Multilateral Aid 2015

BETTER PARTNERSHIPS FOR A POST-2015 WORLD



The Development Assistance Committee: Enabling effective development

OECD

Multilateral Aid 2015

BETTER PARTNERSHIPS FOR A POST-2015 WORLD



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Preface

The role of multilateral organisations in achieving the sustainable development goals

By Homi Kharas and Julie Biau, The Brookings Institution

The elaboration of the Sustainable Development Goals for the post-2015 period represents a concerted effort to adjust the international development narrative to a new reality: since 2000 the economic and social conditions of developing countries have improved; aid delivery is being revolutionised by modern technologies; and new actors are entering development finance, bringing with them a significant volume of flows, new allocation priorities and innovative financial instruments. Furthermore, today's development challenges – including climate change, food security, trade and migration – are complex and interconnected, affecting both developed and developing nations. In this context, multilateral organisations are set to play an increasingly important role in the pursuit of global development. As expressed by the High-Level Panel of Eminent Persons on the Post-2015 Agenda, "the post-2015 development agenda must signal a new era for multilateralism and international cooperation" (UN, 2013).

However, the multilateral system has many adjustments to make in order to take on this task. A striking feature of the emerging aid architecture is that official development assistance (ODA) no longer dominates financial flows to poor countries. Foreign direct investment (FDI), private debt and worker remittances have overtaken ODA by a large margin. Consequently, the lending structure of institutions like the World Bank, built around concessional finance for poor countries (provided by the International Development Association, IDA), and non-concessional development loans for middle-income countries (provided by the International Bank for Reconstruction and Development, IBRD), is being challenged. Many poor countries have access to commercial funds, either through FDI or bond markets, while many middle-income countries still need access to concessional funding because of the volatility and pro-cyclicality of global capital markets. Conversely, low-income countries would benefit from being able to access public non-concessional lending for profitable projects, such as large infrastructure, and middle-income countries need substantially greater access to fund their growth.

At a time when there are more middle-income countries than ever before, and when these countries' income levels and demands for additional investment have risen, the scale of multilateral non-concessional lending has declined. In fact, while IBRD was for many years the largest member of the World Bank Group, in 2013 for the first time its commitments were smaller than those of either the International Finance Corporation (IFC) or IDA (Kharas, 2014). As development finance shifts from leveraged institutions such as IBRD towards non-leveraged ones such as IDA, the role of multilateral organisations in leveraging private capital is also diminishing.

Another challenge for multilateralism is the shift in donor support from core to non-core purposes. This report shows that the total use of the multilateral system by OECD Development Assistance Committee (DAC) members increased in 2013, but mostly driven by non-core support tied to specific purposes rather than provided as general resources to a multilateral agency. This can undermine the governance of the institutions – a delicate political problem made more acute by the need for multilateral institutions to reform their governance to better reflect the growing economic power of emerging economies (Birdsall and Kharas, 2014). As highlighted in this report, non-core contributions can be useful in humanitarian aid due to their flexibility, but they suffer from lower traceability than core contributions, are not guided by overarching institutional strategies, and can result in duplication of efforts across agencies. Further efforts will need to be made by donors to avoid this "bilateralisation" of multilateral aid.

In the face of these trends, multilateral organisations need to reassert their relevance and equip themselves to respond to tomorrow's development challenges. They are uniquely equipped for post-2015 tasks: co-ordination among multiple development actors; coherent policy dialogue; partnerships; blending of aid and non-concessional public lending with private finance; honest broker functions to build more trust in the development contributions of business; transparency; and provision of public goods such as data and programme evaluation.

Multilateral organisations are needed as leaders of the "new global partnership" to "bring the many new actors of international development together around a unified sustainable development agenda of mutual responsibility" (UN, 2013). Entities such as the IMF or the World Bank could also be used to pursue the beyond-aid agenda, for example by reviewing the spill-over impact of G-20 countries' structural reforms on developing countries, and promoting pro-development global co-operative action in areas such as tax evasion, trade, financial regulations, food security, and science and technology.

One of the hardest tasks in operationalising this agenda will be the development of a unified framework for global development finance with appropriate risk mitigation measures. This is particularly true as different elements of the agenda will most likely be financed by different combinations of public and private funds. For example, the private sector must be brought more actively into the financing of large infrastructure. Currently, about two-thirds of infrastructure spending in developing countries is funded by governments; if this ratio could be lowered, infrastructure could be expanded more rapidly. Multilateral organisations could help leverage more private capital by using guarantees and first-loss instruments. They could also develop non-sovereign platforms for local governments, which will be at the forefront in implementing the post-2015 agenda.

But the post-2015 development agenda will not just be about getting more private capital to fund publicly generated projects. It will also be about using public funds to encourage private investment in developing countries. Privately funded projects can be de-risked by international financial institutions, which can help to develop support systems linking know-how, policies, laws and financial institutions (UN, 2013). Multilateral organisations can also provide assurance that appropriate social and environmental safeguards are being followed in private business ventures.

The post-2015 development agenda will require multilateral organisations to focus on the challenges facing fragile and post-conflict states, where poverty reduction has proven to be the most elusive. While some lessons have been learned, organisations are still struggling to find the best ways to go about peacebuilding and statebuilding. The g7+ "New Deal" for engagement in fragile states, endorsed by 44 countries and international organisations in 2011, requests donors to be more nimble and develop greater risk tolerance so as to work effectively in such settings (g7+, 2011). Neither will be easy for multilateral institutions.

The Sustainable Development Goals are more comprehensive and universal than the Millennium Development Goals (MDGs). Implementation will require global partnerships with politically neutral conveners; new forms of financial intermediation; new skill-sets for leveraging private finance; and tailored strategies in the highly diverse contexts of developing countries. Multilateral organisations must adapt to this new reality.

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Foreword

The multilateral system has played a significant role in ensuring we all live in a world that is more prosperous and peaceful than at any other time in human history. Though there are huge deficiencies in the system, it works, and today it works better than it ever has. But it must evolve with the times in order to continue to make a difference. I'd like to highlight three key areas for future action regarding how we finance our common global efforts.

Support for multilateral organisations continues to be strong. But the share of multilateral funding that is earmarked for specific purposes is increasing, and represents the largest share of funding for the United Nations. Imagine a football club where one person pays for the grass, another for the ball, another for a player and not the player picked by the coach but the player dear to the sponsor. That team will never win. Someone needs to bring the resources together around a plan. Multilateral organisations need more flexible earmarked funding. Donors should also provide more core funding to make sure multilateral organisations can carry out their mandates.

We need to be careful not to overload the system as we start to prepare to implement the Sustainable Development Goals. We should not build new funds and institutions for every new problem we face, but rather use the existing system more effectively. And countries need to be in the driver's seat – sustainable development is fundamentally a societal issue calling for nationally-owned visions, policies and actions that multilateral institutions need to support. In addition, eradicating poverty and promoting development without destroying the planet will require trillions of dollars, not billions. Multilateral institutions can play leading roles in mobilising much more finance from banks, businesses and investors for infrastructure and green energy. They can also assist better tax collection.

Finally, a new multilateral order is in the making. In 2014, countries from the South established new multilateral funds and institutions, including the BRICS New Development Bank and the Asian Infrastructure Investment Bank. This is an important development – developing countries themselves need to have much more voice and influence on the oversight and operations of multilateral institutions. The multilateral system must be reformed to reflect the rise of the South. But with reform comes responsibility. South-South providers dedicate a very small share of their development assistance to supporting multilateralism. New powers and nations who have developed fast need to contribute more.

We all need to do our part to ensure multilateral organisations are empowered to carry out the reforms that are needed and supported with funding giving them maximum latitude to do their job. This 2015 Multilateral Aid Report is part of this endeavour.



Erik Solheim
Development Assistance Committee Chair

Executive summary

The global multilateral aid landscape: main trends and developments

Funding to multilateral organisations picked up in 2013, reaching an all-time high. After two years of consecutive declines, the use of the multilateral system (core + non-core resources) by the members of the OECD Development Assistance Committee (DAC) reached a record level of USD 59 billion in 2013. Despite this increase, however, the use of the multilateral system remained at 41% of total gross ODA. Over 60% of these flows went to the European Union, the World Bank Group and United Nations funds and programmes.

Despite differences across multilateral organisations, the weight of earmarked funding – which is more volatile and transaction-heavy than core funding – is increasing. Non-core resources fluctuated considerably in 2011-13 (-7%, 0% and +9%). Overall they have become a greater source of funds for multilateral organisations, representing 31% of all flows to and through the multilateral aid system, up from 23% in 2007. Reliance on non-core resources is strongest in the case of UN funds and programmes, which received 76% of all their funding as non-core in 2013, up from 58% in 2007.

Funding to multilateral organisations from non-DAC providers remains small compared to that from the DAC but has increased significantly since 2009, becoming an important part of international efforts to address humanitarian and developmental needs. Despite some fluctuations, funding to multilateral organisations by Brazil, People's Republic of China (hereafter "China"), India, Saudi Arabia, South Africa, Turkey and the United Arab Emirates (which together provided 82% of concessional finance from non-DAC providers in 2013) increased by 51% in 2009-13, from USD 794 million to USD 1.2 billion. Multilateral funding represents only a small share of concessional finance in the case of most of these countries (less than 7% in all cases except for Brazil and South Africa) but for most of them there are signs of lasting stronger engagement through both traditional and newly established multilateral organisations.

The multilateral aid system is expanding and becoming more complex, being populated with new constellations of institutions largely supported by South-South providers and more multilateral funding approaches and instruments. A new geopolitical

axis is taking shape in the multilateral system with the establishment of the BRICS development institutions and organisations focused on infrastructure finance rooted in Asia. New vertical funds (such as Green Climate Fund) have been established or are being proposed. Development banks are adopting innovative approaches to leverage additional funding – including expanding their capital base – using both concessional and non-concessional instruments. A wide array of mechanisms to channel funding for specific purposes via multilateral institutions has become available, each with different strengths and weaknesses.

Multilateral organisations are taking steps to prepare for the post-2015 era. As the international community shapes the forthcoming Sustainable Development Goals, multilateral organisations are reflecting on how they will contribute and what institution-specific adjustments are required to ensure they are "fit for purpose". The United Nations development system is carrying out a reflection on its future role through a special UN Economic and Social Council (ECOSOC) dialogue. Multilateral development banks are also examining their comparative advantages and institutional "toolkits" for tackling post- 2015 challenges. Against this backdrop, many continue to implement ongoing institutional reform programmes, such as the UN's 2012 Quadrennial Comprehensive Policy Review and the World Bank Group's organisational restructuring and ongoing trust fund reform.

Gearing up to support post-2015 partnerships

Multilateral organisations will have a key role to play in delivering the post-2015 development agenda. The multilateral system has been a pillar for supporting developing countries' efforts to promote growth and development for many decades, with recognised strengths in extending the scale and reach of development finance and mobilising knowledge and know-how. Its role in the post-2015 era may be even more important. The ambitious Sustainable Development Goals call for inclusive partnerships that will provide collective, cross-border solutions for eradicating absolute poverty and fostering a new era of economic and social progress, environmental sustainability and peaceful and inclusive societies. Multilateral organisations are uniquely equipped to support this agenda: they are politically neutral conveners of global partnerships, vehicles for upstream pooling of resources, facilitators for multi-stakeholder cross-border operations, and setters of global standards and norms. To be fit for purpose in a post-2015 world, however, multilateral organisations will need to complete challenging ongoing internal reforms and adapt to the rapidly changing external environment.

Bilateral providers have the opportunity – and responsibility – to support multilateral institutional reforms and to promote an ever-more cohesive and effective multilateral system. DAC members shape multilateral organisations through their participation in multilateral governance and decision-making bodies. They also influence these organisations through their policies and practices, including funding practices which affect the incentive structure of these organisations. To enhance the workings of the global multilateral system and gear it to effectively support the partnerships needed to deliver the post-2015 development agenda, DAC members should consider:

- **Allocating funding to multilateral organisations in line with strategic priorities and in ways that are conducive to enhancing their performance.** This includes: (i) providing funding in line with the strategic priorities of specific multilateral organisations; (ii) ensuring adequate co-ordination across and within those ministries and institutions that provide resources to multilateral organisations so as to achieve consistency and strategic focus of overall multilateral funding; (iii) enhancing the predictability of funding – for example, by linking multi-year indicative plans to an organisation's strategic plans; (iv) providing guidance on the use of earmarked funding with a view to supporting good practices and carefully considering the implications of the conditions set when extending earmarked funding.

- **Enhancing transparency and horizontal co-operation between existing and emerging institutions, supporting governance reforms within existing multilateral organisations, and applying the lessons of the past when establishing new funds and institutions.** The world seems to be headed towards a more complex constellation of multilateral institutions, including along a new geopolitical axis. Substantial benefits are in the offing: more resources will be mobilised and more opportunities will arise for developing countries to access finance and influence the nature and direction of global development finance. However, there are also risks of duplication of efforts, increased transaction costs for client countries, inadequate safeguards, and excessive competition. These risks will need to be managed by enhancing transparency, information-sharing and collaboration across institutions.

Overview

Multilateral aid in a post-2015 world

The multilateral system has stood the test of time. Over the past fifty years it has proven to be resilient and responsive to changing development dynamics and urgent needs, a major source of development expertise and know-how, and a powerful channel for intermediating and allocating resources. As the international community stands on the brink of the post-2015 era, the future role to be played by multilateral organisations could be even more important. Achieving the Sustainable Development Goals' transformative vision will call for inclusive partnerships that will provide collective, cross-border solutions for eradicating absolute poverty and fostering a new era of economic and social progress, environmental sustainability and peaceful and inclusive societies. The multilateral system at large – global, regional, traditional and new – is uniquely equipped to support this agenda. Multilateral organisations are politically neutral conveners of global partnerships, vehicles for upstream pooling of resources, facilitators for multi-stakeholder cross-border operations, and setters of global standards and norms. Further thinking about how to improve the functional features of the interactive relationship between providers, shareholders and the institutions themselves will be necessary.

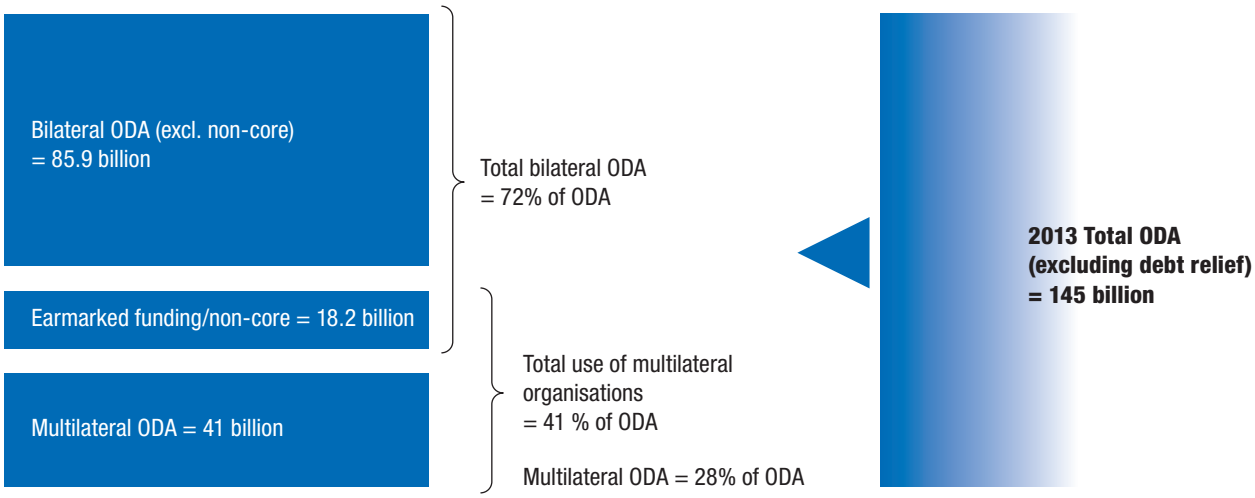
This fifth OECD report on multilateral aid aims to inform these global reflections. It comes at a crucial time, contributing to broader discussions on the implementation of the Sustainable Development Goals and suggesting recommendations for more effective multilateral partnerships in the post-2015 era. It provides a comprehensive baseline of data and analysis regarding the volume and nature of resources provided by the OECD Development Assistance Committee (DAC) members and providers beyond the DAC to support the activities of leading multilateral organisations. It assesses the state of play regarding the policies, funding mechanisms and interactions of provider countries vis-à-vis these institutions – and implications for their efficiency and effectiveness. It also provides an essential stocktake on how multilateral organisations themselves are gearing up for the post-2015 era.

DAC member countries have been strong supporters of the multilateral system over time: in 2013, they channelled USD 59 billion to and through multilateral organisations – approximately 41% of their total gross official development assistance (ODA) (Figure 0.1). Large sovereign providers from beyond the DAC have been increasing their multilateral spending, which is estimated to have totalled USD 1.2 billion in 2013, while representing a small part of their total concessional development finance. Continued widespread support for the multilateral system bodes well for the future.

To be fit for purpose, however, multilateral organisations will need to implement a challenging change agenda to both address the unfinished business of ongoing internal improvements and adapt their skills and toolkits to respond to a fast-changing global environment. Fundamental institution-specific reforms require further effort, including greater internal coherence and co-ordination, better alignment of all funding to strategic priorities, and actions to ensure that instruments and programmes are tailored to specific country contexts. Existing organisations will also need to adapt rapidly and flexibly to an increasingly complex operating environment. New multilateral organisations are emerging along new geopolitical axes; examples are the Asian Infrastructure Investment Bank and the New Development Bank. New vertical funds are also emerging; an example is the Green Climate Fund, likely to be the largest vertical fund ever established, and which has a quasi-universal membership of advanced economies and developing countries with an equal voice. In this context, multilateral organisations will need to demonstrate and enhance their comparative advantages and reinforce co-operation and information-sharing with others in order to reduce risks linked to increased competition, volatility of funding to developing countries and possible funding gaps.

Figure 0.1 ***41% of combined DAC ODA goes to and through multilateral institutions***

Composition of gross ODA disbursements (excluding debt relief), current USD billion



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933246876*

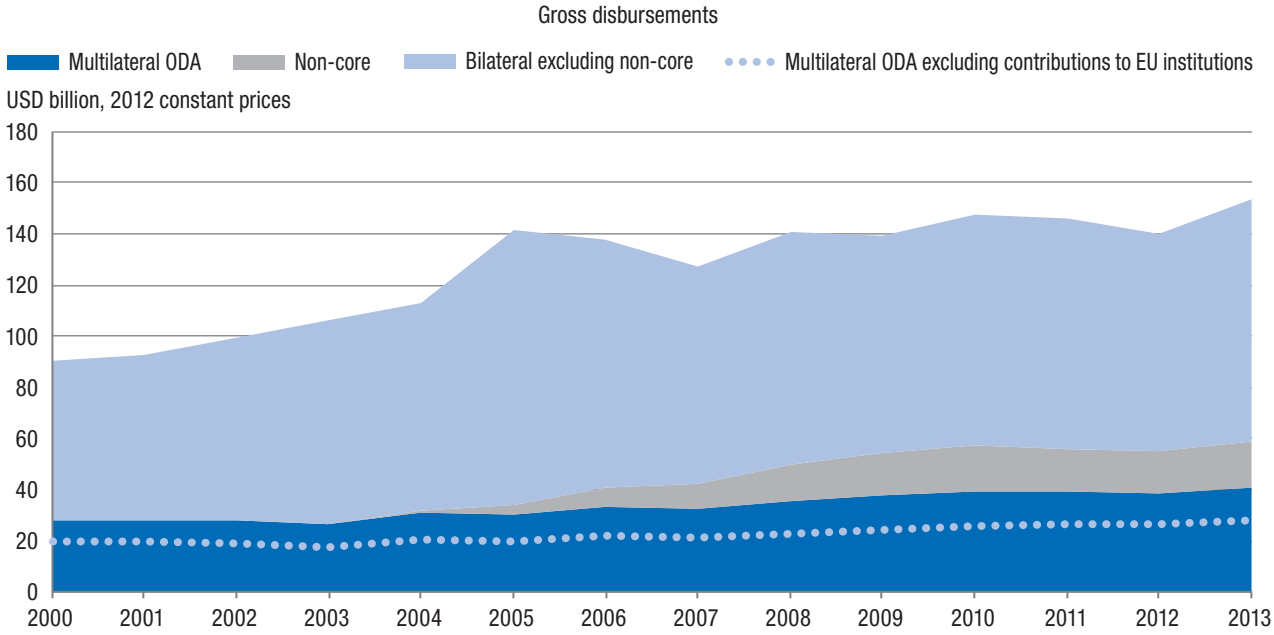
The international donor community has a role to play to support multilateral organisations in implementing necessary changes. Donors' multilateral policies and practices affect the workings of multilateral organisations, notably through the incentives and disincentives that different funding practices create. For this reason, the report goes beyond its customary remit of analysing current global trends in the multilateral landscape and relevant DAC members' policies and practices (Part I) to include additional thematic chapters on issues where action is needed to improve the workings of the multilateral aid system (Part II). Strengthening partnerships in a post-2015 world will call for: (i) making best use of all resources available for investing in development, including earmarked ("non-core") funding, which is the fastest growing component of multilateral funding; and (ii) integrating new actors, institutions and funds in global efforts around the forthcoming universal sustainable development agenda.

Trends and practices in the global multilateral landscape

Recent trends in funding to multilateral organisations and multilateral outflows

In 2013, resources to multilateral organisations reached an all-time high of USD 59 billion after two years of decline, a trend mirroring the declines and rebound of gross ODA. Both resources to multilateral organisations' general budgets (core funding) and resources tied to projects for specific regions, countries, themes or sectors (non-core funding or earmarked funding) increased in 2013 (Figure 0.2). Between 2007 and 2013, the share of multilateral ODA in total ODA remained stable at 28%, down from a high of 32% in 2001. Overall use of the multilateral system (core + non-core funding) rose from 36% to 41% over the same period mainly due to increases in non-core funding.

Figure 0.2 ***Funding to multilateral organisations rebounds in 2013***



Note: Data collection on non-core funding started in 2004.

