions face higher funding vulnerability, and appear more exposed to the influence of individual donors. Development co-operation peer reviews

have also raised this issue, noting the danger of fragmentation and the need for a clear strategy for multilateral engagement and regular, strategic dialogue between bilateral and multilateral partners.

Recent efforts to reform multilateral funding attempt to reset this imbalance between core and non-core contributions, setting targets for both funders and agencies. Under the 2016 Grand Bargain, for example, some of the largest providers of humanitarian aid^{ix} committed to reduce earmarking and to achieve a global target of 30% of humanitarian contributions unearmarked, or softly earmarked, by 2020 (Box 1) (IASC, 2016^[3]). More recently, through the 2019 United Nations Funding Compact, UN member states committed to bring core resources to a level of at least 30% over five years, and to increase multi-year contributions and funding to inter-agency pooled funds and single agency thematic funds. In return, UN agencies committed to improved transparency, and better reporting on, and visibility of, results (United Nations, 2019^[4]).

There is a broad recognition among development partners of the implications of earmarking for the effectiveness of the multilateral development system. The DAC has over the years discussed the issue of earmarked multilateral funding, prompted by the discussions in the development effectiveness sphere around the Busan Partnership Agreement, which warned against the proliferation of multilateral channels (OECD, 2011^[5]). More recently, the topic has resurfaced at the DAC in an effort to shine a light on effective and quality support for the multilateral system (OECD, 2019^[6]).

Significant knowledge gaps remain on the variety of earmarking modalities and their respective implications

DAC countries' earmarked funding is not homogenous, and comes in various forms. In recent years, DAC members have voiced the need for more granular and nuanced analyses taking into account why members earmark, and the variety of earmarking modalities used by development partners. Some recent studies have proposed new and more detailed categorisations of earmarked funding (Reinsberg, Michaelowa and Eichenauer, 2014^[7]) and demonstrated the diversity of DAC members' earmarking (Weinlich et al., 2020^[8]). They also highlighted the persistent data and knowledge gaps on this topic, due in part to the limitations of existing statistics on aid flows and the absence of recognised benchmarks.

Few benchmarks exist to assess the diversity and quality of earmarked funding and its implications. Apart from a few studies, research on the various modalities of DAC members' earmarking is sparse. A large part of the debate surrounding multilateral funding quality focused on the binary distinction between core and earmarked contributions, but did not consider the variety of earmarking modalities used by development partners, and their different motivations and implications.

A look at the variety of earmarking modalities used by DAC countries and their distinctive features

Four categories to classify earmarked funding to the multilateral system

The characteristics of earmarked funding imply different degrees of initial control by the funder, and on this basis can lead to different policy recommendations. Adapting the approach proposed by Reinsberg, Michaelowa and Eichenauer (2014^[7]), this policy brief proposes four categories based on: (i) whether funds are earmarked at project or programme level, and (ii) whether they are geographically earmarked at country level or have a global or regional scope.^x To simplify, project-type funding is associated with specific inputs, activities, and outputs decided at the time of funding, and over which the funder maintains a certain amount of control, whereas programmatic funds are provided with a broad objective or outcome in mind, but the funder does not determine how this is to be achieved. Country-specific earmarking targets an individual country while global or regional earmarking are either cross-country, global or have no country earmark.

Table 1. The four categories consider aid type and geographical destination of aid flows, as reported to the OECD Creditor Reporting System

	Programmatic	Project-type
Country-specific	<p><u>Definition:</u> contributions earmarked at thematic or sector level, and targeting an individual country.</p> <p><u>CRS codes:</u> Aid types A01, A02, B03, B04, F01 and country-specific recipient codes.</p>	<p><u>Definition:</u> contributions earmarked at project level (associated with specific inputs, activities and outputs), and targeting an individual country.</p> <p><u>CRS codes:</u> Aid types C01, D01, D02, E01, E02, G01, H01, H02²¹ and country-specific recipient codes.</p>
Global, regional or sub-regional	<p><u>Definition:</u> contributions earmarked at thematic or sector level, but not targeting an individual country.</p> <p><u>CRS codes:</u> Aid types A01, A02, B03, B04, or F01 and global (998) or regional recipient codes (89, 189, 289, 298, 380, 389, 489, 498, 619, 679, 689, 789, 798, or 889).</p>	<p><u>Definition:</u> contributions earmarked at project level (associated with specific inputs, activities and outputs), but not targeting an individual country.</p> <p><u>CRS codes:</u> Aid types C01, D01, D02, E01, E02, G01, H01, or H02 and global (998) or regional recipient codes (89, 189, 289, 298, 380, 389, 489, 498, 619, 679, 689, 789, 798, or 889).</p>