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933246886*

Over 60% of total multilateral funding continues to be concentrated on the European Union (EU), the World Bank Group and the United Nations (UN) funds and programmes, which in 2013 received 21%, 22% and 20%, respectively, of total core and non-core flows (Figure 0.3). The distribution of core and non-core resources across these institutions as well as other UN entities, regional banks and other multilateral organisations has been fairly stable over time.

Box 0.1 Statistical terminology

The following OECD/DAC definitions regarding multilateral organisations and multilateral aid are used in this report.

Multilateral organisations: The multilateral organisations covered in this report are those to which providers' contributions are reportable either in whole or in part as ODA. These are international institutions with governmental membership that carry out developmental activities. The DAC maintains a list of ODA-eligible organisations which is publicly available (OECD, 2011).

Multilateral ODA/core contributions: These are official contributions to multilateral agencies, whether negotiated, assessed or voluntary, for which the governing boards have the unqualified right to allocate as they see fit within the organisation's charter.

Non-core/earmarked/multi-bi funding or contributions: These are resources to ODA-eligible multilateral agencies over which the donor retains some degree of control on decisions regarding disposal of the funds. Such flows may be earmarked for a specific country, project, region, sector or theme. They are bilateral resources channelled through a multilateral agency, and therefore technically qualify as part of bilateral ODA. These resources can be administered through trust funds, either as single or multi-donor trust funds.

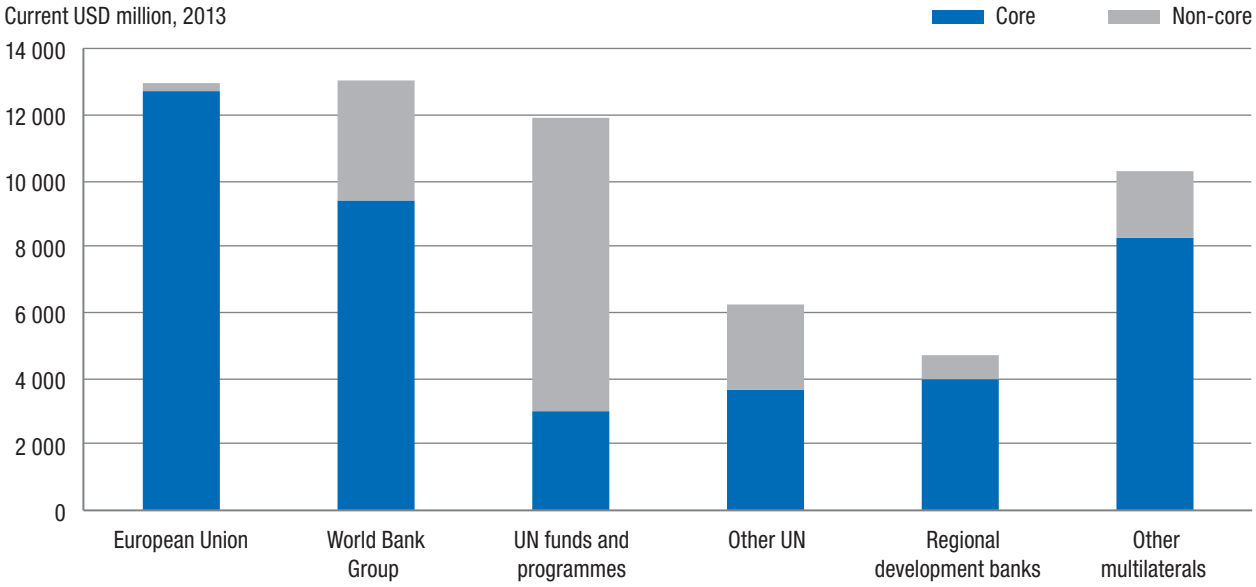
Total use of the multilateral aid system: This term means all funds channelled to and through multilateral organisations, or the sum of core and non-core resources. It therefore encompasses multilateral ODA and a part of bilateral ODA (which is earmarked funding).

Multilateral outflows: The three above mentioned flows (core, non-core, and the sum of the two) are all inflows into multilateral organisations. However, the OECD/DAC statistical system also tracks flows from multilateral organisations to partner countries, or multilateral outflows.

Imputed multilateral ODA: By definition, when extending core resources to multilateral organisations providers do not have control on their allocations. However, it is possible to approximate how much of a provider's contribution to a specific multilateral organisation was allocated for specific sectors and countries through a methodology developed by the OECD/DAC. Put simply, the basic reasoning applied is that if Germany provided to UNICEF the amount X in core contributions and UNICEF spent Y% of its core contributions in the health sector, then the imputed multilateral ODA on health (for UNICEF) is X times Y%.

Funding to the EU is a special case, given the dual nature of this institution. The EU is a member of the DAC as are 19 of its member states. It is also a donor in its own right, with its own resources. The resources underpinning the EU's development co-operation efforts are determined through the EU budget process in accordance with the EU Treaty. For statistical and analytical purposes, the EU is treated in this report as a multilateral organisation.

Figure 0.3 ***Core and non-core contributions from DAC countries are highly concentrated on a few multilateral organisations***



Note: The EU has provided the following clarification: "The EU is unique among DAC members in that it plays a dual role in development assistance. Although the EU is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources, it is often presented as a multilateral organisation in DAC publications for statistical purposes. This report reflects this dichotomy."

"Other UN" comprises all UN entities (but UN funds and programmes) that are on the OECD-DAC List of ODA-eligible international organisations: *www.oecd.org/dac/stats/annex2.htm*

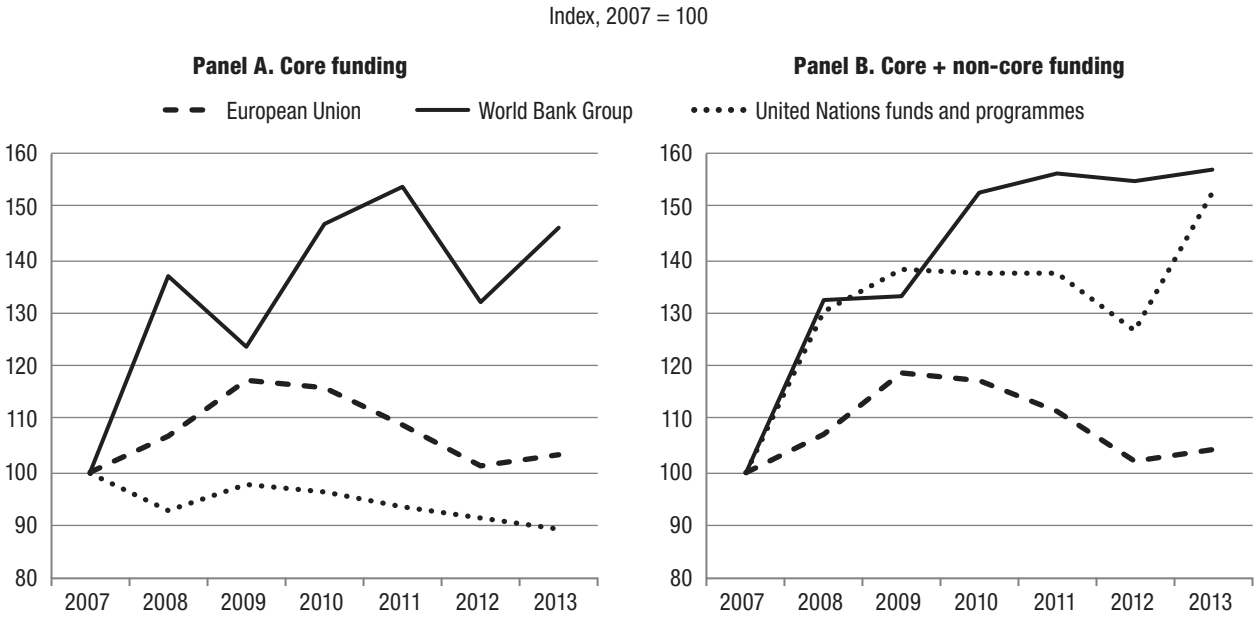
Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933246896*

The composition and patterns of funding to and through multilateral organisations differs significantly. Figure 0.4 shows that core funding i) has been declining for UN funds and programmes, ii) fell for the EU in 2010-12 before rebounding in 2013 (yet remaining below its 2009 peak of USD 14.2 billion in real terms), and iii) is on a variable yet overall growing trajectory for the World Bank Group. As concerns overall fundings: i) the EU has not been impacted much by non-core funding patterns given their insignificant shares (1-2% in 2008-13); ii) non-core funding has helped the World Bank Group smooth episodic declines in core funding and establish a broadly upward funding trend, and iii) growth in total funding to UN funds and programmes is mainly due to increases in non-core funding, upon which UN funds and programmes are increasingly reliant – they represented 76% of all funding in 2013 compared to 58% in 2007.

Multilateral outflows as well as earmarked funds are strongly focused on least developed countries (LDCs), although this has diminished over time. Outflows to LDCs grew considerably in 2012 and 2013, reaching USD 19.5 billion and representing 45% of total outflows. This share falls short of the high point reached in 2007 (54%). Earmarked resources are even more concentrated on LDCs (59%, or USD 6.5 billion in 2013), mainly due to flows to Afghanistan.

Figure 0.4 ***Funding patterns of multilateral organisations differ significantly***



Note: The EU has provided the following clarification: "The EU is unique among DAC members in that it plays a dual role in development assistance. Although the EU is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources, it is often presented as a multilateral organisation in DAC publications for statistical purposes. This report reflects this dichotomy."

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933246900*

Major developments in the multilateral landscape on the eve of the post-2015 era

Over the past two years, there have been important innovations in the ways multilateral organisations – both old and new – operate and are funded, and shifts in the overall architecture of the multilateral system.

The replenishments of the International Development Association (IDA), the African Development Bank (AfDB), the Global Fund and Gavi signalled overall continued support by the donor community for these organisations. Negotiations with the two development banks resulted in decisions to increase future allocations to fragile state recipients, partially shifting away from country performance-based allocations.

New institutions are emerging, including vertical funds and development banks largely financed by developing countries. The successful pledging conference of the Green Climate Fund suggests it could become the largest vertical fund ever. It has quasi-universal membership, where developed and developing countries have equivalent voice and decision-making powers. The recent creation of the Asian Infrastructure Investment Bank under the leadership of the People's Republic of China (hereafter "China") has rallied support from a large group of countries both advanced and developing and is expected to play a major role in filling the infrastructure financing gap in Asia. The establishment of the New Development Bank embodies the ambition of the BRICS countries to act as a unified geopolitical collective and create alternative options for international collaboration and development.

The traditional multilateral organisations are aware of the need to adapt to emerging international development priorities and challenges. Both the World Bank Group and UN system have been conducting internal discussions regarding their strategic positioning in order to be "fit for purpose" in a post-2015 world. The United Nations development system is carrying out a reflection on its future role through a special UN Economic and Social Council (ECOSOC) dialogue. Multilateral development banks are also assessing their comparative advantages and institutional "toolkits" for supporting post-2015 challenges. Against this backdrop, many multilaterals continue to implement ongoing institutional reform programmes, such as the UN's 2012 Quadrennial Comprehensive Policy Review and the World Bank Group's organisational restructuring and trust fund reform.

Creative approaches for financing multilateral operations are emerging. The UN system is mainly working on securing a critical mass of core resources and attracting more flexible earmarked funding, while the development banks are taking innovative steps to leverage additional funding using both concessional and non-concessional instruments. For example, the Asian Development Bank has reformed its financing model through the merger of its concessional and non-concessional lending windows in order to increase its capital base – and therefore it's lending capacity. As well, for the first time concessional loans – instead of grants – were used to finance the IDA replenishment and the International Fund for Agricultural Development (IFAD). Good practice guidelines will need to be devised and applied in the future if and when concessional loans finance multilateral organisations.

A proposal for establishing new vertical funds and global pooling mechanisms in support of specific Sustainable Development Goals has been put forth. Such mechanisms could provide impetus for mobilising resources, including from the private sector. However, care should be taken to ensure that new funds and/or institutions reflect lessons learned from the past and minimise the costs and inefficiencies of an ever-expanding multilateral aid system.

Recommendations

- When making use of concessional loans to finance multilateral organisations, consideration should be given to ensure the right balance between loan and grant financing.
- When considering the establishment of new institutions and/or funding mechanisms, apply the lessons of the past in terms of governance structures and business models, and factor in the costs and inefficiencies of supporting an increasingly growing number of multilateral organisations.

Hard facts about DAC members' use of the multilateral system

There is a considerable degree of heterogeneity among DAC members when it comes to the volumes and composition of funds they provide to and through the multilateral aid system (Figure 0.5), as well as their evolution over time.

In 2013 the United Kingdom, Spain, Iceland, Switzerland and Italy recorded the largest increases in the total use of the multilateral aid system (core + non-core funding), while the largest decreases were registered for Australia and Canada. For the United Kingdom,

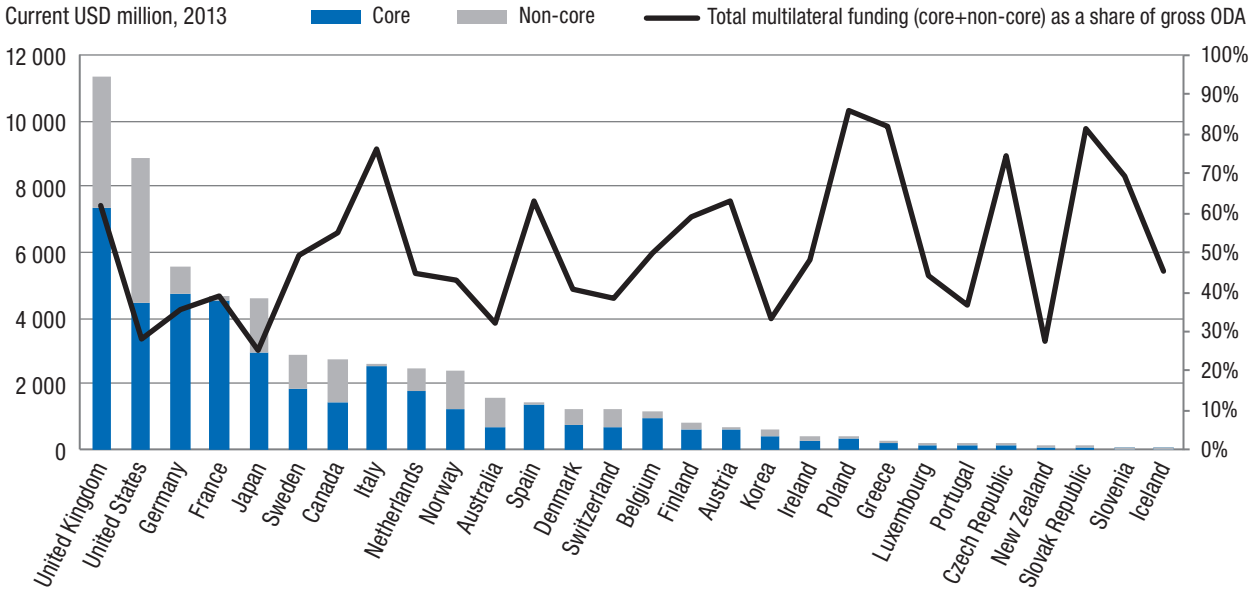
increased funding to multilateral organisations has been a key instrument for reaching the 0.7% ODA/GNI target in 2013, representing 52% of ODA growth.

The United Kingdom became the largest multilateral provider in 2013, surpassing the United States; otherwise donor "rankings" remained largely unchanged compared to 2012. France and Germany are among the ten largest providers to the multilateral system overall, mainly by virtue of their core contributions. Conversely, some middle-sized donors (e.g. Australia and Norway) are among the largest providers of non-core contributions – but do not rank in the top ten in terms of core contributions.

Across DAC members large differences exist in the use of the multilateral system. Excluding contributions to the EU, the United Kingdom was the largest contributor the multilateral system in 2013, with 58% of its gross ODA channelled to and through multilateral organisations. It was followed by Italy (56%), Canada (55%), and Finland (52%). Portugal had the smallest share (10%). Including contributions to the EU, the ranking changes significantly, with Poland being the largest multilateral provider in relative terms (86%), followed by Greece (82%), Slovak Republic (82%) and Italy (76%). The lowest share was 25% for Japan.

Smaller providers do not systematically make greater use of the multilateral aid system. Providers with smaller overall aid budgets are usually thought to be better served using multilateral channels given opportunities for achieving economies of scale and efficiency gains through pooling of resources and for extending the reach of assistance across many countries. However, there is no significant relation between the size of the donor and its use of the multilateral system: several smaller-sized providers, such as Iceland, Luxembourg, New Zealand and Portugal, do not rely heavily on the multilateral system for channelling their development assistance.

Figure 0.5 ***DAC countries use the multilateral system differently***



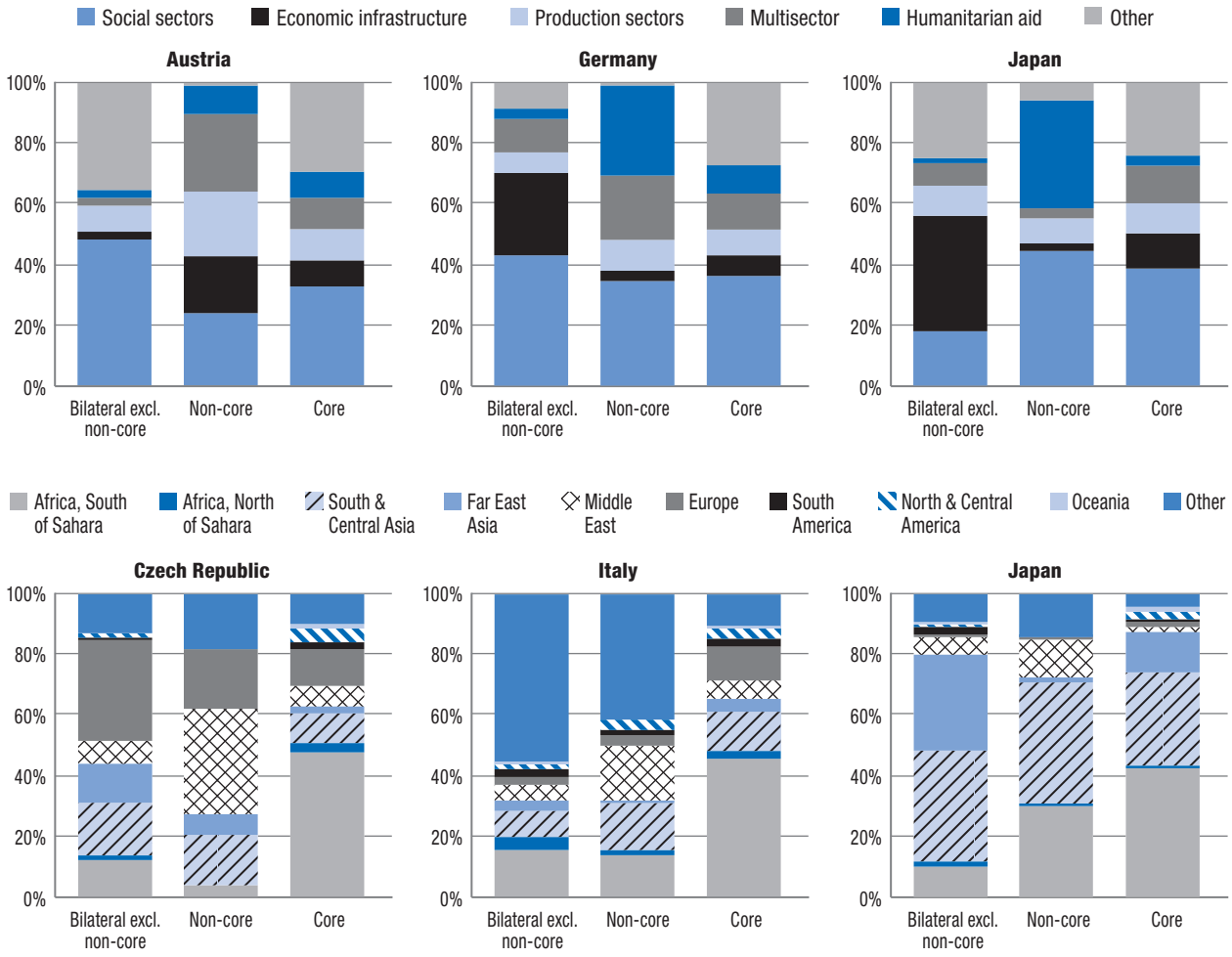
Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933246911*

Key features of DAC members' multilateral policies and practices

Policy frameworks reflect a strong commitment to multilateralism. DAC member countries place great importance on working with multilateral organisations in their overall development co-operation efforts. Many DAC members (11 out of 29) have an explicit strategy in place that provides insights and information about how they envisage their interaction with the multilateral aid system and what they hope to achieve by doing so. While policy documents are no guarantee of more effective multilateral allocations, they can provide an opportunity for developing a comprehensive and forward-looking vision of shared priorities for partnering with multilateral organisations – and can help providers disseminate this vision across their administrations and diverse funding bodies. Multilateral policy frameworks also enhance transparency with respect to the objectives and expected results of such partnerships vis-à-vis multilateral organisations and the wider public.

Figure 0.6 ***Multilateral allocations complement bilateral programmes, both sectorally and geographically***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

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There are strong complementarities between the composition of DAC members' bilateral programmes and the composition of their multilateral allocations, both in terms of sectors and regions. A recurring motivation for engaging with multilateral organisations is their comparative advantages with regards to specific issues, sectors and regions. Actual allocations reveal that – for most DAC members – (imputed) core multilateral allocations target different sectors and geographic areas compared to bilateral programmes. Figure 0.6 provides some examples of complementarity between bilateral programmes and multilateral funding, both sectorally (top row) and geographically (bottom row).

Most DAC members have regular discussions about their bilateral versus multilateral ODA allocations – but very few have quantitative targets. The balance between bilateral and multilateral ODA is explicitly discussed by 14 of 22 DAC members responding to the 2013 OECD/DAC Survey[1] (either when development policies are formulated or when the ODA budget is being developed), but generally no quantitative targets are set for this balance (only two DAC members set targets).

Some bilateral practices can undermine the performance of recipient multilateral organisations

Multilateral funding decisions are dispersed across numerous government entities, which can challenge co-ordination and reduce the strategic focus of overall allocations. For core allocations, most DAC members tend to concentrate decision-making in one agency/institution. Decision-making is more scattered (especially across departments and field offices) for non-core funding. Contributions to the same multilateral organisation often come from different ministries or institutions or different departments within the same ministry. In the absence of adequate co-ordination across extending entities and of a comprehensive overview of where funding is going, scattered decision-making can undermine the strategic focus and coherence of providers' funding.

Volatility of funding is increasing. Although many DAC members have adopted good practices for making multi-annual commitments, overall funding to individual organisations varies considerably from one year to the next, particularly for non-core resources. As some multilateral organisations are more reliant on non-core funding, their funding base is becoming more volatile, with negative implications for planning and delivering assistance.

Some accountability processes are not sustainable. Increased scrutiny of aid budgets in OECD countries over recent years has encouraged a proliferation of bilateral assessments of multilateral organisations with no end in sight. In 2012-14, 205 assessments of multilateral organisations were carried out by DAC members alone. As a result some organisations are assessed on multiple occasions in a given year. To a large degree these bilateral assessments have neither promoted more rational and informed donor allocation decisions nor encouraged better performance by multilateral organisations.

Recommendations

- Base partnerships with multilateral organisations on strategic considerations and evidence of effectiveness and/or impact.
- Ensure adequate co-ordination across and within different ministries and institutions providing core and non-core resources to multilateral organisations.
- Increase the predictability of both core and non-core funding by making – to the extent possible – multi-annual commitments linked to the strategic plans of multilateral organisations.
- Use existing information on multilateral organisations' performance, including that produced by multilateral organisations' own independent evaluation units.
- Work in a "multilateral mode" by using board discussions as the key platform and instrument for fostering institutional change.

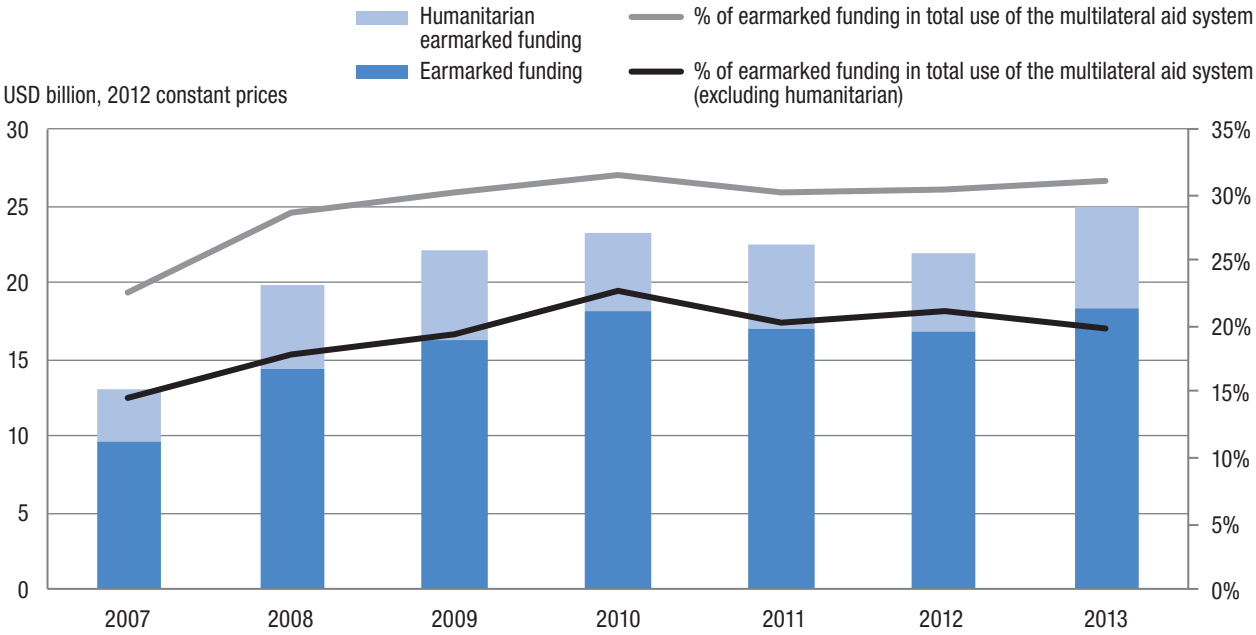
Gearing up to support post-2015 partnerships

Making earmarked funding more effective: practices and reforms of bilateral providers and multilateral organisations

Earmarked resources are the fastest growing part of funding to multilateral organisations. Financing needs for implementing the Sustainable Development Goals will be considerable, and multilateral organisations will need to maximise all available funding options including earmarked funding. In aggregate terms earmarked funding has become an important source of finance for the multilateral system: in 2013 it accounted for 31% (USD 18.2 billion) of total DAC member use of the multilateral system, or 13% of total gross ODA. Individual organisations rely on earmarked funding to differing degrees. The UN and World Bank Group are the largest recipients of earmarked funding, for which it accounted for 76% and 28% of total funding, respectively. These resources have also been the fastest growing component of funding to multilateral organisations, increasing by 93% over the period 2007-13 as opposed to 24% in the case of core contributions (Figure 0.7).

Earmarked funding creates challenges and opportunities for all stakeholders. Earmarked funding provides resources for responding to specific, time-sensitive needs, such as humanitarian crises and emerging development challenges. It also underpins specific activities, platforms and initiatives that make it possible to establish partnerships leveraging resources from a variety of actors, such as sovereign countries, private foundations, corporations and intergovernmental organisations. However, a wide variety of financial arrangements are used to deliver earmarked funding, adding significantly to the complexity of the global development co-operation architecture and heightening the risk of duplication, incoherence and higher transaction costs. Furthermore, for providers and multilateral organisations alike, the way these funds have been provided and managed has hampered coherent and effective allocation of resources.

Figure 0.7 ***Earmarked funding is becoming more significant***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

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DAC members have similar motives but different policies and allocations concerning earmarked funding. They state that their main motivations for making increased use of earmarked funding are: i) the importance of ensuring the visibility of bilateral ODA funds vis-à-vis domestic audiences, ii) the scope it affords for greater influence in shaping a multilateral organisation's development agenda, and iii) the opportunities it presents for having a degree of oversight regarding how resources are spent – partly to respond to perceived inefficiencies of multilateral organisations. However, despite the widespread use of earmarked funding, only a few DAC members have developed policies and guidance for this funding modality. Decision-making is often diffuse and uncoordinated, which in practice limits the scope for understanding the full breadth and implications of earmarked resources. These factors affect DAC members' strategic engagement with multilateral organisations and coherent allocation of these funds. While some bilateral providers have worked to improve the coherence and complementarity of funding to the multilateral system, for most there is scope to adjust policies and practices to ensure more predictable, more flexible and more strategic funding.

Multilateral reforms for enhancing the effectiveness of earmarked funding need to be further supported. Earmarked funding has allowed multilateral organisations to expand their activities beyond what would have been possible with core funding alone. However, there is a link between performance of multilateral organisations and their funding: the unpredictable and disparate decision-making and business processes governing earmarked funding make it difficult for multilateral organisations to plan and allocate resources most effectively. In addition, the increasing reliance on earmarked funding affects the incentive structure of organisations, especially those with normative functions. To improve the operational and strategic alignment of earmarked funding to institutional core priorities

and to promote a more effective use of overall funding, both the World Bank Group and UN have launched a series of reforms, such as the UN's 2012 Quadriennial Comprehensive Policy Review and the ongoing World Bank Group trust fund reform. These create an excellent window of opportunity for bilateral providers to support this reform agenda and implement corollary reforms to improve the way they finance multilateral organisations.

A critical mass of core resources and better quality earmarked funding will be essential going forward. Core resources will remain fundamental for multilateral organisations to be able to carry out their mandates. At the same time, the sectoral focus of the forthcoming Sustainable Development Goals, and the need to leverage greater public and private resources to finance them, means that non-core funding will continue to be relevant going forward. Therefore, donors and multilateral organisations alike will need to manage earmarked funding in ways that maximise its benefits while keeping its costs and inefficiencies to a minimum, subject to wider political contexts regarding earmarked funding.

Recommendations

- Use earmarked funding based on evidence and judicious considerations about when and why earmarked funding may be the most suitable option.
- Provide guidance on the use of earmarked funding with a view to support good practices and enhance internal coherence.
- When extending earmarked funding, consider carefully the implications of the requests and conditions that are attached to it.
- Support multilateral organisational reforms aimed at multi-year strategic frameworks and achieving results.

How effective are vertical funds and other earmarked funding mechanisms at country level?

More resources from a growing array of earmarked funding mechanisms are now available to developing countries. Vertical funds, global pooled funding mechanisms and other instruments to earmark resources accounted for 29% of multilateral funding to developing countries in 2013 – and over 50% to many small island and fragile/conflict-affected states. In Tanzania, 26% of all funding from and through multilateral organisations was earmarked and disbursed through over 30 different earmarked funding mechanisms.

Earmarked funding mechanisms have different strengths and weaknesses in terms of their ability to (i) promote country ownership; (ii) provide stable and predictable flows; (iii) improve the co-ordination of development partners and reduce fragmentation; (iv) leverage resources and knowledge from partners beyond DAC members; and (v) promote innovation.

- **Vertical funds** – such as Gavi and the Global Fund – have been successful in leveraging financial resources and knowledge from non-DAC providers (especially from private foundations) as well as creating incentives for businesses to invest in new technologies and solutions. These mechanisms have been highly innovative in their inclusive governance

structures and business models. They have also been innovative in their approaches to development challenges, especially in specific, targeted areas. However, the evidence concerning their ability to promote country ownership is mixed, they often rely on parallel co-ordination mechanisms, and there is evidence that funding is more volatile. Year on year volatility of disbursements may be linked, however, to the programme's life cycle, in which case it would not result in actual lack of predictability for partner countries. Future research could further unpack these issues.

- **Country-specific multi-donor trust funds (MDTFs)** – such as the post-tsunami reconstruction fund for Aceh and Nias in Indonesia and the Afghanistan Reconstruction Fund – were originally designed to promote ownership and co-ordination, but faulty design features or donor behaviours, such as the use of parallel structures and earmarking of resources within the pooled fund, have at times undermined ownership. These funds have been only marginally able to innovate and leverage resources and knowledge from providers beyond the DAC.

- **The One UN Fund**, a specific MDTF, was conceived as a gap-filler for UN country programmes which, overall, are strongly supported by partner countries due to a highly consultative process throughout the programme cycle. However, funding to the One UN Fund is declining. Further, although accepted by prevailing UN guidelines, donors are increasingly earmarking resources within this fund which ultimately undermines the utility of consultations and negotiations with the partner country and limits partner country ownership overall. As the UN plans to take the "Delivering as One" initiative to a global scale, it will be important to promote further harmonisation at headquarters, simplify co-ordination procedures, and create the right incentives for UN entities to co-ordinate. UN MDTFs generally provide an opportunity to engage with a broader set of stakeholders. Providers beyond the DAC are increasing their funding albeit from a small base, particularly for humanitarian purposes.

- Performance by **other earmarked funding mechanisms** depends on the extent to which they are integrated into the processes and procedures of the parent multilateral organisation. In the case of the UN, this type of funding needs to fall within the set of priorities identified by the UN Development Assistance Framework or UN Development Assistance Plan. Accordingly, unless defined too broadly, earmarked funding of this kind is generally aligned to UN processes and procedures. In the case of the World Bank Group, activities funded through trust funds are currently managed fairly independently by trust fund managers (at country level or at headquarters) and may or may not feed into in-country co-ordination discussions or structures.

Recommendations

- Use the most suitable funding modality for earmarked contributions based on evidence of the comparative strengths and weaknesses of different multilateral funding options.

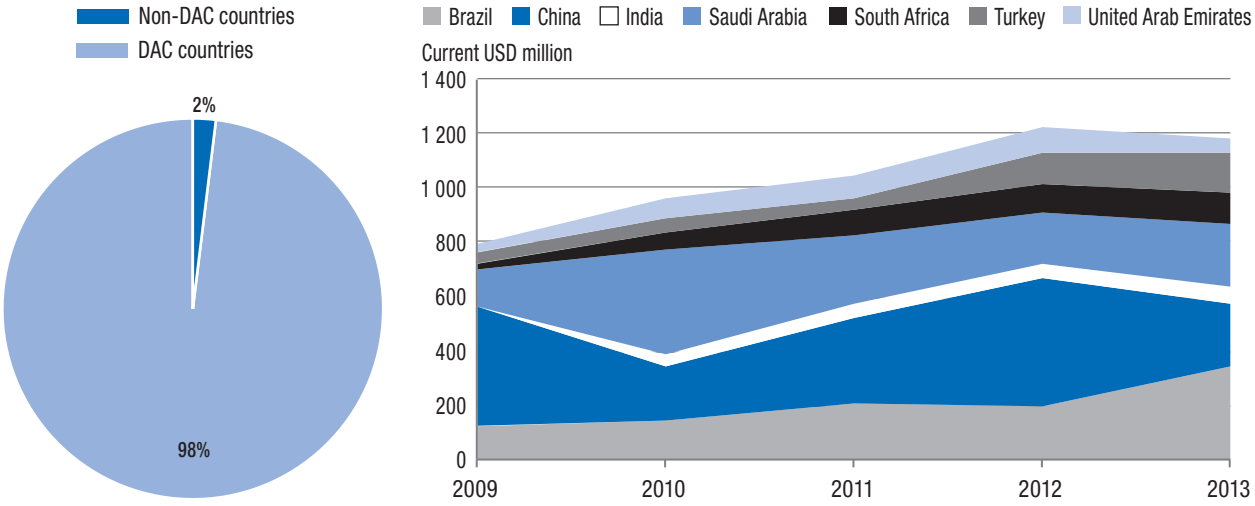
- Help address the key challenges these mechanisms face and learn from the lessons of the past when establishing new funding mechanisms.

Leveraging knowledge and resources from providers beyond the DAC to enhance post-2015 partnerships

To implement the emerging Sustainable Development Goals, multilateral organisations will need to foster global partnerships that leverage knowledge and resources beyond the DAC, including from the private sector and non-DAC sovereign states. While several of these actors have a long track record of transferring resources and expertise to other nations to promote welfare and shared prosperity, some have recently expanded their development co-operation in parallel with their growing economic standing. In 2013, an estimated 13% of global concessional development finance was provided by non-DAC countries. Engagement of these countries with multilateral organisations promoting development is also growing in importance.

Multilateral funding from seven non-DAC providers of concessional development finance is growing, although it represents in general a small part of their total concessional development finance. Brazil, China, India, Saudi Arabia, South Africa, Turkey and the United Arab Emirates (also referred to as "focus countries" in this report) increased funding to multilateral organisations from USD 794 million in 2009 to USD 1.2 billion in 2013 (Figure 0.8). These countries' contributions to multilateral organisations have become an important part of international efforts to address humanitarian and developmental needs, such as those arising during the Arab Spring and the Ebola crisis. For five of the seven focus countries, however, the use of the multilateral channel accounts for less than 7% of their total concessional development finance.

Figure 0.8 ***Focus countries considerably increased their funding to multilateral organisations in 2009-13***



Source: Authors' calculations based on OECD/DAC estimates and official reporting to the OECD/DAC

StatLink *http://dx.doi.org/10.1787/888933246941*

Focus countries have prioritised different multilateral organisations and themes. While China has focused largely on regional banks (66% of its multilateral funding), all the other focus countries have instead engaged mainly through the UN system and the World Bank Group. All focus countries have increased funding to multilateral organisations in response to humanitarian needs. Brazil, China, India and Turkey have also increased their engagement to foster South-South co-operation and knowledge exchange, and to improve their own institutional and implementation capacities.

For most focus countries there are signs of lasting support for both "traditional" and "new" multilateral organisations in part driven by motivations and aspirations linked to their growing economic power and geopolitical influence. Recent developments, such as increases in funding to existing multilateral organisations and the creation of a series of institutions and funds (such as the New Development Bank and the Asian Infrastructure Investment Bank), suggest that Brazil, China, India and South Africa will likely play an increasingly important role in supporting and shaping the multilateral landscape going forward. Turkey's accelerating engagement with multilateral organisations also seems destined to continue in the future, propelled by its desire to play a leadership role in international processes. Saudi Arabia and the United Arab Emirates have long been high-income countries, and the recent growth of their multilateral funding could be a passing phase mainly driven by humanitarian motives.

Obstacles remain that limit the engagement of the focus countries with multilateral organisations, especially with the "traditional" institutions. These include organisational constraints (several countries are in the process of setting up or consolidating their development co-operation systems, including the processes and frameworks that facilitate funding to multilateral organisations), economic deterrents (multilateral channels reduce the scope for expanding trade and investment opportunities through bilateral and South-South co-operation) and political considerations (contrasts between South-South and Western approaches to development co-operation and the importance of visibility for these providers to maintain domestic support for their aid effort).

The global trend towards a more complex constellation of multilateral organisations portends greater opportunities – but also risks. Regional and sub-regional multilateral systems, largely financed by developing countries, will continue to evolve and grow and an additional system focused on infrastructure finance will take root in Asia. Substantial benefits are in the offing: more resources will be mobilised, more financing options and opportunities will be available, and developing countries will have greater voice and influence regarding the nature and direction of global development finance. The increased diversity of institutions will doubtless spur innovative methods to combine and package finance, including private capital, and to create new platforms for sharing development experience and alternative development models and approaches. Furthermore, the emergence of potentially competing sources of multilateral finance could stimulate a tighter focus on institution-specific comparative advantages and thereby improve the efficiency of the multilateral system as a whole. However, there are also risks for multilateralism more generally, including duplication of efforts, increased transaction costs for client countries, inadequate safeguards to address harmful externalities and excessive competition.

Recommendations

- Accelerate reforms of the governance arrangements of multilateral organisations to enhance these institutions' legitimacy and dissipate the prospect of disenfranchisement and disengagement by under-represented countries.
- Enhance transparency and information exchange, as well as the scope for more horizontal co-operation across existing and emerging multilateral institutions, in order to limit funding gaps and "aid orphans", identify complementarities and synergies, and enhance comparative advantages and the division of labour across the system.
- Encourage reflection, analysis and discourse across the international development community to further the scope for a shared, strategic vision to enhance the reach and impact of a larger multilateral system.

Navigating future frontiers in the multilateral landscape

As stakeholders and major investors in multilateralism, what new and additional frontiers do we need to be thinking about now, on the eve of the Sustainable Development Goal era? What are the questions we need to pose, the issues we need to explore, and the research we need to carry out? An emerging set of policy issues – briefly sketched out below – is taking shape that could be explored in future multilateral development finance reports and more broadly by the international community going forward.

Capitalising on new funding models and instruments for sustainably leveraging the trillions that will be needed. Multilateral organisations, in particular development banks, will be playing an important role helping mobilising large volumes of finance by combining and blending different instruments and sources of finance in complex financial "packages" and by deploying risk mitigation tools and developing new pooled funding mechanisms to bring in private resources from banks, institutional investors and the enterprise sector. They can partner with other multilateral institutions – from the wide array of regional, sub-regional and emerging infrastructure-focused banks in Asia – to co-finance essential cross-border investments to address infrastructure deficits, health-related challenges and climate change needs. They can also mobilise large volumes of market-related public financing by capitalising on their own institutional resources – their profits and their capital base – to raise additional resources from international capital markets. Mobilising the broader development finance needed for the post-2015 era will require an in-depth understanding of how best multilateral agencies can minimise risks in order to develop viable financing models. It will also call for new ways of measuring and tracking these resources – for example through the proposed Total Official Support for Sustainable Development (TOSSD) – in order to ensure transparency, the exchange of experience, and accountability regarding the emerging financing for development agenda.

Assessing how "graduation" criteria and transition phases can be updated and reshaped. Many developing countries have experienced strong growth over the past decade. This has lifted billions of people out of extreme poverty. At the same time, however, this growth has moved many countries into higher per capita income groupings – which are a key eligibility determinant for access to both bilateral and multilateral concessional finance.

Countries experiencing this shift still have widespread poverty and significant development challenges to face – but it will take time for them to strengthen their domestic revenue-raising capacity and their international creditworthiness. Thus, at a critical juncture in their development path, these countries – particularly those who have moved to lower-middle-income status – may well find it difficult to finance their development needs. Reflection is thus needed to consider how the international community can more flexibly adapt eligibility criteria and procedures for accessing concessional finance. On current trends, it will be increasingly important to ensure that adequate and reasonably priced financial products can be provided to "graduating" countries, particularly those who have exceptional development challenges (e.g. high levels of absolute and chronic poverty, vulnerability to climate change, income inequalities, small island development states and land-locked countries).

Exploring the complementarity and coherence of the range of organisations operating in the multilateral sphere. Avoiding duplication and building on what already exists is essential. Multilateral agencies have very different mandates, operating modalities, areas of expertise, funding options, legitimacy/universality, governance arrangements, presence at country level and reach across the globe. They will need to play a pivotal role in helping to mobilise the broad means of implementation as set out in the post-2015 development agenda. In particular, they have an important and unique role to play in supporting collective action across the international community to provide the global public goods needed to tackle problems transcending borders that jeopardise development gains and prospects. Further critical reflection on the shape and scope of multilateralism – particularly its evolution in response to new priorities and greater development complexities – will be needed. The multilateral system and its stakeholders will need to do much more in the post-2015 era to enhance global governance and collective action to deliver international solutions to pressing development challenges.

Establishing a "policy space" for discussing strategic, system-wide multilateral policy issues. Informed discussions are needed regarding the overall impact of individual allocation decisions across the multilateral landscape. In the absence of a central oversight body that could rationalise, streamline and ensure close co-ordination among multiple actors, there is a need to establish and reinvigorate co-operation frameworks to reduce volatility, limit funding gaps and "aid orphans", identify complementarities and synergies, and enhance comparative advantage and division of labour across the system. Increasingly, it seems that multilateral organisations have opportunities to work together and contribute more collectively than individually – but no mechanism exists for assessing this. As the multilateral system grows and diversifies, there's also a need for enhanced transparency and information-sharing to address prudential, moral hazard and debt sustainability concerns. A system-wide view and policy making is required in order to foster an effective and fit-for-purpose multilateral system.