Notes: There is no specific aid type definition that corresponds to in-kind food aid delivered via multilateral channels. Members tend to report this as part of a broader programme of emergency response under aid type B03, which classifies it as programmatic and not project-type funding. In the future, reporting aid type B04 for programmes and funds managed by international organisations will not be possible. Instead, flows would be reported as aid type B03 and its subcategories.

Source: Authors' design

The four categories provide a useful framework to analyse the varied profile of DAC countries' earmarking:

1. **Country-specific programmatic funding** represented around 43% of DAC countries' earmarked contributions in 2011-2018. This category includes country-based and thematic multi-donor trust funds, such as the Afghanistan Law and Order Trust Fund or the DRC Humanitarian Fund. The most common channels for this type of earmarking were UN organisations or the World Bank Group, mostly for the purpose of humanitarian relief, investing primarily in countries of sub-Saharan Africa, South Central Asia, and the Middle East.
2. **Global or regional programmatic funding** made up 32% of DAC countries' earmarking. It includes sector or thematic trust funds, such as the Women Peace and Humanitarian Fund and Gavi's Cholera Response through the Oral Cholera Vaccine support. DAC countries primarily channelled these earmarked funds through UN organisations or the World Bank Group in humanitarian and social sectors, mostly on a global scale, but also regionally (in particular for sub-Saharan Africa).
3. **Country-specific project-type funding** made up 17% of DAC countries' earmarked funding. This category includes stand-alone projects or activities targeting a specific country, such as the improvement of the water sector for the host communities of Syrian refugees in Jordan. DAC countries primarily channelled their funding through UN organisations for humanitarian and governance purposes, primarily in countries of sub-Saharan Africa and the Middle East.
4. **Global or regional project-type funding** accounts for a relatively small share of DAC countries' earmarked funding (8% in 2018). This category includes stand-alone projects and activities with global or regional scope mainly channelled through regional development banks and UN organisations in productive sectors and humanitarian relief, such as the Ebola Response Fund created and managed by the UN. Almost all earmarked funding in the form of ODA loans (via multilateral development banks) fit in this category.

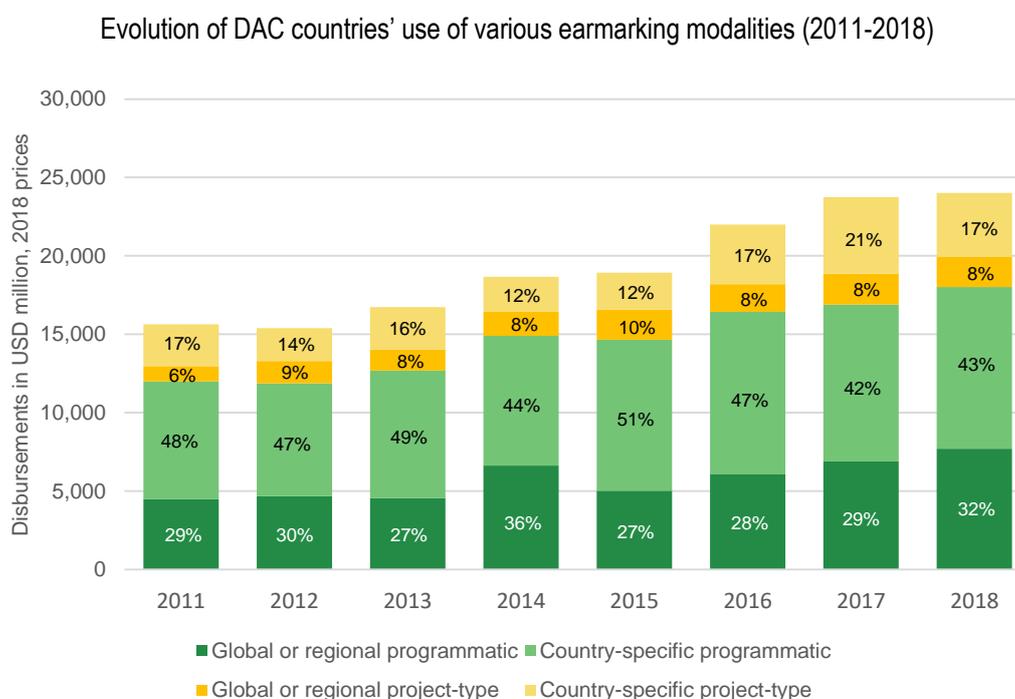
The four categories present some limitations due to the limited granularity of existing statistics on international aid flows. For example, the current reporting guidelines of the OECD Creditor Reporting System do not mandate official providers to report whether their earmarking contributes to single or multi

donor funds, and whether these are inter-agency funds, many of which are considered earmarked in DAC statistics; nor does it distinguish between multi-country and regional investments. The revised reporting guidelines will be in place in 2021 and effective for 2020 flows. The guidelines aim to better reflect the level of members' earmarking to multilateral organisations, although the reporting on the basis of new subcategories is voluntary (OECD, 2020^[9]).

Programmatic funding constitutes the bulk of DAC countries' collective earmarking, although there is wide variation across the DAC membership

The analysis shows that nearly 75% of DAC countries' earmarked funding is programmatic. The share of earmarking in each category has more or less stayed the same since 2012, even as new funds and multilateral entities have resulted in a more competitive and crowded multilateral landscape (Figure 1). While the share of project-type funding may have seen a slight uptick in recent years (from 12% to 17% between 2015 and 2018), it is too soon to tell if this is circumstantial (e.g. due to the refugee crises) or the start of a broader trend.

Figure 1. Earmarked contributions to multilateral organisations have experienced a steady increase in recent years

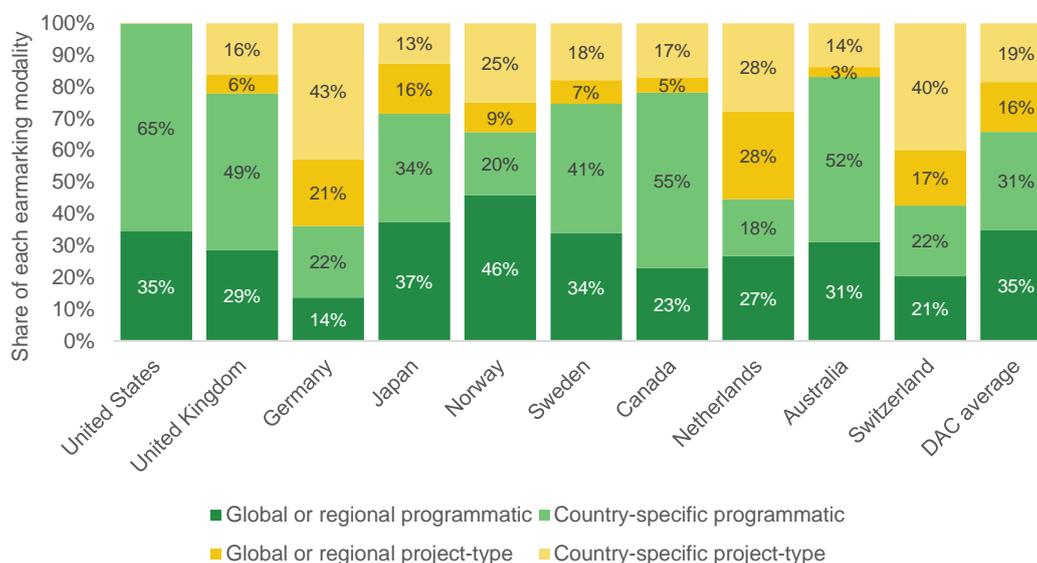


Source: Authors' calculations based on (OECD, 2020^[10]), Creditor Reporting System <https://stats.oecd.org/Index.aspx?DataSetCode=crs1>.