Notes

1. 2013 OECD/DAC Survey on Multilateral Aid Allocations. This survey was carried out in the last quarter of 2013; 22 DAC members responded to it. Poland was not yet a DAC member at the time of the survey.

Part I

TRENDS AND PRACTICES IN THE GLOBAL MULTILATERAL LANDSCAPE

Chapter 1

Recent trends in the global multilateral aid landscape

Against the background of the approaching deadline for agreeing a new agenda for sustainable development there have been developments in the ways multilateral organisations, both old and new, operate and are funded. This chapter discusses a number of these developments, from the successful pledging conference for the Green Climate Fund, to emerging proposals to establish additional global pooled funds for implementing the post-2015 development agenda, to preparations by individual multilateral organisations to be fit for purpose in the post-2015 era. Also discussed are providers' preferences signalled by the outcomes of the recent replenishments of three key multilateral organisations: the International Development Association, the African Development Bank and the Global Fund. The chapter begins by providing key figures on global trends of multilateral flows: the evolution of core and non-core resources up to 2013; their distribution across multilateral organisations; and the sectorial and geographic allocation of both multilateral outflows and non-core resources.

Summary of main findings and recommendations

Multilateral ODA is on the rebound. It reached an all-time high of USD 41 billion in 2013 after two years of consecutive decline.[1] Non-core resources (earmarked funds) totalled a record USD 18.3 billion, bringing total use of the multilateral aid system in 2013 to USD 59 billion. Looking at these flows as a share of total official development assistance (ODA), multilateral ODA ("core funding") has been relatively flat in past years at around 28%, while earmarked funding has increased to 13%, up from 8% in 2007; combining these numbers results in a 41% use of the total multilateral aid system as a share of total ODA in 2013. The DAC Survey on Aid Allocations and Forward Spending Plans furthermore indicates that core resources could keep increasing in real terms.[2]

In 2013, over 60% of all core and non-core flows from OECD Development Assistance Committee (DAC) countries went to the European Union (EU)[3], the World Bank Group, and the United Nations (UN) funds and programmes, which received 21%, 22% and 20%, respectively, of total core and non-core flows. However, the composition of flows towards these institutions differs significantly, with the EU receiving almost exclusively core funding, while the funding base of UN funds and programmes is 76% non-core. For UN funds and programmes non-core funding, which is generally more volatile and transaction-heavy than core resources, is also becoming a greater part of total funding.

The largest share of the flows from multilateral organisations to developing countries ("outflows") is focused on the least developed countries (LDCs), 45% or USD 19.5 billion in 2013. Outflows to LDCs grew considerably in 2013 and 2012 but the share of outflows these countries received in 2013 is still below the 2007 value of 54%. Noncore flows also are strongly concentrated on LDCs (59%, or USD 6.5 billion in 2013), mainly because of funding to Afghanistan (9% of earmarked funding). Sub-Saharan Africa received 38% of earmarked funding in 2013 although its share declined slightly (down from 41% in 2012), in part due to the large increase in the share to the Middle East (20% in 2013, up from the 9% average in 2007-12). A significant part (36% of the total) of earmarked funding was given for humanitarian purposes (see also Chapters 2 and 3).

Along with these trends, there have been developments in the ways multilateral organisations, both traditional and new, operate and are funded, and in the overall global architecture of multilateral organisations. The replenishments of the International Development Association (IDA), the African Development Bank (AfDB), the Global Fund, and Gavi signalled overall continued support. For the banks, negotiations led to an increased focus of future allocations on fragile state recipients, partially shifting away from country performance-based allocations. The Asian Development Bank reformed its financing model through the merger of its concessional and non-concessional lending windows in order to increase its lending capacity. For the first time providers used concessional loans to contribute to the IDA replenishment and finance the International Fund for Agricultural Development (IFAD). The IDA17 replenishment process was negotiated so as to ensure the right balance between grant and loan financing in order to safeguard the long-term financial sustainability of IDA. Such good practice should be considered when making use of the loan financing modality for multilateral organisations. New multilateral organisations are being created, e.g. the Green Climate Fund, which successfully held its first pledging session in Berlin in 2014.

"Traditional" multilateral organisations are also preparing for the post-2015 development agenda, with both the World Bank Group and UN system conducting discussions on their long-term positioning in a post-2015 world. In the international discussions on mobilising resources for the post-2015 development agenda, the idea of global pooling mechanisms for specific sectors has been put forth. Such mechanisms could provide impetus for mobilising resources, including from the private sector. However, care should be taken to ensure that new institutions embody lessons learned and avoid unnecessary expansion of the multilateral aid system.

Overall, the findings above suggest that to enable better partnerships in the post-2015 era, providers should consider:

- When making use of concessional loans to finance multilateral organisations, **consideration should be given to ensure the right balance between loan and grant financing**.
- **Apply the lessons of the past in terms of governance structures and business models** and factor in the cost of supporting an increasingly expanding constellation of multilateral organisations **when considering establishing new institutions and funding mechanisms**.

Main trends in funding to multilateral organisations and multilateral outflows

Core and non-core resources rebound to reach an all-time high

In 2013 multilateral ODA (see Box 1.1 for definitions) reached USD 41 billion, an all-time high after two years of decline. Non-core resources also recorded a higher-than-ever level at USD 18.3 billion, bringing total use of the multilateral aid system to USD 59 billion. With a drop in 2011 and 2012 and a pick-up in 2013, multilateral ODA mirrored the evolution of total gross ODA. However, while multilateral ODA proved slightly more "resilient", with smaller declines (1% in 2011 and 2% in 2012) than gross ODA (2% in each year), it also recorded a smaller increase in 2013 (5% against 7% for gross ODA). The largest fluctuations in this period were in fact recorded for bilateral ODA excluding non-core (-2%, -3% +8%) and non-core resources (-7%, 0%, +9%) (Figure 1.1).

The share of multilateral ODA remains levelled off

Between 2007 and 2013 the multilateral share of ODA remained at 28%, down from a high of 32% in 2001. The use of the multilateral system stood at 41% of total gross ODA in 2013 (Figure 1.2), compared with 36% in 2007. The weight of earmarked funding has increased slightly, both as a share of gross ODA (12% in 2012 and 13% in 2013, up from 8% in 2007) and as a share of total use of the multilateral system (30% in 2012 and 31% in 2013, up from 23% in 2007).

Box 1.1 *Definitions of terms in this report*

The following OECD/DAC definitions regarding multilateral organisations and multilateral aid are used in this report.

Multilateral organisations: The multilateral organisations covered in this report are those to which providers' contributions are reportable either in whole or in part as ODA. These are international institutions with governmental membership that carry out developmental activities. The DAC maintains the list of ODA-eligible organisations, which is publicly available (OECD, 2011).

Multilateral ODA/core contributions: These are official contributions to multilateral agencies, whether negotiated, assessed or voluntary. They are resources that the governing boards of multilateral organisations have the unqualified right to allocate as they see fit within the organisation's charter.

Non-core/earmarked/multi-bi funding or contributions: These are resources to ODA-eligible multilateral agencies over which the donor retains some degree of control on decisions regarding disposal of the funds. Such flows may be earmarked for a specific country, project, region, sector or theme. They are bilateral resources channelled *through* a multilateral agency, and therefore technically qualify as part of bilateral ODA. These resources can be administered through trust funds, either as single or multi-donor trust funds.

Total use of the multilateral aid system: This term means all funds channelled to and through multilateral organisations, or the sum of core and non-core resources. It therefore encompasses multilateral ODA and a part of bilateral ODA (which is earmarked funding).

Multilateral outflows: The three above mentioned flows (core, non-core, and the sum of the two) are all inflows into multilateral organisations. However, the OECD/DAC statistical system also tracks flows from multilateral organisations to partner countries, or multilateral outflows.

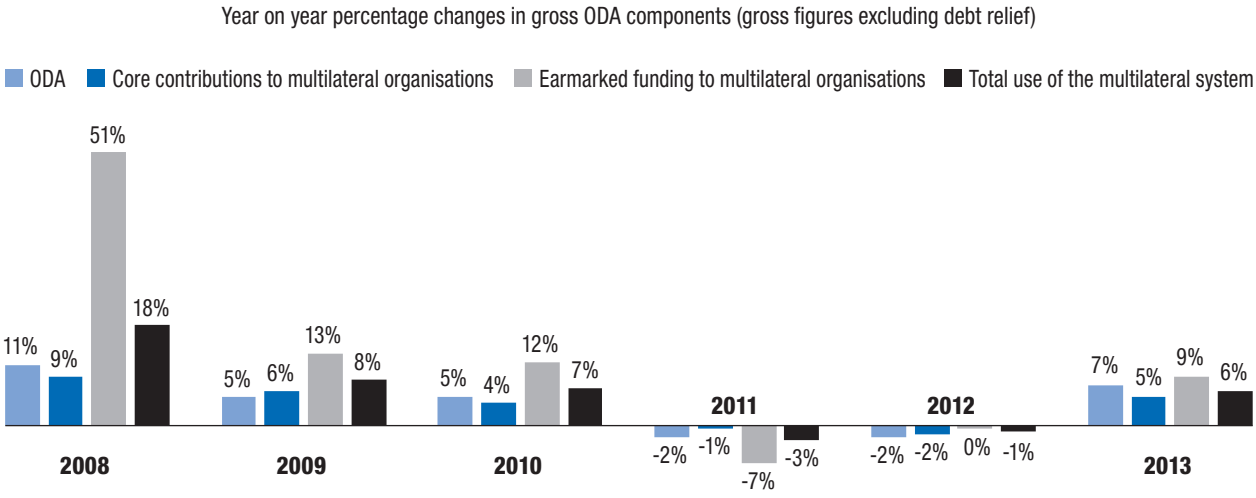
Imputed multilateral ODA: by definitions, when extending core resources to multilateral organisations providers do not have control on their allocations. However, it is possible to approximate how much of a provider's contributions to multilateral organisations was allocated for specific sectors and countries, through a methodology developed by the OECD/DAC. Put simply, the basic reasoning applied is that if Germany provided to UNICEF the amount X in core contributions and UNICEF spent Y% of its core contributions in the health sector, then the imputed multilateral ODA on health (for UNICEF) is X times Y%.

Multilateral ODA is likely to continue increasing

Projections for 2014 have pointed to continued growth in multilateral ODA. The annual DAC Survey on Aid Allocations and Forward Spending Plans asks providers to report their multilateral spending intentions (for core funding). Of the 35 bilateral aid providers included in the 2014 edition of the survey, 18 provided this information for 2014. Compared to a 2012 baseline, 10 of the 18 planned to increase their multilateral ODA in real terms by 2014 while

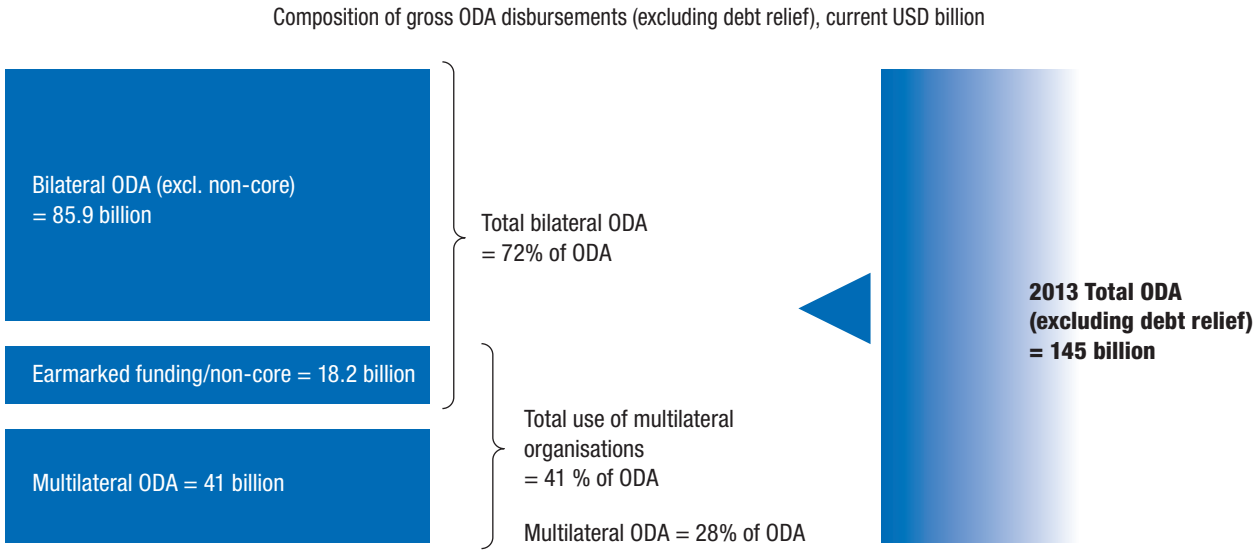
8 predicted a fall in their multilateral spending. On average, multilateral ODA for the 18 donors should increase by 3% in real terms from 2012 to 2014. However, in 2012 the multilateral ODA provided by these providers only amounted to 26% of the total multilateral ODA provided by those included in the survey. Therefore, care should be taken in extrapolating any general trend in multilateral ODA from these 18 providers.

Figure 1.1 ***Total use of the multilateral aid system rebounded in 2013 following a two-year decline***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
StatLink *http://dx.doi.org/10.1787/888933246951*

Figure 1.2 ***The multilateral share of ODA has remained levelled off at 28%***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
StatLink *http://dx.doi.org/10.1787/888933246962*

Total multilateral funding is concentrated on the European Union, the World Bank Group and the United Nations funds and programmes – but the composition of their funding is different

In 2013, over 60% of core and non-core contributions from DAC countries was concentrated on the European Union (EU), the World Bank Group and the United Nations (UN) funds and programmes[4], which received 21%, 22% and 20%, respectively, of these funds. The institutional clusters considered in this report are the three above-mentioned, as well as other UN entities[5] (e.g. all ODA-eligible UN entities that are not UN funds and programmes), regional development banks (e.g. the African Development Bank and the Asian Development Bank) and other multilateral organisations/mechanisms (e.g. Gavi, and Global Fund[6]). In 2013, 11% of this funding was allocated to other UN entities; 8% to the regional development banks; and 17% to other multilateral mechanisms. The proportion of total funding across these institutions has remained fairly stable over time.

While the EU, the World Bank Group, and UN funds and programmes received similar volumes of funding in 2013, the composition of this funding is very different across the three, with UN funds and programmes being the most dependent on earmarked funding (which makes up 76% of its total funding) and the EU relying almost exclusively on core funding (which makes up 98% of its total funding) (Figure 1.3). Another way to look at this is that while the distribution of the sum of core and non-core resources is fairly "equal" across these institutions, with each receiving a share of around 20-22%, the distribution of non-core alone is fairly different. In 2013 UN funds and programmes received half of all earmarked funding (50%), followed by the World Bank Group (20%), other UN entities (14%) and other multilateral organisations (11%), regional banks (4%) and the EU (1%).

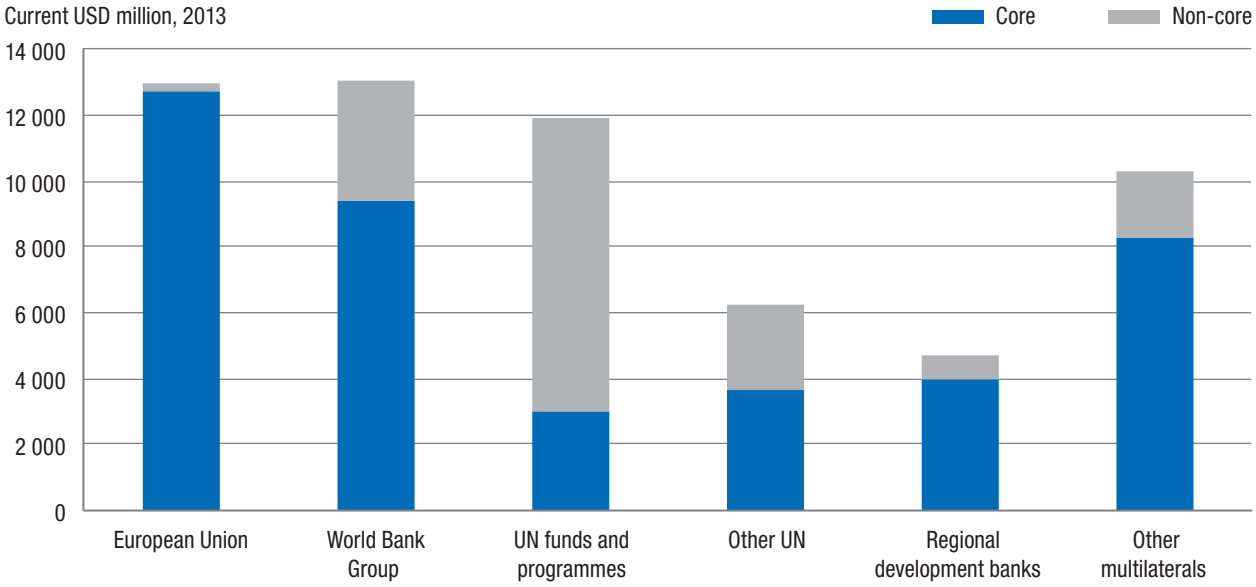
Individual institutions also exhibit different funding patterns (Figure 1.4). While acknowledging the special case of the EU (see Chapter 2, Box 2.1), funding to the EU institutions has not shown a clear upward trend. It declined in 2010-12 (by -1%, -5% and -9%, respectively) and rebounded in 2013 (+3%). Earmarked funding has so far been small (1-2% of total EU funding in 2008-13) and very volatile: in 2011 it reached USD 330 million compared with a low of USD 17 million in 2008 (a 1 900% increase, 2012 constant prices). However, the EU modified its financial regulations in 2012 to allow the European Commission to set up and manage European trust funds that can mobilise resources from member states and third-party.[7]

Funding to the World Bank Group shows a clearer upward trend, with almost steady increases of both core and non-core resources and stronger dynamism of non-core. UN funds and programmes exhibit a growing reliance on earmarked resources, which represented 76% of all funding in 2013, up from 58% in 2007. The core resource base has eroded over time, while non-core resources have been increasing but are far from showing the fast growth pace of non-core to the World Bank Group. Other UN entities have also been increasingly reliant on non-core resources, but without reaching the "dependency" rates of UN funds and programmes: for other UN entities, non-core made up 31% of total resources in 2007 and 41% in 2013. Total resources increased modestly between 2007 and 2011, declined in 2012, and returned in 2013 to a real term value similar to 2007. The regional banks have seen slow growth in overall resources (core + non-core), with non-core still accounting for a small but increasing share of the total (6% in 2007 and 16% in 2013). Other multilateral organisations (among which

Gavi and the Global Fund) have recorded overall increasing incoming resources. Non-core resources made up 20% of total funding in 2013, but this share has fluctuated significantly since 2007, ranging from 20% to 39%.

Contributions from non-DAC countries to multilateral organisations are estimated and discussed in Chapter 5. (Contributions from non-DAC countries are not included in the figures presented in this chapter).

Figure 1.3 ***Over 60% of core and non-core contributions from DAC countries was concentrated on the European Union, the World Bank Group and the United Nations funds and programmes***



Notes: The European Union (EU) has provided the following clarification: "The EU is unique among DAC members in that it plays a dual role in development assistance. Although the EU is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources, it is often presented as a multilateral organisation in DAC publications for statistical purposes. This report reflects this dichotomy."

"Other UN" comprises all UN entities (but UN funds and programmes) that are on the OECD-DAC List of ODA-eligible international organisations: *www.oecd.org/dac/stats/annex2.htm*

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933246974*

Multilateral outflows largely focus on least developed countries and on both economic and social sectors

Core contributions to multilateral organisations translated into USD 44 billion of flows to developing countries (or multilateral outflows) in 2013.[8] Overall, outflows have been on an upwards trend since 2007, growing by 59% in real terms between 2007 and 2013. They remain largely focused on least developed countries (LDCs), which in 2013 received 45% of all multilateral outflows, or USD 19.5 billion (see Figure 1.5).[9] In 2012 and 2013 outflows to LDCs increased after a steep decline in 2011 but the share of outflows to LDCs is still below the 2007 value of 54%. Outflows to lower and upper middle-income countries decreased in volume in 2013, but have been on a rising trend overall.