There are important differences in both the shares and the trends of different types of earmarking across DAC countries. Within the group of top ten DAC providers, for instance, Germany's earmarked funding to multilateral entities is 64% project-type and 36% programmatic, whereas, in contrast, the United Kingdom reports 78% of programmatic earmarking (Figure 2). The [interactive data visualisations](#)^{xii} accompanying this policy brief allow exploring the use of the four categories of earmarking by individual DAC countries across time, sectors, regions, and income groups.

Figure 2. There are significant differences across DAC countries on the use of earmarking modalities

Share of each earmarking modality across the top ten DAC providers of multilateral aid, disbursements (2014-2018 average)



Source: Authors' calculations based on (OECD, 2020^[10]), Creditor Reporting System, <https://stats.oecd.org/Index.aspx?DataSetCode=crs1>.

DAC countries employ a mix of earmarking modalities to achieve multiple objectives

Earmarked funding is mostly humanitarian. Between 2011 and 2018, humanitarian aid accounted for 41% of total contributions earmarked by DAC countries through the multilateral development system (see Box 1). Almost all of the funding earmarked for humanitarian purposes focused on emergency response (94%). Beyond humanitarian aid, earmarked funding appeared more evenly distributed among the remaining thematic areas, such as social (18%), governance (14%), production (9%) and infrastructure (6%) sectors.

DAC countries tend to earmark their contributions at country level to target countries most in need. More than 57% of the country-specific funding earmarked by DAC countries in 2011-2018 targeted least developed countries (LDCs), against only 1% for other low-income countries (LICs), 28% for lower-middle income countries (LMICs), and 13% for upper middle-income countries (UMICs). In comparison, the aid flows financed from multilateral organisations' core resources focused primarily on LMICs (40%) and UMICs (36%), and to a lesser extent on LDCs (23%), and other LICs (less than 1%).

The distribution of DAC countries' country-specific earmarking across thematic areas seems to confirm this pattern. Earmarking for humanitarian and governance purposes appears to be largely country-specific (78% of total), suggesting that DAC countries may also resort to country-level earmarking to ensure their funding reaches countries facing urgent needs in terms of relief assistance or peace and security. Country-specific programmatic earmarking is the largest category of earmarking for both humanitarian and governance sectors, accounting in both cases for 59% of their funding. This is consistent with the increased use of country-based pooled funds for humanitarian purposes. On the other hand, earmarked contributions to other thematic areas, such as social, production and infrastructure sectors, are largely global or regional in nature.

DAC countries seem to favour programmatic approaches in social and humanitarian thematic areas. Around 84% of funding earmarked for social sectors, and 78% of contributions earmarked for humanitarian purposes, appears to be programmatic. In contrast, production and infrastructure sectors receive a relatively high share of project-type funding. Funding earmarked at project level makes up respectively 38% and 32%

of total funding earmarked to these thematic areas, against 16% and 22% respectively in the case of social and humanitarian sectors. More specific data analyses and consultations would be required to understand the different use of programmatic versus project-type earmarking modalities across sectors.

Project-type earmarking seems to target middle-income and more advanced countries. Between 2011 and 2018, LMICs and UMICs received a higher share of funding earmarked at project level (respectively 34% and 28%) compared to LDCs (22%) and other LICs (18%). Here it is not possible to rule out a possible sectoral bias since production and infrastructure-related activities, which receive high shares of project-type funding, predominantly target middle-income countries.

Box 1. Humanitarian aid accounts for the largest share of earmarked funding

Aid for humanitarian relief constituted 41% of total earmarked funding through the multilateral system in 2011-18. According to reporting to the OECD Creditor Reporting System, over three-quarters of earmarked funding was programmatic funding, but the sector also received a higher volume of project-type earmarked funding than any other sector. Indeed, the sector has relied almost exclusively on earmarked funding from the multilateral system in the past, given the very small share of core multilateral outflows that it attracts.

The recent DAC Recommendation on the Humanitarian-Development-Peace Nexus calls for more flexible, predictable, and multi-year funding to be made available in fragile and conflict-affected contexts (OECD, 2019^[11]). Three years prior to the adoption of this recommendation, parties to the Grand Bargain committed “to reduce earmarking of funds... [for those] who currently provide low levels of flexible finance (8.2) and... progressively reduce the earmarking of their humanitarian contributions” (8.5) (IASC, 2016^[3]). To date, progress on these commitments is limited: those who typically provide flexible funding continue to do so (Metcalf-Hough, Fenton and Poole, 2019^[12]).

Earmarked humanitarian aid channelled through the multilateral system is most effective when it is not bound to specific activities within an emergency. Typically, funding to country pooled funds that bridge the development-humanitarian divide allow for quick adjustments to changing needs (Knox Clarke, 2018^[13]).

As with most spending to and through the multilateral system, there can be a trade-off between a more sustainable approach that prioritises long-term investments in humanitarian, disaster preparedness, resilience, and prevention through an increase in core resources, for example to the Central Emergency Relief Fund (CERF), and the earmarking of resources for specific emergency initiatives and “forgotten causes”. As seen in the accompanying [interactive data visualisations](#), each country adopts a slightly different approach.

United Nations agencies have the most marked imbalance of core versus earmarked resources, and the largest share of project-type earmarking

Data confirm that United Nations agencies, funds, and programmes are the main beneficiaries of earmarked funding. They receive the largest volume and share (72%) of earmarked contributions compared to other groups of multilateral agencies, and a high proportion of project-type earmarked funding (28%). Fifty-nine percent (59%) of all of the United Nations’ revenue (including beyond DAC countries), was earmarked in 2018, an increase of two percentage points from 2017 (UN MPTF Office, Dag Hammarskjöld Foundation, 2019^[14]). Scarce resources and demands to work in ever-increasing complex environments often give these organisations little choice but to accept funding proposals that come their way. In turn, business and delivery models have had to adapt to accommodate specific donors.

In contrast, European Union (EU) institutions and global thematic funds receive a relatively low volume of earmarked funding, although this is increasing in the EU with the creation of EU Emergency Trust Funds. Multilateral development banks are somewhere in the middle, receiving a significant volume of earmarked funding, although this is compensated by the large volume of core resources committed for replenishments of concessional funding windows.

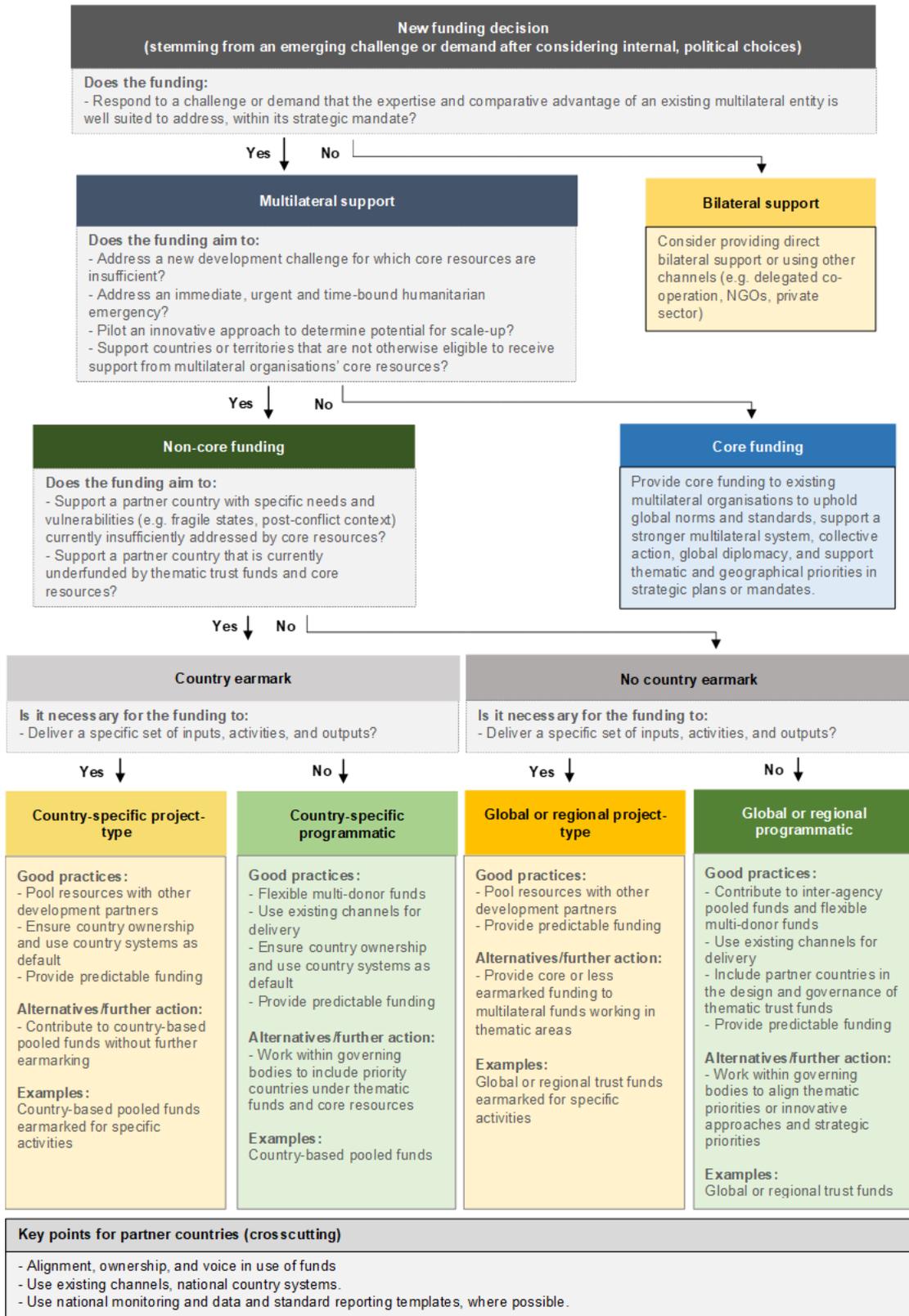
The range and mix of multilateral funding modalities used by DAC countries offer different opportunities to increase the quality of multilateral contributions