Figure 1.4 ***Multilateral organisations show different funding patterns***

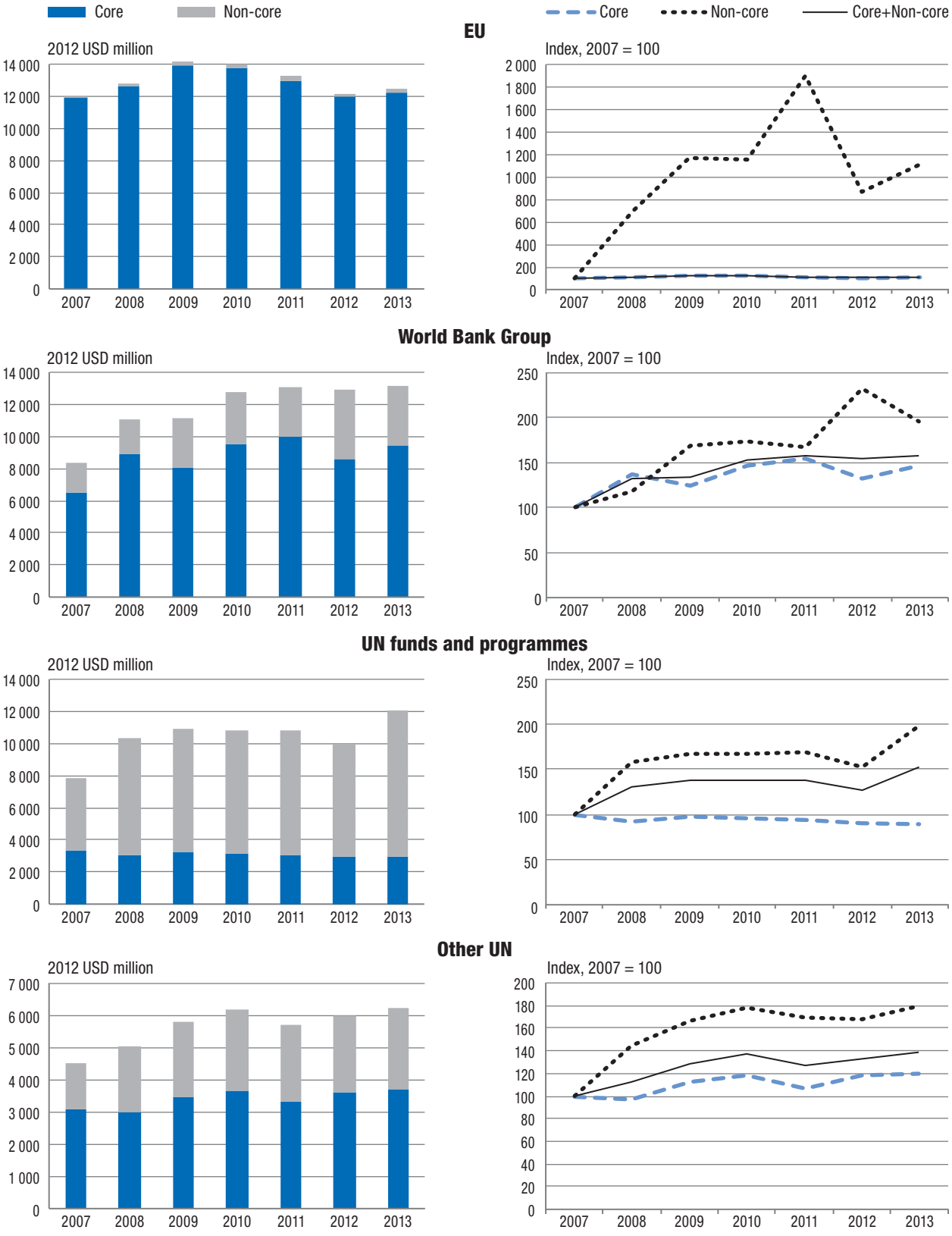
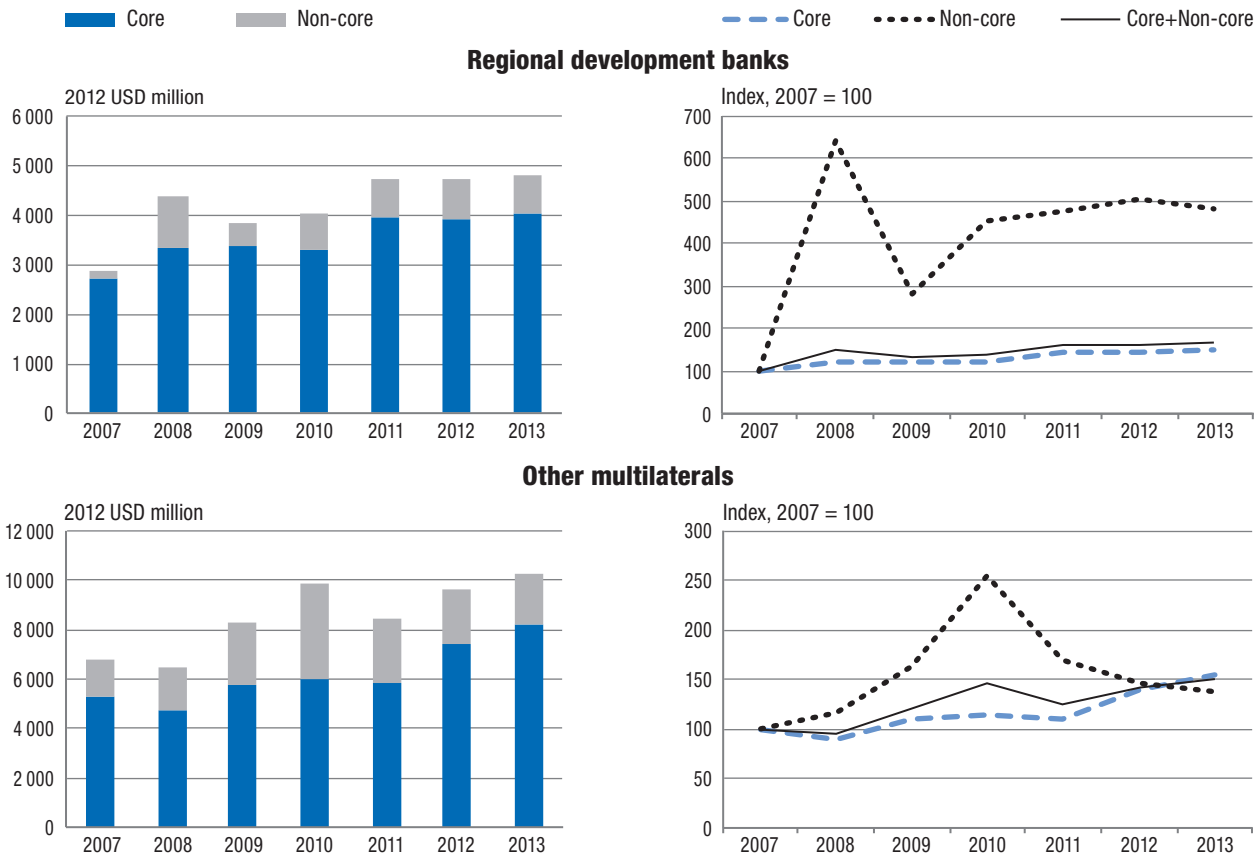


Figure 1.4 ***Multilateral organisations show different funding patterns*** *(Continued)*



Notes: Charts on the right-hand side show core and non-core volumes normalised using 2007 as a base year to highlight variations.

The European Union (EU) has provided the following clarification: "The EU is unique among DAC members in that it plays a dual role in development assistance. Although the EU is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources, it is often presented as a multilateral organisation in DAC publications for statistical purposes. This report reflects this dichotomy."

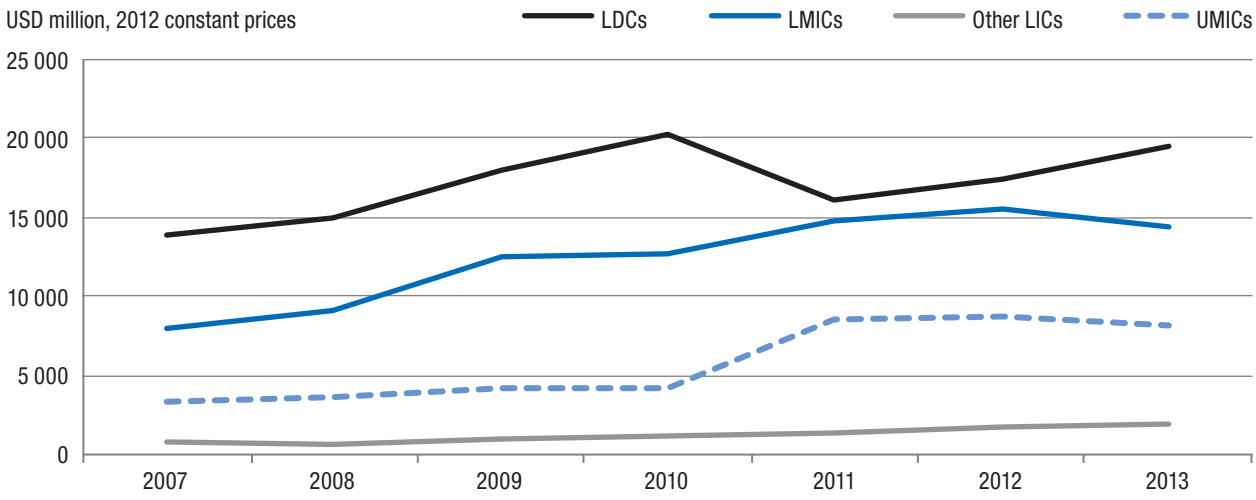
Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933246988*

In 2013 half of multilateral outflows were concentrated in five sectors: transport and storage, health, support to government and civil society, energy, and population.[10] The largest ten sectors accounted for 77% of multilateral outflows. Since 2007, while there have been minor variations in the list of the ten largest sectors, some considerable changes include:

- The energy sector recorded much higher multilateral outflows than in the past (+291% between 2007 and 2013) and is now among the five largest recipient sectors.
- The communications sector recorded the largest increase in this period (+780%), but is still not one of the ten largest recipient sectors.
- Among the ten largest sectors in both 2007 and 2013, the health sector recorded a significant increase (+125%) mainly because of allocations through vertical funds, while the education sector increased by only 13%.

Figure 1.5 ***Multilateral outflows are mainly targeted towards least developed countries***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
StatLink *http://dx.doi.org/10.1787/888933246995*

Earmarked funding: Afghanistan continues to be the largest recipient country

Earmarked funding is concentrated in LDCs even more strongly than multilateral core funding (outflows) is. In 2013 these countries received USD 6.5 billion, or 59% of all earmarked funding allocated by income group. This strong focus on LDCs is largely due to Afghanistan being by far the largest recipient of earmarked funding (see also Chapter 4). The largest recipient since 2009, Afghanistan received 9% of the total in 2013. The Syrian Arab Republic is next, accounting for 6%, while all other developing countries received far less.

Geographically, a focus on sub-Saharan Africa is predominant despite the large increase in the share of earmarked funds to the Middle East in 2013 and Afghanistan. Sub-Saharan Africa received USD 5 billion in 2013, or 38% of all earmarked funding allocated globally. This is down from 41% in 2012, and significantly down from 48% in 2007. South and Central Asia was the geographic area receiving the second largest share of earmarked funding in 2013 at USD 3 billion, or 23%, followed by the Middle East, which received USD 2.7 billion, or 20%. While the share of earmarked funding to South and Central Asia has been above 20% since 2009, the 20% share to the Middle East represents a large increase from the average of 9% in 2007-12.

The largest sector of earmarked funding remains humanitarian aid, which received in 2013 USD 6.6 billion, or 36% of the total. Earmarked funding for humanitarian purposes increased by 31% compared to 2012, but overall it has fluctuated substantially since 2007. The second largest sector of earmarked funding is support to government and civil society (USD 2.4 billion, or 14%); followed by health (USD 1.6 billion, or 9%). The remaining 41% of earmarked funding is scattered across sectors, no one of which accounts for more than 5% of the total in 2013.

Major developments in the multilateral landscape on the eve of the post-2015 era

In 2013 and 2014 crucial developments occurred in the global landscape of multilateral aid organisations, namely: i) the replenishment of three key institutions which provided insights into providers' preferences and possible future trends in multilateral lending; ii) the use of new funding approaches and modalities by providers to finance multilateral organisations; iii) the establishment of new organisations; iv) preparations by existing multilateral organisations to be fit-for-purpose for delivering in the post-2015 era; and v) a vibrant discussion on potential funding mechanisms to support delivery of the post-2015 development agenda. These developments are discussed below.

2013-15 replenishments have signalled continued support for multilateral organisations and a relative shift in allocation priorities of the replenished multilateral development banks

In the last months of 2013 the replenishment outcomes of three major multilateral organisations – the concessional lending arm of the World Bank Group (International Development Association, IDA), the African Development Bank (AfDB) and the Global Fund – signalled continued support for these institutions. As noted in Manning (2014), despite financial pressures on many providers, these replenishments achieved, in real terms, an increase in funding for the Global Fund and maintained existing levels for AfDB and IDA.[11] Replenishment for IDA remained constant despite a projected fall in the recipient client base due to graduation of many recipients to higher per capita income levels.

The replenishments of IDA and the African Development Fund (AfDF) also signalled providers' relative move away from country performance-based allocations and the recognition of the high priority of addressing fragility, conflict, and state failures, as well as the security of the global community. Both institutions associated steps to increase funding to fragile and conflict-affected states with the replenishments. For example, IDA established an exceptional allocation regime for countries in transitional situations, adjusted its allocation formula by reducing the weight of the "country performance rating", and increased the minimum base allocation to these countries per year. Overall, in the case of IDA assistance to fragile state recipients will increase and stay fairly stable for other recipients that are still eligible for funding. In the case of AfDF, assistance to fragile state recipients will be stable nominally while other recipients will see a significant decrease.

In January 2015 the replenishment of Gavi was concluded successfully, with USD 7.54 billion in funding pledges exceeding the replenishment target of USD 7.5 billion for the period 2016 to 2020. The United Kingdom and the Bill & Melinda Gates Foundation made by far the largest new pledges (USD 1.573 billion and USD 1.550 billion, respectively). Significant increases in funding pledges from official providers included the United States, the European Commission (which doubled its support to EUR 200 million) and Germany, the host of the replenishment conference (which increased its funding to EUR 600 million over the next five years, up from EUR 420 million during the previous five). Among non-DAC countries, while the

United Arab Emirates has been contributing to Gavi since 2011 (see Chapter 5), four countries made funding pledges for the first time: China, Oman, Qatar and Saudi Arabia (USD 5 million, USD 3 million, USD10 million and USD 25 million, respectively).

Going forward, the organisation will face two key challenges: ensuring the sustainability of vaccination programmes in graduating countries, and contributing to the next breakthrough in global health. The increase in pledged funding to Gavi takes place against the backdrop of the projected graduation of an estimated 22 programme countries by 2020 from Gavi support. Gavi will need to manage the transition so that the immunisation programmes of graduated countries will continue to operate without its programmes. In addition, there is still a need to address diseases, including malaria and HIV/AIDS, that are responsible for many deaths in the poorest countries every year. The host of the pledging conference, German Chancellor Angela Merkel, affirmed the need to invest more in prevention and research.

Creative approaches to leverage additional finance: maximising the institutional capital base and using concessional loans instead of grants for replenishments

In 2015, the Asian Development Bank (ADB) adopted a bold approach to increase its capital base and its lending capacity by merging its concessional lending arm (the Asian Development Fund – ADF) with its ordinary capital. This merger will considerably increase ADB financing available to developing countries: USD 40 billion a year, up from USD 23 billion. ADB's new financing model will augment the bank's capacity to lend to middle-income borrowers (like the Philippines and Indonesia) as well as to low-income ADF countries (like Vietnam and Bangladesh). Poor countries currently eligible for ADF loans will continue to receive concessional loans from expanded capital base on the same terms and conditions as current ADF loans. The ADF will be retained as a grant-only donor fund to provide assistance to eligible countries, therefore donor replenishments will still be needed for grants to some low-income countries, but to a much smaller extent (up to 50% less).

While funding to multilateral organisations has typically been provided in the form of grants, concessional loans have also become an option. In its 2013 replenishment IDA agreed, for the first time ever, to receive concessional[12] loan contributions from five providers (China, France, Japan, Saudi Arabia and the United Kingdom) for a total of SDR 2.9 billion.[13] The use of such an option by IDA is not an isolated case, as in 2014 IFAD signed with Germany's KfW Development Bank an agreement to receive a loan denominated in euros, equivalent to approximately USD 500 million, at a variable interest rate based on a reference Euribor rate.[14]

As debt funding has little budgetary impact on providers (except in cases of default), it could help maintain funding levels when providers are under budgetary pressures or even help mobilise additional resources. When lending is financed through a debt instrument rather than a grant, multilateral organisations may be inclined to invest in less risky environments. In case loans to developing countries were not repaid, the bank's ability to repay the original loan from the provider would be jeopardised. This could explain why the agreement for KfW's loan to IFAD stipulates that these resources will be channelled almost exclusively to middle-income countries (IFAD, 2013), where the risk would generally be assessed to be lower.

The IDA17 report (IDA, 2014) explicitly states that care is taken to protect IDA's long-term financial sustainability. Limits are set on the share of financing that can be provided in the form of loans: partners who use loans in IDA17 should provide at least 80% of their IDA16 basic contributions in the form of core grant contribution. In addition, the report states that "concessional loan contributions to IDA17 do not imply their use in future replenishments" and that a case for using a limited amount of concessional debt funding in IDA17 was made by exceptional circumstances, such as the current low interest rate environment, unique resource constraints for a number of contributing partners, and declining internal resources.

Providers show encouraging buy-in with respect to the Green Climate Fund

The first pledging conference of the Green Climate Fund took place in Berlin in November 2014. The Fund, officially launched at the 2010 United Nations Climate Change Conference in Cancun, Mexico, is intended to be the primary vehicle for channelling the USD 100 billion in pledges made by developed countries under the United Nations Framework Convention on Climate Change (UNFCCC). The Fund's governing body was approved at the 2011 Conference of the Parties (COP) 17 in Durban, South Africa. The Fund is expected to start reviewing funding proposals and to begin to make disbursements in 2015.

The Green Climate Fund lacks some of the features generally considered to be the main strengths of other existing vertical funds like Gavi and the Global Fund, such as a very focused mandate (the Green Climate Fund's mandate encompasses both adaptation and mitigation) and inclusion of the private sector and civil society in its governing structure (the Green Climate Fund's board only includes governments). In addition, the Green Climate Fund does not allow earmarking of funds and – with its quasi-universal membership, in which developing countries have an equal say, and its consensus-based decision-making rules – there is little room for traditional donors to influence allocation decisions. While some have considered these factors to be potential obstacles to providers' buy-in (de Sépibus, 2014), the outcome of the pledging conference in Berlin signalled a wave of optimism regarding the fund. Providers, including several developing countries (e.g. Chile, Colombia, Indonesia and Peru), and key players like China and the United States pledged significant amounts (the United States pledged USD 3 billion). Total pledges currently exceed the initial USD 10 billion fundraising target and would make it the largest vertical fund ever established.

Multilateral organisations prepare to be fit-for-purpose for delivering in the post-2015 era

As the world subscribes to a broader, universal development agenda, multilateral organisations are reflecting on how they will contribute to this agenda and the institutional adjustments required to ensure they are "fit for purpose".

Within the UN Economic and Social Council (ECOSOC) the United Nations is currently holding a dialogue on the "longer term positioning of the United Nations development system" to address precisely these questions, which are rephrased as: i) How will the post-2015 development agenda affect the functions of the UN development system? and ii) How can the changing functions be aligned? (UN, 2015a). In terms of functions, so far UN member states have

shown broad agreement on the need for the UN to adopt a differentiated approach depending on country context (e.g. that of LDCs and middle-income countries) and to play a substantive role in: i) implementing global normative frameworks, as well as national norms and standards; ii) coordinating collective responses to development challenges, including with respect to global public goods; iii) promoting capacity building in developing countries and supporting technology facilitation mechanisms; and iv) enhancing the support provided to South-South co-operation.

Refocusing the functions of the UN development system has implications for its financing model. Some of these implications have already been identified in the current dialogue. Delivering on norms and standard-setting cannot rely on earmarked contributions, and makes the case for an increased share of core funding in the overall balance of resources available. At the same time, it is recognised that different functions have different funding requirements and that the complementarity of financing sources will need to be promoted. The background for the current discussions on a right balance between core and earmarked resources, and the steps made by the UN to encourage more core resources and improve the management of earmarked financing, are discussed in Chapter 3 of this report. Lastly, the current dialogue points to the need for strengthening system-wide funding mechanisms. The opportunities and shortcomings of some of these mechanisms are discussed in Chapter 4.

Since its new President, Jim Kim, took office in 2012, the World Bank Group has been working on a profound restructuring which led, in July 2014, to the implementation of a new structure organised by thematic "global practices" (e.g. water; health) and cross-cutting solution areas (gender, climate change, fragility, conflict and violence, jobs, and public-private partnerships). With a thematic rather than geographic focus, this new structure fits well with the Sustainable Development Goals structure.

In addition to a reflection on the financing of post-2015 priorities highlighting the evolution of different sources of finance for development (WBG, 2013), the World Bank Group has prepared together with other multilateral development banks a paper reflecting its own thinking on its strengths and comparative advantages for contributing to deliver the Sustainable Development Goals (Development Committee, 2015). This paper is designed to make a substantive contribution to the Financing for Development Conference to be held in Addis Ababa, Ethiopia, in July 2015.

Opportunities and risks of establishing new funding mechanisms for delivering the post-2015 development agenda

For several years already, providers have shown some fatigue concerning the aid effectiveness agenda, moving away from implementing many of its principles such as co-ordination and the use of country systems. However, uncoordinated responses by an increasing number of bilateral providers do not respond to the call by the UN (UN, 2015b) to change "business as usual" to enable the international development community to deliver the post-2015 development agenda. There is a clear need to create momentum and support both a broader mobilisation of resources and more effective solutions. As the global community develops the strategy for implementing the Sustainable Development Goals and its financing framework, it will be essential to identify effective solutions for mobilising the necessary resources to address the compelling challenges ahead.

In this regard, there have been proposals to establish global pooling mechanisms around specific themes, such as education or agriculture (Sachs and Schmidt-Traub, 2015), in line with Gavi and the Global Fund, considered as replicable successes. There are at least three arguments in favour of such proposals. First, as shown above by the outcome of the Green Climate Fund pledging conference, providers continue to signal an appetite for vertical funds. This suggests that global pooled funding mechanisms could help mobilise significant resources, as Gavi and the Global Fund have done – even though the additionality of these resources could be questioned: global ODA has not recorded the same rate of increase (4.3% in 2000-13) as increases to specific sectors such as health (6.4% in 2000-10) (see also Dykstra S., 2015; Lu, 2010 for additional evidence). Second, Gavi and the Global Fund are broadly considered to have been successful in making progress possible in specific critical areas that were for long forgotten and underfunded by donors. Third, global pooling mechanisms embody partnerships that extend beyond sovereign states to embrace the private sector, civil society and other stakeholders – an uncommon feature of many of the long-standing multilateral organisations. Such inclusive partnerships have spurred innovative approaches and development solutions. Other arguments in favour include the scope for learning across countries on specific development issues, as well as for replication of best practices (UNSDSN, 2015).