DAC countries shape the multilateral development system in many ways, including through their funding decisions, as shown in the *Multilateral Development Finance 2020 report*^{xiii}. Broadly speaking, more flexible (i.e. programmatic and non-country-specific) funding will continue to be the most sought after type of earmarked support for multilateral organisations as they provide the latter with more flexibility to allocate resources. However, the analysis of the four categories suggests that the use of tighter earmarking modalities may sometimes respond to specific and urgent motives.

The idea is to recognise the trade-offs of, and possible alternatives to, each earmarking modality, and apply good practice no matter how funding is directed. While some project-type earmarked funding could become more programmatic, other projects may continue to require the scaffolding of the multilateral system to support very specific inputs and outputs for justifiable reasons, and in these cases, funders should be prepared to explain this modality vis-à-vis other members. However, even in cases where the use of more tightly earmarked modalities appears to have a clear rationale, donors should carefully consider the longer term implications of their funding decisions. For example, while a country earmark may ensure that funding reaches the most in need and hence perfectly respond to short-term requirements (e.g. targeted humanitarian assistance), it also leaves multilateral organisations with no flexibility to address the next unplanned crisis in other geographies.

The decision tree below is presented to inform the debate on DAC countries' use of the various earmarking modalities by depicting what could be an optimal use of different multilateral funding modalities based on the four categories outlined in this policy brief. Given the significant differences in the decision-making processes guiding DAC countries' earmarked funding, the decision tree is not designed to provide an exhaustive representation of all the technical and political factors that DAC countries need to take into consideration in their multilateral funding decisions. However, it illustrates that donors can always consider alternatives, and apply good practice, to increase the quality of their multilateral contributions.