However, vertical funds and global pooled funding mechanisms – including Gavi and the Global Fund – have had their challenges and detractors. Care should be taken both in creating new institutions that could end up performing below expectations, and in generating an ever-expanding galaxy of multilateral organisations and mechanisms. Three main arguments can be made. First, some pooling mechanisms were created from the outset in response to the aid effectiveness agenda, as instruments to promote co-ordination and ownership. However, both faulty design features and dysfunctional providers' practices have often limited the effectiveness of those mechanisms (as discussed in Chapter 4). Second, a growing body of literature shows that while these organisations have been fairly successful in combating specific diseases, they have had a negative impact on broader and systemic issues, e.g. they have favoured supply-driven resource allocations and have not contributed to strengthening health systems. Therefore, learning and applying the lessons of the past will be essential in shaping effective multilateral mechanisms/organisations going forward. Third, providers ultimately need to realise that there is a real risk of creating an ever-expanding galaxy of multilateral mechanisms and organisations. Market-like dynamics, whereby inefficient organisations will eventually be pushed out of the market, are unlikely to fully operate in the multilateral sphere. Once established, multilateral organisations are hard to dismantle.

Notes

1. This chapter is based on statistical data from the OECD-DAC Creditor Reporting System. All figures are gross, and exclude debt relief and contributions from the EU, unless otherwise specified.
2. The 35 bilateral donors included in the 2014 edition (not all of which are DAC members) were Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Estonia, EU institutions, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Kuwait, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, the Russian Federation, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Arab Emirates, the United Kingdom and the United States.
3. The European Union (EU) has provided the following clarification: "The EU is unique among DAC members in that it plays a dual role in development assistance. Although the EU is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources, it is often presented as a multilateral in DAC publications for statistical purposes. This report reflects this dichotomy."
4. UN funds and programmes include: the UN Development Programme (UNDP), the UN Children's Fund (UNICEF), the UN Population Fund (UNFPA), the World Food Programme (WFP), etc.
5. "Other UN" include UN specialised agencies (such as the Food and Agriculture Organization, FAO, and the World Health Organisation, WHO,), and other UN entities such as IFAD,the Office for the Coordination of Humanitarian Affairs (OCHA), and the UN Secretariat (UN).
6. In Chapter 4 of this report, which assesses the effectiveness of different instruments to earmark funds, Gavi and Global Fund are considered as global pooled funding mechanisms that allow for upstream earmarking of resources, even if in OECD-DAC statistics they are treated as multilateral organisations in their own right (therefore funding to these is accounted as core funding).
7. Only recently, new financial regulations authorise the European Commission to set up and manage European trust funds under an agreement concluded with other donors. These trust funds are designed to mobilise various sources of EU financing and to collect contributions from the member states and from donors from non-member countries. The European Commission, Germany, France and the Netherlands set up the first European Union Trust Fund, with the aim to promote the stabilisation and reconstruction of the Central African Republic.
8. Figures for outflows reflect official reporting to the OECD DAC by 28 multilateral organisations.
9. Including some of the funds unallocated by region could make the share focused on LDCs grow even larger, as suggested in OECD (2014).
10. OECD DAC statistics aggregate sectors as follows: Health, Education, Population, Water Supply and Sanitation, Support to Government and Civil Society are listed as Social Infrastructure sectors. Transport and Storage, Communications, Energy, Banking and Financial Services, Business and Other Services belong to the Economic Infrastructure and Services sectors. Production sectors have two groupings: the Agriculture, Forestry and Fishing Grouping, and the Industry, Mining and Construction Grouping.
11. Estimation from Manning (2014) that reflects not only pledges "on the day" but also additional amounts actually delivered in the replenishment period or very shortly thereafter, including the grant element of loans.
12. At a 1% or zero interest rate, and for a total not exceeding 20% of the value of a donor's total.
13. The World Bank estimates that the grant equivalent of this sum is SDR 0.6 billion (IDA, 2014). The OECD DAC is currently discussing how loan contributions to multilateral organisations will be accounted for in the OECD/DAC statistical system.
14. The loan will be repaid to KfW over a 20-year period, with a five-year grace period. The administrative costs linked to the loan will be absorbed by IFAD (IFAD, 2013).

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Chapter 2

DAC members' use of the multilateral system

This chapter examines recent developments and structural differences in DAC countries' funding to multilateral organisations. It describes how DAC countries articulate their engagement with multilateral organisations in their policy documents, and compares their stated reasons for partnering with multilateral organisations against actual allocation patterns. The chapter discusses decision-making on multilateral allocations and provides evidence concerning the predictability and volatility of DAC members' funding to multilateral organisations. The chapter also investigates the proliferation of bilateral assessments of multilateral organisations and suggests ways to ensure the accountability of multilateral spending in a more cost-efficient and effective manner. It gives providers recommendations to foster policies and funding practices that support effective delivery by multilateral organisations in the post-2015 era.

This chapter contains an "in my view…" contribution by Richard Manning, Chair of the Board of the Institute of Development Studies (United Kingdom), a Senior Research Associate at the Centre for the Study of African Economies at Oxford University, and a former chair of the OECD Development Assistance Committee.

Summary of main findings and recommendations

In aggregate terms, use of the multilateral system by OECD Development Assistance Committee (DAC) countries increased to USD 59 billion in 2013 (+6%). Looking at individual DAC countries, 20 increased their total use of the multilateral system (core + non-core funding) while eight decreased their use of it.[1] The largest increases in 2013 were by the United Kingdom – which in 2013 became the largest multilateral provider among DAC members (+37%), Spain (+22%), Iceland (+19%), Switzerland (+17%) and Italy (+15%). In the case of the United Kingdom, Spain and Italy increases were mainly due to larger core contributions, whereas for Iceland and Switzerland the increases were mainly due to larger non-core funding. The largest decreases were recorded for Australia (-16%), Canada (-14%), Greece (-12%), the United States (-9%) and Portugal (-5%).

While reliance on the multilateral system varies across DAC members (with their total use of the multilateral system ranging from 86% of gross ODA for Poland to 25% for Japan), all 29 members consider multilateral organisations to be central elements of their development co-operation and articulate their engagement with these organisations in their overarching development co-operation strategy. While policy documents are no guarantee of more effective multilateral allocations, they can help to develop a comprehensive and forward-looking vision of shared priorities for partnering with multilateral organisations. They can also help providers streamline this vision across their administrations and enhance transparency with respect to the objectives and expected results of such partnerships.

For DAC members, a recurring motivation for engaging with multilateral organisations is their comparative advantages in regard to specific issues, sectors and regions. Actual allocations reveal that – for most DAC members – (imputed) core multilateral allocations target different sectors and geographic areas compared to bilateral programmes, while non-core resources target the same geographic areas as bilateral programmes but focus on different sectors. For most DAC members, both (imputed) core and non-core funding focus more strongly on the humanitarian and health sectors. For more than one-third of DAC members the focus on economic infrastructures is relatively stronger in bilateral ODA (excluding non-core) than in non-core and core, and this difference is largest in the case of Germany, Korea and Japan.

The balance between bilateral and multilateral ODA is explicitly discussed by most DAC members[2] (14 out of 22 respondents, either when development policies are formulated or when the ODA budget is being developed) but is not carved in stone. Only two DAC members have set quantitative targets for this balance. Decision making is mainly concentrated in one agency/institution for core allocations, while it is more scattered (especially across departments and field offices) for non-core. Funding to the same multilateral organisation often comes from different ministries or institutions or different departments within the same provider country. Overall, disbursements to multilateral organisations come from up to 15 ministries or institutions per DAC member, and from five on average. In the absence of co-ordination across extending entities and of a comprehensive overview of where funding is going, scattered decision making can reduce the strategic focus and coherence of providers' funding.

Although 10 DAC members make multi-annual commitments for core contributions to at least some multilateral organisations (the number of DAC members rises to 15 for non-core), funding to individual organisations varies considerably from one year to the next. Volatility tends to be higher for non-core funding than for core funding, and for organisations' top providers. Multilateral organisations generally have a small funding base and non-core resources are becoming an increasingly large part of some multilateral organisations' total funding. This implies that the funding base of these institutions may be becoming less stable and predictable with negative implications on the institutions' ability to plan and deliver.

The proliferation of bilateral assessments of multilateral organisations is continuing, with 205 bilateral assessments conducted by DAC members in 2012-14. Such assessments often impose high administrative costs and largely fail to guide providers' actual allocations across organisations and to provide organisations with opportunities to improve their performance.

Overall, for more effective engagement with multilateral organisations, providers should consider:

- **basing partnerships with multilateral organisations on strategic considerations and evidence** about when and why delivering through the multilateral channel would be the most suitable option.
- **ensuring enough co-ordination across and within the various ministries and institutions allocating core and non-core resources to multilateral organisations** to achieve consistency and strategic focus of total multilateral funding.
- **increasing the predictability of both core and non-core funding**, by making – to the extent possible – multi-annual commitments linked to the strategic plans of multilateral organisations.
- **using to the maximum extent possible existing information on multilateral organisations' performance, including that produced by multilateral organisations' independent evaluation units**; as needed, work jointly – through the governing bodies – to support independent evaluation units so that they can produce the information needed to guide and monitor donors' multilateral allocations.
- **working in a "multilateral mode" by using board discussions to foster change** – instead of attaching bilateral conditionalities to specific funding arrangements for this purpose.

Recent trends in individual DAC countries' multilateral allocations

In aggregate terms, core funding from DAC countries increased by 6% but some members recorded decreases of up to 15% compared to 2012

In 2013, 19 DAC countries increased their core multilateral allocations while 9 of these countries decreased them. The largest increases were by the United Kingdom, with a USD 2.1 billion increase (40% more than in 2012) and Spain, which increased core funding by USD 322 million (a 31% increase). The largest decreases were by the United States and Japan, which diminished their core funding by USD 785 million (a 15% decrease) and USD 552 million (a 13% decrease), respectively.

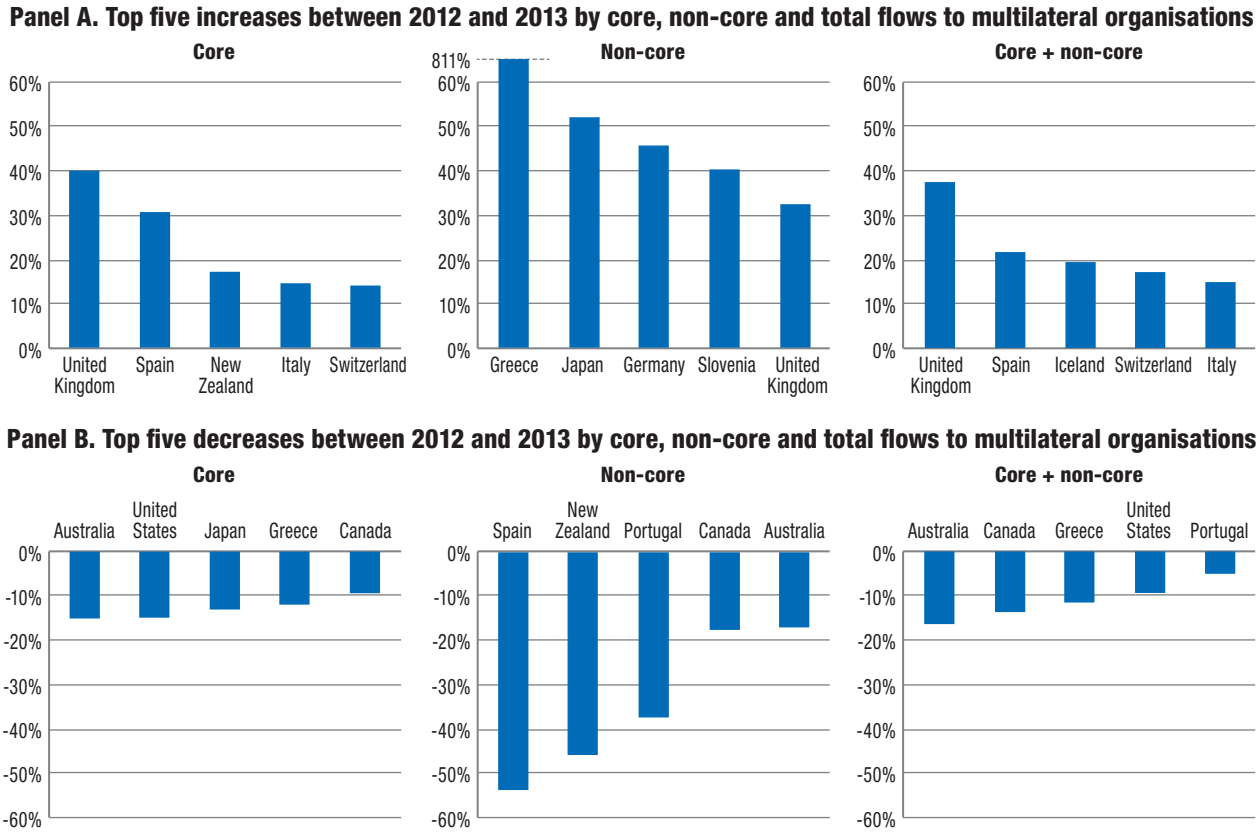
When non-core funding is included, 20 DAC members increased their total use of the multilateral system while 8 decreased it. The largest increase in 2013 was by the United Kingdom, which expanded its total use of the multilateral system by USD 3.1 billion, a 37% increase compared to 2012. Next to the USD 2.1 billion increase in core funding, the United Kingdom increased its non-core funding by almost USD 1 billion. Australia reduced its total use of the multilateral system by USD 329 million (-16%) mainly because of a fall in non-core (USD 200 million). Canada reduced its total use by USD 446 million (of which USD 292 million was non-core) (-14%).[3] Figure 2.1 shows the five largest increases and decreases in core, non-core and total flows to multilateral organisations.

The United Kingdom became the largest multilateral provider in 2013, but otherwise, provider ranking remains largely unchanged compared to 2012

Large increases in the United Kingdom's core and non-core contributions made it the largest multilateral provider in 2013, also contributing to this country's achievement of the 0.7% ODA/GNI target for the first time (Box 2.2). Otherwise, variations between 2012 and 2013 did not substantially affect the ranking of providers (Table 2.1). Other large ODA providers, such as France, Germany, Japan and the United States, are unsurprisingly also large providers to the multilateral aid system overall (core + non-core). Although most of the top ten contributors of one type of funding are also among the top ten in regard to the other type, there are some significant differences in rankings across the different types of funding. For example, France and Germany are among the ten largest providers for the system overall, mainly because of their core contributions, and do not appear high on the list of top ten non-core providers. Conversely, some medium-sized providers (e.g. Australia and Norway) are among the largest contributors of non-core funding but do not rank in the top ten in terms of core contributions. Figure 2.2 shows total contributions by each DAC country.

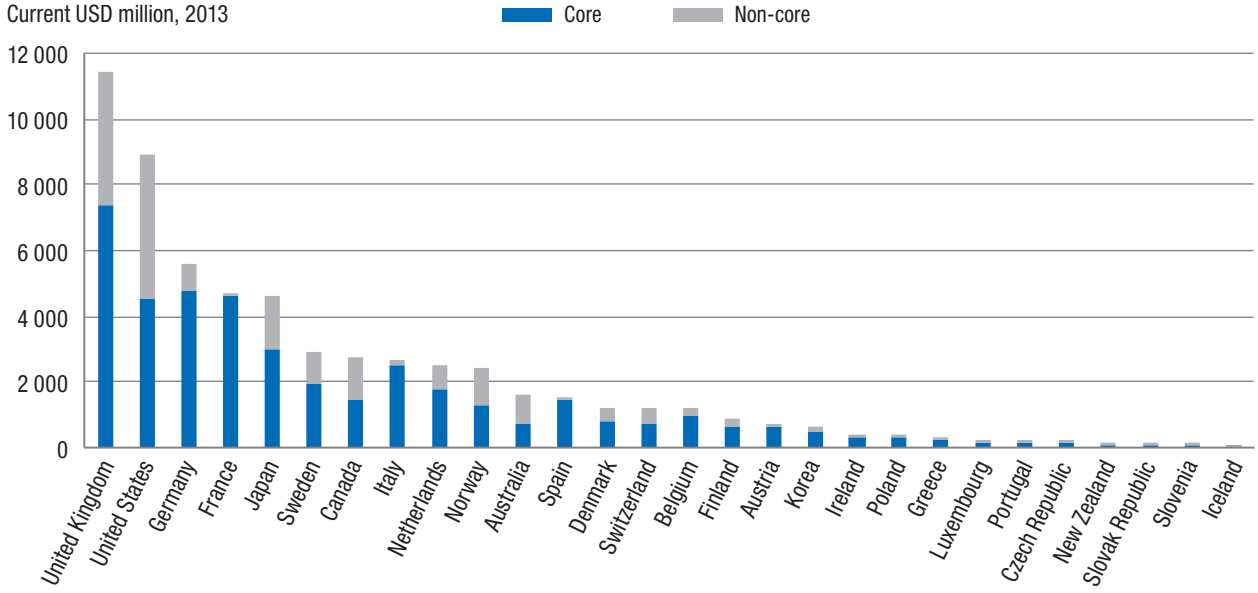
A handful of providers account for more than half of total funding to multilateral organisations. The top five contributors account for 60% of the total use of the multilateral system; 59% of total core funding and 69% of total non-core funding. Multilateral organisations' heavy reliance on funding from a narrow base of top contributors will be highlighted later in this chapter when the volatility of funding towards multilateral organisations is discussed.

Figure 2.1 ***Leading year on year variations in multilateral funding across DAC countries***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247001*

Figure 2.2 ***Funding to multilateral organisations from individual DAC members varies widely***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247018*

Table 2.1 ***The largest multilateral providers by type of funding greatly overlap***

Current USD million

Top ten providers of total flows to multilateral organisations (core + non-core)										
	United Kingdom	United States	Germany	France	Japan	Sweden	Canada	Italy	Netherlands	Norway
2013	11 383	8 909	5 564	4 730	4 647	2 910	2 742	2 648	2 499	2 424
2012	8 243	9 687	4 868	4 271	5 557	2 621	3 242	2 202	2 432	2 262
Top ten providers of core funding										
	United Kingdom	Germany	France	United States	Japan	Italy	Sweden	Netherlands	Canada	Spain
2013	7 375	4 777	4 592	4 502	2 970	2 541	1 910	1 789	1 436	1 430
2012	5 236	4 355	4 150	5 221	4 202	2 113	1 602	1 665	1 618	1 052
Top ten providers of non-core funding										
	United States	United Kingdom	Japan	Canada	Norway	Sweden	Australia	Germany	Netherlands	Switzerland
2013	4 407	4 007	1 677	1 306	1 158	1 001	901	787	710	544
2012	4 467	3 007	1 355	1 624	1 032	1 019	1 158	513	767	445

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247821*

Structural differences in the use of the multilateral aid system across DAC countries

The multilateral share of ODA ranges between 83% and 14% across DAC members – a share discussed in capitals but not carved in stone

Across DAC countries the ratio between bilateral and multilateral ODA (core) ranges widely, with the multilateral share of ODA highest for Poland (83%), Greece (82%), the Slovak Republic (81%), and the Czech Republic and Italy (both 73%) and lowest for Australia and the United States (both 14%). When funding to the European Union (EU) is excluded, the multilateral share of ODA is highest for the United Kingdom (34%) and lowest for Portugal (8%). Fourteen DAC members report[4] having explicit internal discussions on the ratio of bilateral to multilateral ("core") ODA, either when development policies are formulated or when the ODA budget is developed. Some DAC members report that they do not discuss this ratio and instead use a bottom-up approach, according to which the ratio is the result of considerations of the effectiveness and relevance of projects implemented by multilateral agencies.

Furthermore, two DAC members have established quantitative targets for this ratio. Ireland's policy for international development approved by the government in May 2013 (Irish Aid, 2013) explicitly states that the country will maintain a 70/30 ratio between bilateral and multilateral (core) aid, respectively. In Switzerland there is a restriction that applies

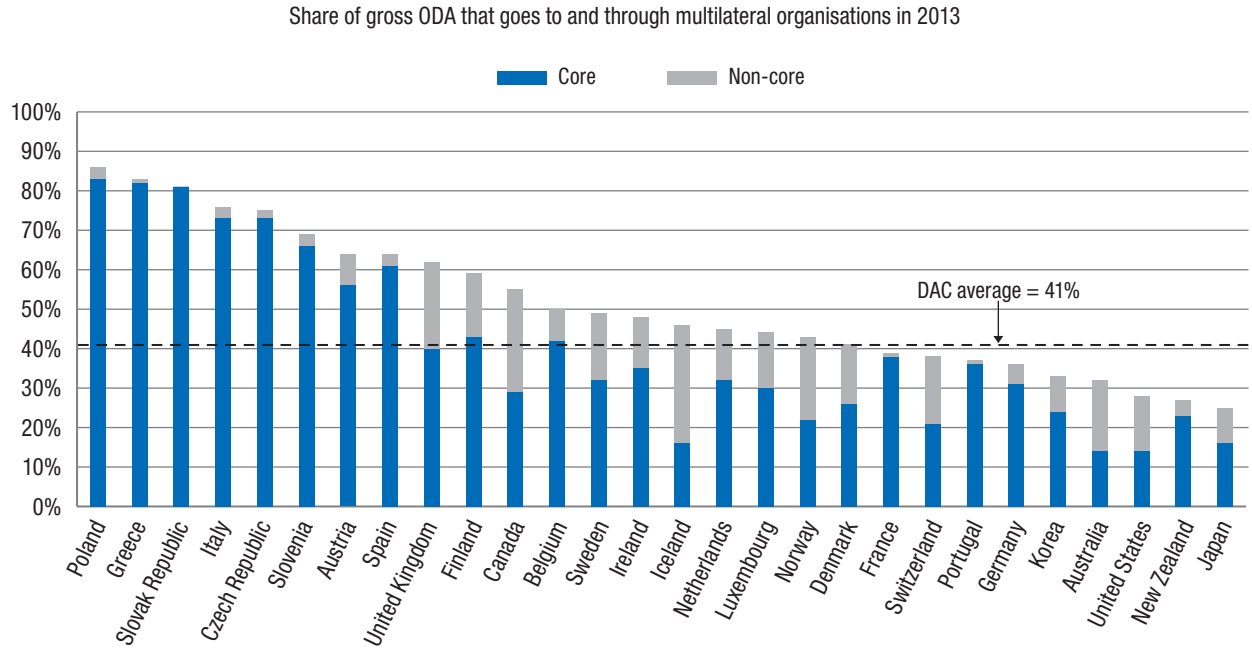
exclusively to technical co-operation (which accounts for roughly 45% of its total ODA), according to which the share of multilateral contributions is 40% and is limited to 13 priority multilateral development organisations. Germany has just recently removed a cap on its multilateral aid through the December 2013 new coalition agreement. Until 2013 Germany's ODA allocations were set at two-thirds for bilateral and one-third for multilateral aid.