Figure 3. The decision tree illustrates the variety of funding options and alternatives available to policy makers to support multilateral entities



Source: Authors' design

Main conclusions and policy recommendations

- **The four categories of earmarking allow for a more tailored analysis of the rationale and qualities of individual DAC countries' earmarked funding.** Given the large differences observed across the DAC membership, the general earmarking patterns presented in this policy brief may not hold for every DAC country. The interactive data visualisations accompanying this policy brief provide a first glimpse at the earmarking patterns of individual DAC countries, which could merit further analyses, including in DAC peer reviews. A possible next step for the DAC could be to discuss whether the four categories and the decision tree provide an acceptable framework, highlighting what is missing or could be improved, to allow for more granular and balanced analyses of DAC members' earmarked contributions to the multilateral development system in DAC peer reviews and elsewhere.
- **The growing weight of earmarked funding to multilateral organisations calls for greater transparency and better data.** The four categories presented in this policy brief offer a window into the different earmarking modalities employed by DAC countries. As the DAC reporting directives evolve to capture more granular characteristics that are not currently reported, these four categories could also be refined and lead to more in-depth analyses. More detail would, for example, be useful to reflect the single or multi donor nature of earmarked funding, and whether receiving funds are managed by more than one multilateral entity. It could also allow to better monitor DAC members' commitments related to multilateral funding, such as those made in the context of the UN Funding Compact and the Grand Bargain. Ongoing DAC efforts to refine the classification of aid types and modalities constitute an important step to improve the statistics related to earmarking, and it will be essential to ensure that directives are clear, and that the reporting of DAC members and other official providers is sufficiently specific, accurate, and complete to allow for credible comparisons.
- **Additional research is required to understand the implications of the various categories of earmarking,** in particular their correlation with, and impact on, the performance and effectiveness of multilateral organisations, and ultimately on the most effective way to reach those left furthest behind. More evidence and knowledge in this area could provide a basis for informed discussions within the DAC and more tailored and actionable recommendations regarding members' earmarking policies and practices – through DAC peer reviews, for example – to advance the quality of aid discussion. This research could rely on a combination of data analysis, interviews and consultations with key multilateral stakeholders (e.g. funders, multilateral organisations, partner countries), and should consider the differences identified in this policy brief in terms of thematic areas, geographies and income groups. There is also potential to link this research to the work and datasets of initiatives such as the Global Partnership on Effective Development Co-operation (GPEDC) on multilateral effectiveness and the Multilateral Organisation Performance Assessment Network (MOPAN).

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Notes

ⁱⁱ Also referred to as multi-bi or non-core contributions to multilateral organisations, earmarked contributions are resources channelled through multilateral organisations over which the donor retains some degree of control on decisions regarding disposal of the funds. Such flows can be earmarked for a specific country, project, region, sector or theme, and they technically qualify as bilateral ODA. On the other hand, core (or unearmarked) contributions to multilateral organisations are resources transferred to multilateral organisations and the governing boards of these organisations have the unqualified right to allocate as they see fit within the limits prescribed by the organisation's mandate.

ⁱⁱⁱ The analysis in this policy brief refers to the 29 Development Assistance Committee (DAC) countries. It does not include earmarked support from the European Union to the multilateral system.

^{iv} Based on data provided by (Eichenauer and Reinsberg, 2017^[11]).

^v Based on data from the OECD Creditor Reporting System.

^{vi} The list of ODA-eligible multilateral organisations is available online. Organisations and funds to which general (un-earmarked) contributions are counted as core contributions are indicated with aid type "B02" and include thematic funds such as GAVI, Global Environment Facility, Green Climate Fund, and the Global Fund: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/annex2.htm>.

^{vii} Humanitarian assistance includes emergency response, reconstruction relief and rehabilitation, and disaster prevention and preparedness.

^{viii} (Tortora and Steensen, 2014^[16]), (Eichenauer and Reinsberg, 2017^[11])

^{ix} Humanitarian aid includes emergency response, reconstruction relief and rehabilitation, and disaster prevention and preparedness.

^x Reinsberg, Michaelowa and Eichenauer (2014^[7]) distinguish three earmarking dimensions (thematic, geographic and institutional) and three degrees of flexibility (no earmarking, soft earmarking and tight earmarking).

^{xi} Aid types E01, E02, F01, G01, H01, and H02 together constituted less than 1% of total earmarked funding in the years 2011-18.

^{xii} See <https://oecd-main.shinyapps.io/DACearmarking/>

^{xiii} DAC members also influence the multilateral development system through their participation in governing bodies and their policy engagement with organisations in priority areas, although these fall outside the scope of this policy brief. A forthcoming policy brief provides an overview of how different DAC members partner, fund, and influence the multilateral system (OECD, 2020^[15]).