The share of total use of the multilateral system varies largely across providers

Large differences remain among DAC countries even when earmarked funds are included to determine their total use of the multilateral systems as a share of total gross ODA. As shown in Figure 2.3, shares range from 86% (Poland) to 25% (Japan). After Poland, the largest multilateral providers relative to their gross ODA are: Greece (82%), the Slovak Republic (82%), Italy (76%) and the Czech Republic (75%). Figure 2.3 illustrates use of the total multilateral aid system relative to their gross ODA in 2013 for all DAC countries, showing that 19 DAC countries were above the DAC average of 41%.

Figure 2.3 also suggests that large multilateral providers (relative to their total ODA budget) are so mainly because of the large share of their core contributions. For EU members, these are predominantly made up of the contributions to the EU as a result of the EU budget process (discussed later). When EU contributions are excluded (see Figure 2.A1.3), the United Kingdom was the largest user of the multilateral system in 2013, with 58% of its gross ODA channelled to and through multilateral organisations. It was followed by Italy (56%), Canada (55%), and Finland (52%). Portugal had the smallest share (10%).

Figure 2.3 **Most DAC members exceed the DAC average share of gross ODA to and through multilateral organisations**



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247021*

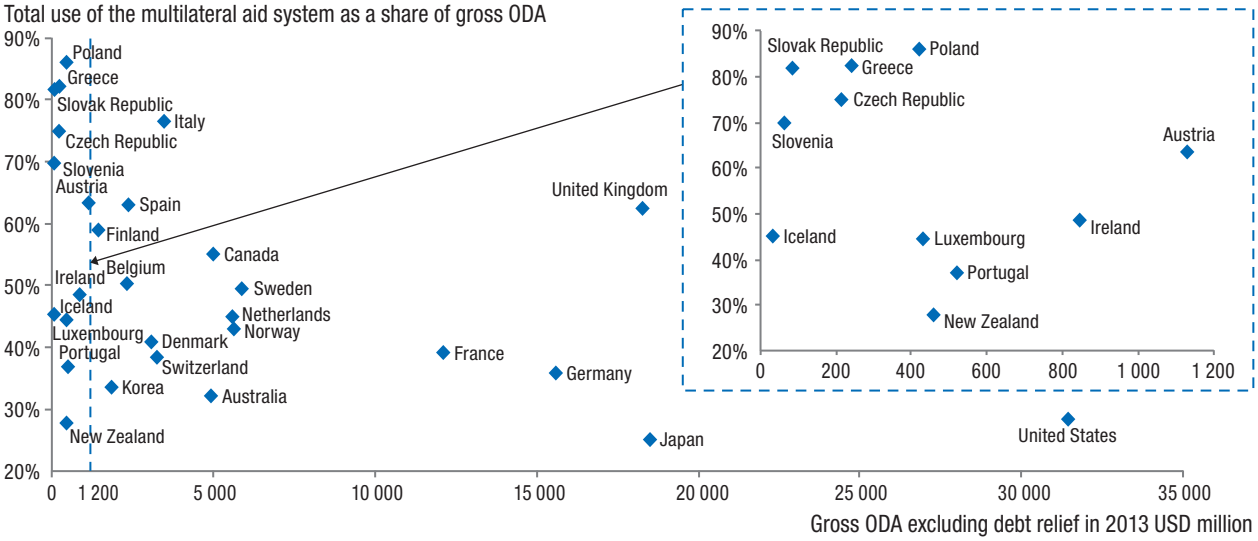
Bilateral ODA excluding earmarked funding accounts for over half of gross ODA for most DAC members

Overall, 17 of the 28 DAC countries[5] provided over 50% of their ODA through bilateral channels in 2013. The shares of bilateral (excluding non-core), core and non-core funding by DAC members are shown in Figure 2.A1.1.

Smaller providers do not necessarily make greater use of the multilateral aid system

At first glance, it would seem that somewhat smaller sized providers commit larger shares to the multilateral system (Figure 2.3). This would be in line with the idea that providers with smaller overall aid budgets are better served using multilateral channels because of the opportunities these present for economies of scale and efficiency gains through the pooling of resources and because they allow to extend reach across many countries. However, a closer look at the smaller-sized providers suggests that there is no significant relation[6] between the size of gross ODA and use of the multilateral system (share of total use of the multilateral aid system in gross ODA), with some smaller-sized providers, such as Iceland, Luxembourg, New Zealand and Portugal, displaying little reliance on the multilateral system (Figure 2.4). Figure 2.4 also shows that larger-sized providers (e.g. Canada and the United Kingdom) allocate a significant share of their budget, above the DAC average, to and through the multilateral system; being a larger-sized provider does not automatically entail a proportionate decrease in reliance on multilateral organisations for extending development co-operation.

Figure 2.4 ***There is no strong evidence that smaller providers rely more heavily on the multilateral aid system, 2013***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247038*

EU members' use of the multilateral system remains largely determined by significant volumes of ODA going to the EU

Funding to the EU is a special case, given the dual nature of this institution. The EU is a member of the DAC as are 19 of its member states and a donor in its own right with its own resources. The EU development spending is determined through the EU budget process in accordance with the EU Treaty. For statistical and analytical purposes, the EU is treated as a multilateral organisation in DAC publications (Box 2.1).

For the 19 DAC-EU members, contributions to the EU averaged 35% of their total multilateral disbursements (core + non-core) in 2013. Contributions to the EU represent a large share of total multilateral funding for some EU members that have a large share of ODA going to and through the multilateral aid system (Figure 2.5). For instance, Greece contributes 82% of its ODA multilaterally, of which 91% goes to the EU. However, this is not a strict rule; the United Kingdom allocates almost two-thirds of its ODA to the multilateral aid system, of which only 18% flows to the EU.

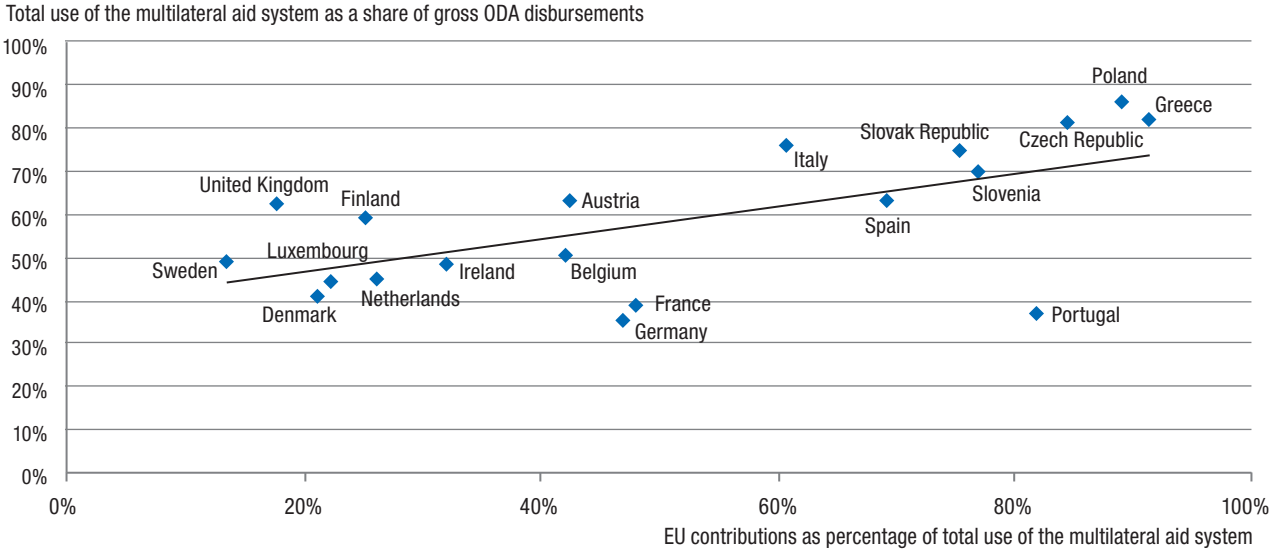
Box 2.1 *The EU, a special case*

The EU itself is a member of DAC, as are 19 of its member states, and an individual donor in its own right with its own development policy and resources. It funds its aid from three main sources:

- The EU finances its budget wholly from its own resources in accordance with the Treaty on the Functioning of the European Union – unlike some multilaterals that are fully reliant on contributions by their members. The European Commission proposes and the European Parliament and Council then decide on the Multi-Annual Financial Framework. In a similar exercise to that of bilateral donors, the annual EU budget process determines how much funding from the EU's own resources will be granted to development.
- The European Development Fund (EDF) is financed through extra-budgetary contributions from EU member states. In this way, the EU acts much like a multilateral agency, with member states periodically negotiating replenishments. Development co-operation activities are jointly programmed by European Commission departments and the European External Action Service. Implementation of EDF activities is the responsibility of the European Commission as an institution.
- The European Investment Bank (EIB), whose shareholders are the 28 EU member states, is active in about 150 countries outside the EU, where it provides long-term finance in support of EU external co-operation and development objectives. In the regions covered by the so-called "external mandate" of the European Parliament and the European Council, the EIB provides finance primarily under an EU budgetary guarantee covering risks of a sovereign or political nature, although it also does so at its own risk. The EIB finances work in African, Caribbean and Pacific (ACP) countries and Overseas Countries and Territories (OCT) either through its own resources or the EDF's, and is covered by a specific guarantee from the EU member states.

Source: OECD, 2011.

Figure 2.5 ***EU members that make large use of the multilateral system do so mainly through contributions to the EU, 2013***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247048*

Excluding contributions to the EU allows a more comparable view of multilateral contributions between EU and non-EU members

In terms of volume, excluding contributions to the EU alters the ranking of the top contributors with respect to their use of the total multilateral aid system (core + non-core) (Figures 2.A1.2. and 2.A1.3), with France moving out of the top five while Canada becomes the fifth largest provider. As mentioned earlier, excluding contributions to the EU also changes the ranking of providers in terms of the size of their multilateral allocations relative to total gross ODA, with the top five largest providers becoming the United Kingdom, Italy, Canada, Finland and Austria.

Box 2.2 *Larger allocations to multilateral organisations have been key for the United Kingdom to meet the 0.7% ODA/GNI target*

In 2013 the United Kingdom reached for the first time the target of 0.7% of gross national income (GNI) as ODA, allocating 0.71% of its GNI as ODA. It managed to reach this target despite a challenging fiscal climate, which will serve as an inspiration to other development providers (both DAC and non-DAC). Along with the United Kingdom, the following countries also exceeded the 0.7% target in 2013: Denmark, Luxembourg, Norway, Sweden and the United Arab Emirates. The first four countries had already been above the target for some years. ...

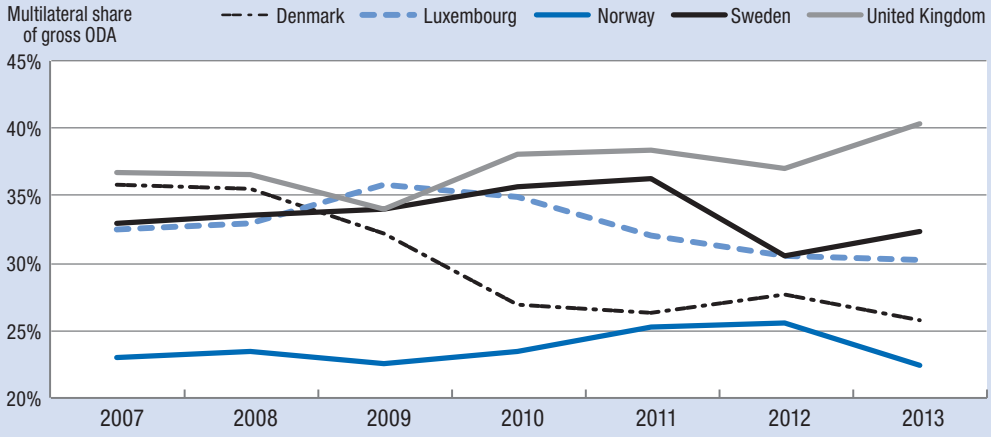
Box 2.2 *Larger allocations to multilateral organisations have been key for the United Kingdom to meet the 0.7% ODA/GNI target* (Continued)

The figure below shows that the multilateral share of gross ODA for the DAC countries mentioned here ranged between 20% and 40% in 2013. However, there does not seem to be a common trend among these countries. Denmark's multilateral ODA has fallen from 36% in 2007 to 26% in 2013, while the United Kingdom's multilateral share increased slightly over the same time frame (from 37% to 40%).

The United Kingdom's increased allocations to and through the multilateral aid system have been a key instrument for reaching the 0.7% ODA/GNI target. Between core and non-core contributions, the country primarily increased its core contributions in 2013. However, going back in time, there is no clear pattern concerning whether it increases ODA primarily through core or non-core contributions (or bilateral assistance excluding non-core). Core contributions by the United Kingdom increased by 40% between 2012 and 2013 (a USD 2.1 billion increase), representing 52% of the total increase in ODA. The increase in its non-core funding was more modest, at 32% (USD 972 million), representing 24% of the total ODA increase. These increases brought its total use of the multilateral aid system as a percentage of gross ODA (excluding debt relief) from 58% to 62%.

Multilateral organisations receiving the largest increases in core funding from the United Kingdom in 2013 were as follows: contributions to Gavi increased by 112%; those to the World Food Programme (WFP) by 96%; those to the UN Refugee Agency (UNHCR) by 80%; and those to the Asian Development Bank (AsDB) by 59%. The largest recipients of core multilateral allocations remain the World Bank and the EU. In 2013 the EU and the World Bank received 26% of the United Kingdom's core multilateral ODA.

Figure 2.6 ***No clear trend in the multilateral share of gross ODA for the 0.7% "achievers"***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247058*

For more information regarding the history of the 0.7% target, the reader is referred to *www.oecd.org/dac/stats/the07odagnitarget-ahistory.htm*.

DAC members' engagement with the multilateral aid system at policy level

A common strong commitment to multilateralism enshrined in development policy documents

While DAC members allocate different volumes and shares of their gross ODA to the multilateral aid system, all members have affirmed their commitment to the principles of multilateralism and place great importance on the role of multilateral organisations in achieving development progress. As a consequence, all 29 DAC members refer to their engagement with the multilateral aid system in their overarching development co-operation strategies. Some DAC members articulate this engagement in great detail in their overarching development strategy. Others provide a more general explanation of the relevance of development co-operation in partnership with multilateral organisations (e.g. the Netherlands see Ministry of Foreign Affairs of the Netherlands, 2013).

In addition to their overarching development strategy, most DAC members describe the value of engaging with multilateral organisation in other policy documents, including i) a stand-alone multilateral strategy, ii) a strategy specific to individual multilateral organisations or a group of these organisations, and/or iii) sector and/or thematic strategies. Eleven DAC members have a stand-alone multilateral strategy alongside their overarching development strategy. Five of these eleven members also have a detailed strategy for individual or a group of multilateral organisations. For example, in addition to a stand-alone multilateral strategy, the Czech Republic has a specific engagement strategy with the EU, to which it devotes a large share of ODA (Box 2.3). Norway has a strategy for its engagement with the UN system (to which it allocates 56% of its core and non-core resources), but does not have a stand-alone policy for its overall engagement with multilateral organisations. Some DAC members indicate the relevance of partnering with multilateral organisations in their sector or thematic strategies. Figure 2.7 illustrates the overlaps among policy documents in which DAC members articulate their engagement with multilateral organisations.

Policy documents on multilateral engagement are not enough to ensure more effective use of the multilateral aid system, but they can help

Good partnerships seem to be established when providers develop a comprehensive and forwardlooking vision of common goals and priorities, and when they engage with multilateral organisations in ways that are conducive to achieving such goals. While more policy documents are no guarantee of more effective use of the multilateral aid system, a well-articulated vision can help providers to mainstream their goals and priorities throughout the entire organisation and to ensure that it is reflected in their funding allocations. Furthermore, having a multilateral policy in place can increase transparency and act as a signal to the public that the portion of the ODA budget being channelled multilaterally is carefully considered and is being monitored.

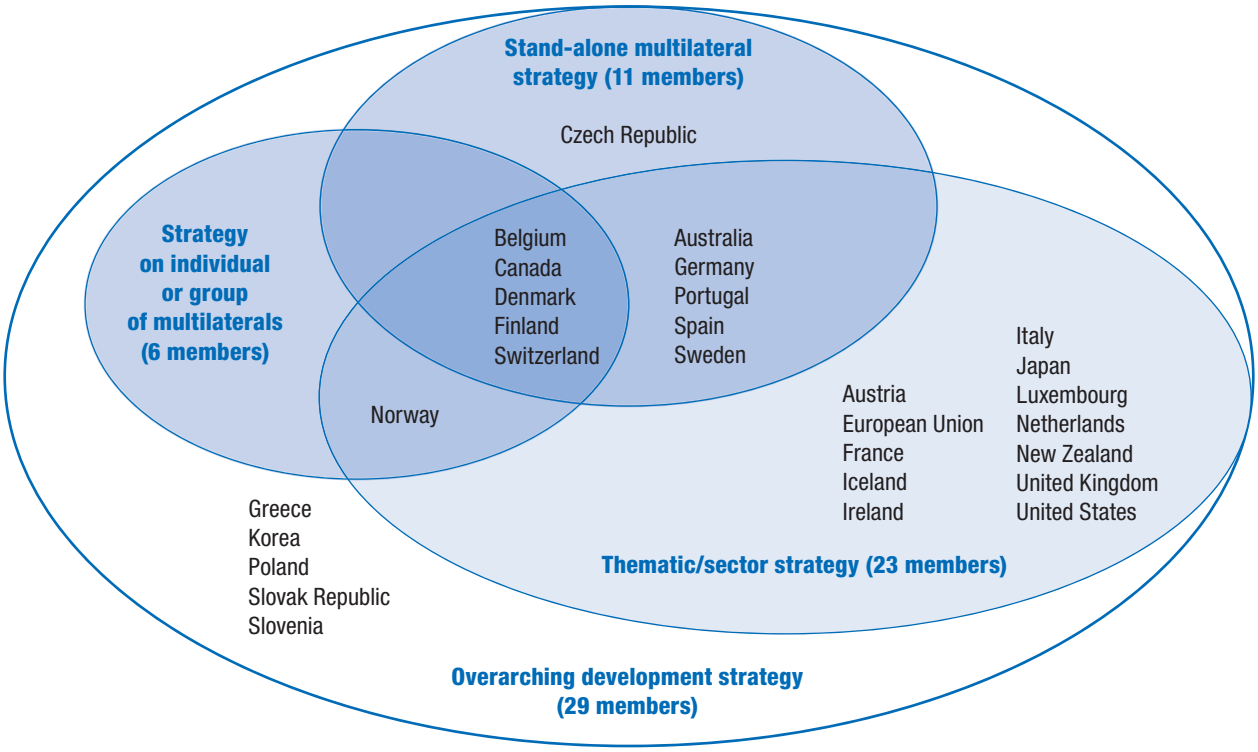
Box 2.3 DAC-EU members' strategies for engaging with the EU

Some DAC members contribute large absolute volumes of ODA (e.g. France, Germany and the United Kingdom), a large portion of their multilateral ODA (e.g. the Czech Republic, Poland and the Slovak Republic) or both (e.g. Italy, Spain) to the EU. With its dual role of bilateral provider and multilateral organisation, the EU plays a major role in the current architecture of development co-operation.

Almost all DAC EU members have a strategy describing their interaction and objectives for working through the EU on development co-operation, which is defined in **a specific policy document or strategy** (the Czech Republic, Denmark) or **a broad overview** (Austria, Finland, France, Germany, the Netherlands, Poland, Sweden and the Slovak Republic).

For example, the Czech Republic's policy document specifies how the EU can make use of the Czech Republic's development experience and ways to intensify its involvement in decision-making processes.

Figure 2.7 **DAC members articulate their engagement with multilateral organisations through a number of policy documents**



Source: OECD/DAC 2013 Survey on Multilateral Aid Allocations and desk research.

StatLink *http://dx.doi.org/10.1787/888933247068*

Comparing stated and revealed preferences for engaging with multilateral organisations

A recurring motivation for engaging with multilateral organisations is their comparative advantages in regard to specific issues, sectors and regions

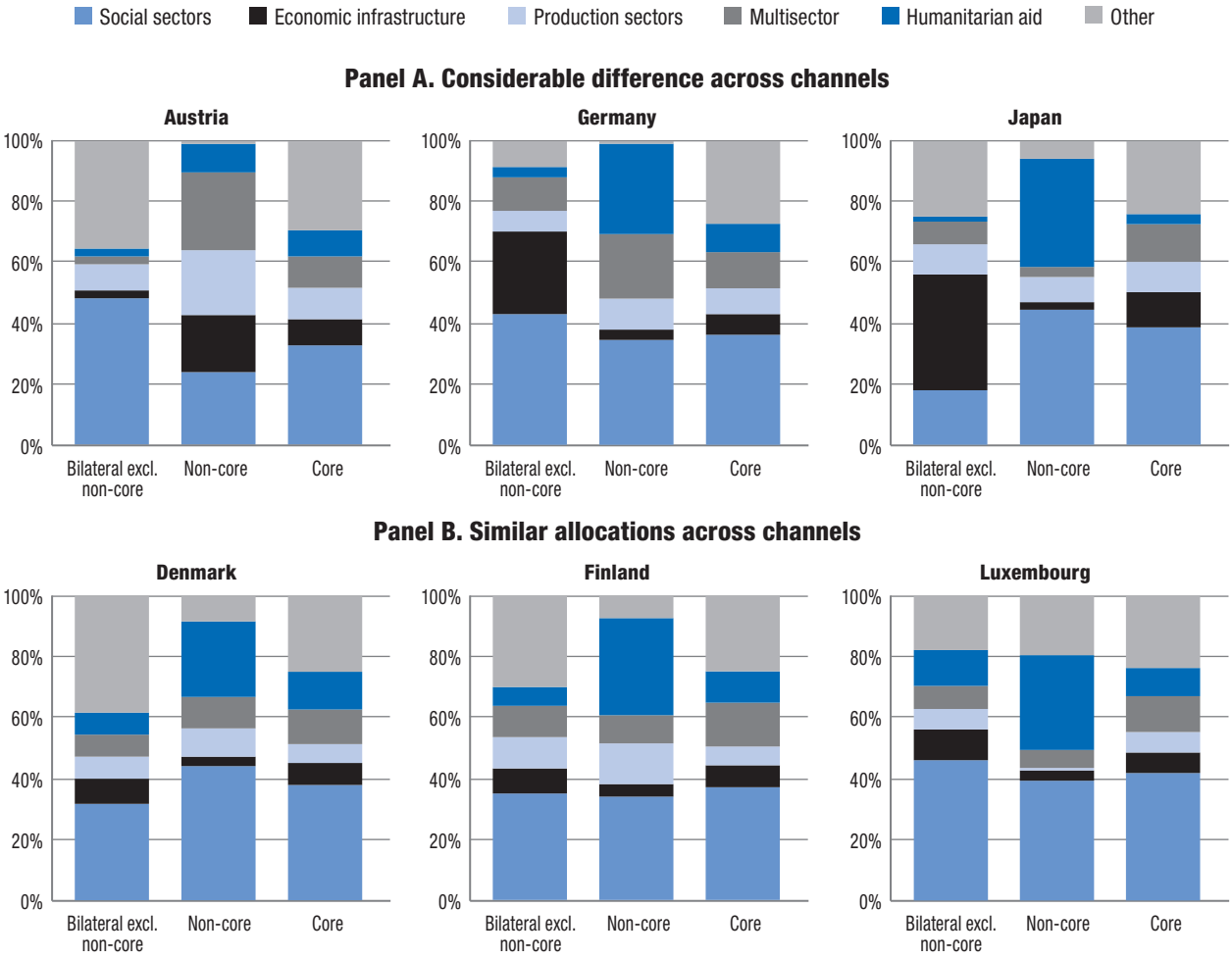
DAC members' overarching development and multilateral strategies present several recurring themes with respect to the reasons for engaging with multilateral organisations. The normative role of multilateral organisations is one of them, along with these organisations' convening power and better position/placement for tackling global challenges including climate change. DAC members fully acknowledge that such challenges cannot be met by any single country alone. In addition, many members explicitly value the expertise of multilateral institutions, which allows them to obtain results in thematic areas where they lack sufficient know-how, and these institutions' regional or global reach that allows them to target places where they lack field presence. DAC members state in their policy documents that they wish to use multilateral allocations to complement their bilateral programmes, reaching out to regions or sectors in which multilateral organisations have a comparative advantage in regard to bilateral channels. For example, Norway has decided to rationalise its bilateral co-operation and support certain themes/sectors (e.g. global health) mainly through multilateral channels (OECD, 2013a).

Core multilateral allocations target different sectors and geographic areas compared to bilateral programmes

Examining DAC members' actual ODA allocations reveals some degree of thematic[7] and geographic complementarity comparing DAC members' bilateral (excluding non-core) with core-multilateral[8] and non-core funding. For most DAC members, both (imputed) core and non-core funding focus more strongly on the humanitarian and health sectors (the health sector is embedded in the social sector). For almost all DAC countries, the social sector is the largest sector of bilateral ODA (excluding non-core). For more than one-third of DAC countries[9] the focus on economic infrastructures is relatively stronger in bilateral ODA (excluding non-core) than in non-core and core funding; this is especially the case for Germany, Korea and Japan.

Overall, Austria, Germany and Japan provide fairly clear examples of using different channels (e.g. core and non-core multilateral assistance and bilateral assistance) for different sectors, while – apart for humanitarian assistance – Denmark, Finland and Luxembourg exhibit a less clear-cut "specialisation" across channels (Figure 2.8). Geographically, too, there is some degree of complementarity, with DAC members' imputed core multilateral aid tending to be focused more on sub-Saharan Africa.

Figure 2.8 ***Examples of different degrees of sector complementarity across funding channels, 2013***



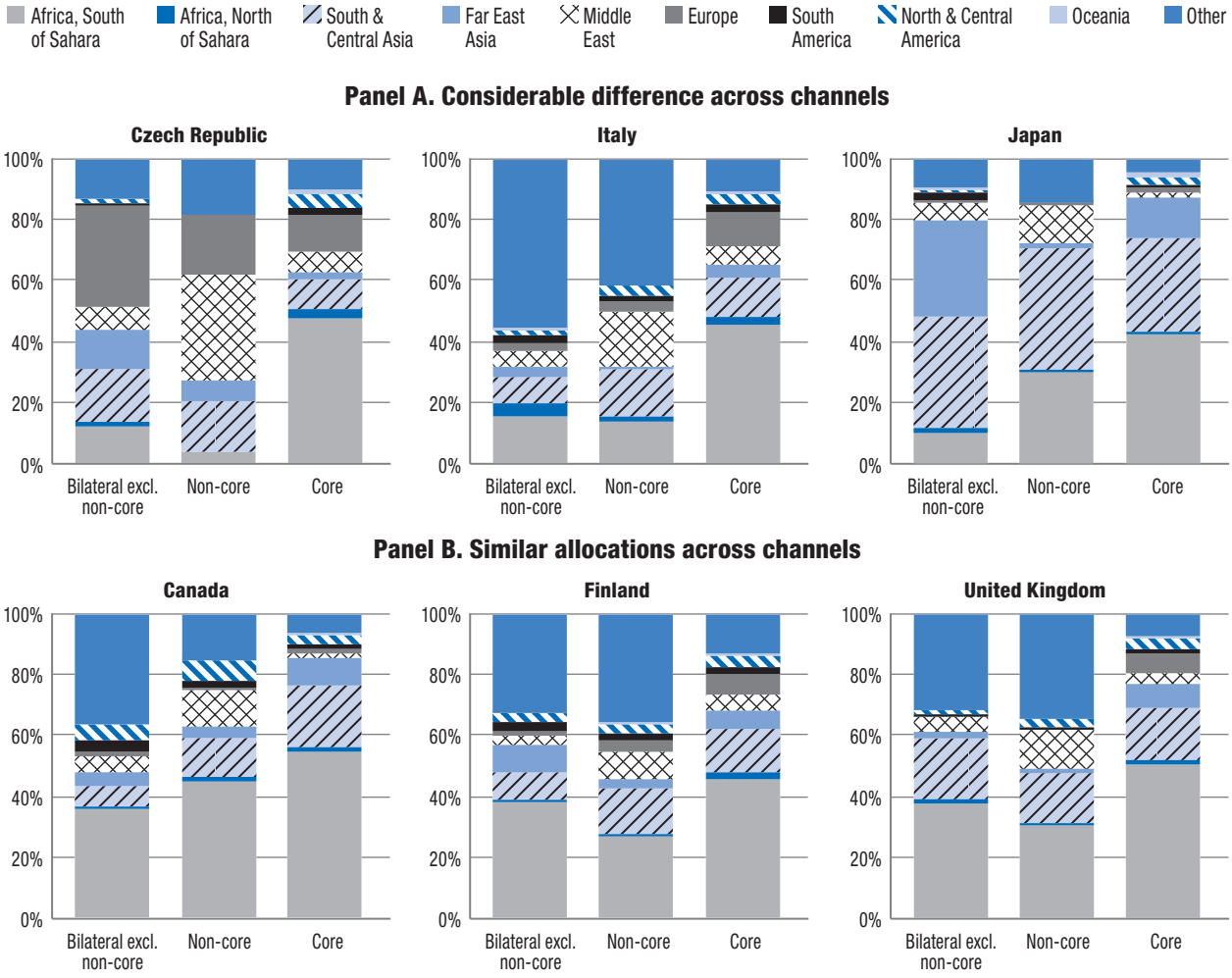
Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247074*

Non-core resources are mainly focused on different sectors than bilateral programmes, but target the same geographic areas

In general, earmarked resources follow bilateral donors' geographical focus but have a different thematic focus. Earmarked and "pure" bilateral funding is relatively more focused on Asia and the Middle East (compared to core), and for some members it is focused on geographic areas in close proximity (e.g. there is a focus by Australia and New Zealand on Oceania). Figure 2.9 provides examples of DAC countries that use the multilateral aid system to focus on different regions (the Czech Republic, Italy and Japan) and whose geographical allocations across the three channels are relatively similar (Canada, Finland and the United Kingdom).

Figure 2.9 ***Examples of different degrees of geographic complementarity across funding channels, 2013***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247088*

Decision-making differs for core and non-core allocations

The bulk of multilateral funding generally falls within the authority of one national entity

Decisions regarding multilateral funding allocations are centralised in most DAC member countries in one ministry or institution, most often the Ministry of Foreign Affairs or the national development aid agency. In 2011-2013, 21 DAC countries allocated 70% or more of all core contributions from one ministry or institution (2015 CRS data). However, not all DAC members adhere to this "concentrated model" for allocating core contributions. For example, for France the Ministry of Foreign Affairs and the Ministry of Finance each contributed roughly 35% of the core contributions, with the remaining 30% accounted for by the national aid agency and other administration departments. Allocations to development banks are generally under the responsibility of the Ministry of Finance.

Although the bulk of funding is provided by one ministry/institution, in general on average 5 ministries/institutions provide funding to multilateral organisations (with the extreme of up to 15 in Spain) (Table 2.2). This could hamper the coherence and strategic focus of total multilateral allocations and create co-ordination challenges across extending ministries or institutions. DAC members have therefore adopted a variety of approaches to strengthen the coherence of funding to multilateral organisations. In most DAC member countries one agency or ministry plays a lead role (usually the Ministry of Foreign Affairs or the development agency) in co-ordinating other relevant ministries/departments formally or informally. Three DAC members (Ireland, Korea and Slovenia) have overarching committees in charge of co-ordinating multilateral funding decisions instead of a single ministry acting as the "co-ordinating" body.

In the past few years several DAC members have undergone organisational changes that would bear implications for their interactions with multilateral partners. In particular, some DAC members moved away from separate aid agencies to departments that integrate trade, development and foreign policy (e.g. Canada and Australia). How exactly these changes will affect interactions with multilateral partners remains to be seen.

Contributions to the same multilateral organisation come from different ministries and institutions or different departments within the same ministry

For most providers, core and non-core contributions to the same multilateral organisation come from different ministries or institutions or different departments within the same ministry. This is the case for 16 DAC countries[10] for at least one multilateral organisation. While line ministries are usually in charge of core contributions, the Ministry of Foreign Affairs makes earmarked contributions (See also Table 2.2). As explained in Chapter 3, this often has to do with DAC members' use of earmarked contributions to implement their bilateral development co-operation programmes in the field.

Variation in funding is higher for non-core contributions and increasing

Predictability of funding is important for multilateral organisations' internal planning and management and for achieving results. However, funding to multilateral organisations (core + non-core) from DAC members can fluctuate significantly over time. The funding cycles of multilateral organisations differ, with most development banks relying on three-year replenishment cycles while the UN entities receive contributions on an annual basis. In most cases, providers' ODA budgets are decided on an annual basis. However, some DAC members make indicative multi-year funding arrangements subject to their ODA budget approval.

Earmarked funding has a relatively longer time horizon than core contributions. According to the 2013 OECD/DAC Survey on Multilateral Allocations, 10 DAC members make multi-annual commitments for core contributions to at least some multilateral organisations while the number increases to 15 for non-core. The relatively longer time horizon for earmarked contributions may be explained by the fact that this is mainly project aid and projects often have a multi-year span. However, as explained in Chapter 3, there is an inherent unpredictability in earmarked funding.

Table 2.2 *The bulk of multilateral allocations is provided by one ministry or institution, but several/ministries or institutions provide additional funding*

DAC member	Core: number of extending government institutions	Non-core: number of extending government institutions	Core: share provided by the largest government institution	Non-core: share provided by the largest government institution
Australia	2	3	94% (Australian Government)	99% (Australian Government)
Austria	7	11	94% (Federal Ministry of Finance)	57% (Federal Ministry of Finance)
Belgium	6	7	62% (Belgian Development Cooperation Department)	84% (Belgian Development Cooperation Department)
Canada	6	7	40% (Canadian International Development Agency)	62% (Canadian International Development Agency)
Czech Republic	6	5	93% (Ministry of Finance)	84% (Ministry of Foreign Affairs)
Denmark	1	1	100% (Ministry of Foreign Affairs)	100% (Ministry of Foreign Affairs)
EU Institutions	2	3	66% (European Development Fund)	41% (European Investment Bank)
Finland	2	2	73% (Ministry of Foreign Affairs)	100% (Ministry of Foreign Affairs)
France	10	10	35% (Ministry of the Economy, Finances and Industry)	76% (Ministry of Foreign Affairs)
Germany	5	6	94% (Ministry for Economic Cooperation and Development)	39% (Foreign Office)
Greece	11	5	93% (Ministry of Finance)	72% (Ministry of Environment, Energy and Climate Change)
Iceland	2	3	97% (Ministry of Foreign Affairs)	96% (Ministry of Foreign Affairs)
Ireland	4	3	48% (Department of Foreign Affairs)	99% (Department of Foreign Affairs)
Italy	3	4	70% (Central Administration)	84% (Italian Development Cooperation Department)
Japan	4	5	80% (Other ministries)	92% (Ministry of Foreign Affairs)
Korea	5	4	67% (Ministry of Strategy and Finance)	55% (Ministry of Foreign Affairs and Trade)
Luxembourg	1	1	100% (Ministry of Foreign Affairs)	100% (Ministry of Foreign Affairs)
Netherlands	1	1	100% (Ministry of Foreign Affairs)	100% (Ministry of Foreign Affairs)
New Zealand	2	1	95% (Ministry of Foreign Affairs and Trade)	100% (Ministry of Foreign Affairs and Trade)
Norway	2	3	99% (Ministry of Foreign Affairs)	93% (Ministry of Foreign Affairs)
Poland	4	5	82% (Other)	88% (Ministry of Foreign Affairs)
Portugal	2	3	100% (Portuguese Government)	79% (Portuguese Government)
Slovak Republic	4	2	93% (Ministry of Finance)	93% (Slovak Agency for International Development Cooperation)
Slovenia	4	5	78% (Ministry of Finance)	64% (Miscellaneous)
Spain	10	15	47% (Ministry of Public Administration)	54% (Ministry of Foreign Affairs)
Sweden	2	3	99% (Ministry of Foreign Affairs)	92% (Swedish International Development Agency)
Switzerland	4	4	86% (Swiss Agency for Development and Cooperation)	60% (Swiss Agency for Development and Cooperation)
United Kingdom	8	8	92% (Department for International Development)	82% (Department for International Development)
United States	5	12	51% (Department of Treasury)	62% (Agency for International Development)

Notes: Sum of funding in 2011-13. In June 2013, CIDA (Canada) was integrated into the Canadian Ministry of Foreign Affairs.

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247830*

Although some DAC members make multi-annual commitments to a few multilateral organisations, actual disbursements to three multilateral organisations – the UN Development Programme (UNDP), the UN Children's Fund (UNICEF) and the UN Population Fund (UNFPA) – by individual donors show that funding levels vary considerably from one year to the next. In addition, non-core funding exhibits greater volatility compared to core funding (Figure 2.10). In particular, non-core funding is more volatile than core funding in the case of UNICEF and UNFPA, with a coefficient of variation (CV)[11] for core funding of 0.04 and 0.06, respectively, compared to 0.17 and 0.24, respectively, for non-core funding. These organisations also have a small funding base, which makes it alarming that non-core contributions from the top providers are fairly volatile. Taking UNICEF as an example, the coefficient of variation for contributions from the top five donors is significantly greater than that for contributions from all providers, particularly non-core contributions (Table 2.4). UNICEF's strong reliance on few top donors is also clear: in 2013 the top five DAC donors accounted for 66% of total funding from the DAC and three donors (the EU, Japan and the United Kingdom accounted for over 50% of all DAC earmarked funding). Greater volatility of funding from individual providers, especially top donors, is corroborated by the findings of the recent report on Implementation of the Quadrennial Comprehensive Policy Review of Operational Activities for Development of the United Nations System (UN, 2015).

Moreover, non-core funding is becoming an increasingly large part of total funding, especially from organisations' top contributors. For example, in the case of both UNDP and UNICEF core funding represented 37% and 32% of total funding in 2008, but fell to 30% and 23% respectively in 2013, indicating a significant increase in less stable non-core contributions (Table 2.3).

Table 2.3 ***Non-core resources become a greater source of funding for multilateral organisations***

UNICEF							
	2008	2009	2010	2011	2012	2013	Coefficient of variation
Core	32%	32%	29%	30%	34%	23%	0.0433
Non-core	68%	68%	71%	70%	66%	77%	0.1737
UNDP							
	2008	2009	2010	2011	2012	2013	Coefficient of variation
Core	37%	34%	32%	32%	33%	30%	0.1012
Non-core	63%	66%	68%	68%	67%	70%	0.0488
UNFPA							
	2008	2009	2010	2011	2012	2013	Coefficient of variation
Core	72%	72%	69%	57%	62%	66%	0.0622
Non-core	28%	28%	31%	43%	38%	34%	0.2376

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247840*

Table 2.4 *UNICEF: funding from top donors is more volatile*

Coefficient of variation

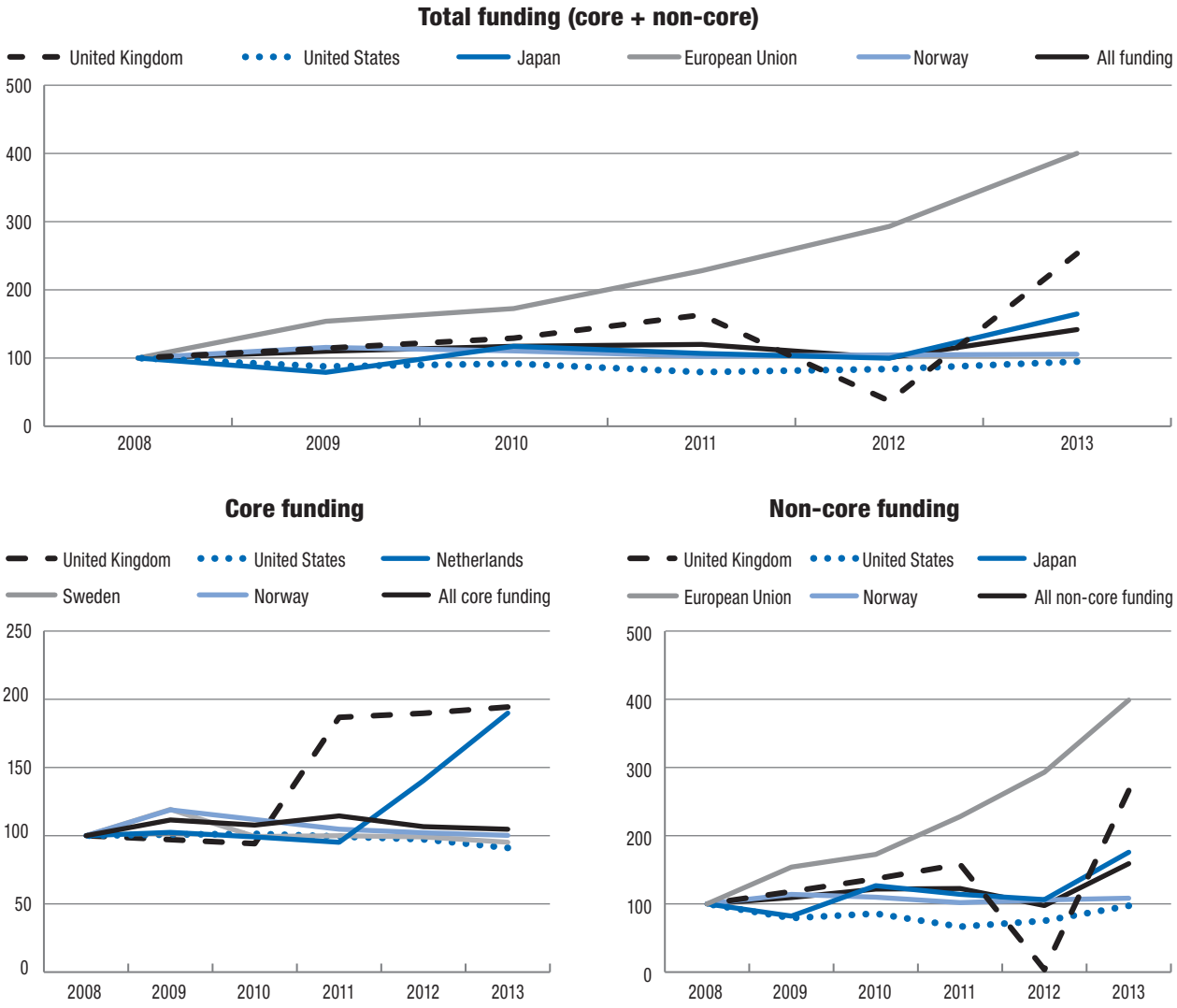
	Total funding	Core	Non-core
Top five DAC members	0.20	0.05	0.25
All DAC members	0.12	0.04	0.17

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink http://dx.doi.org/10.1787/888933247857

Figure 2.10 *Strong variation in funding from top contributors: the example of UNICEF*

Index, 2008 = 100



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink http://dx.doi.org/10.1787/888933247092

Multiple bilateral assessments of multilateral organisations impose high costs

Proliferation of bilateral assessments continues

Responses to the 2013 OECD/DAC Survey on Multilateral Aid Allocations and additional sources[12] suggest that bilateral assessments of multilateral organisations continue to proliferate: 14 of 29 DAC members conducted at least one bilateral assessment of multilateral organisations between 2012 and 2014, for a total of 205 bilateral assessments by DAC members and 55 organisations covered in this period. The number of DAC members conducting at least one bilateral assessment did not fall: it was 6 in 2012, 10 in 2013, and 7 in 2014, as illustrated in Table 2.5. Each multilateral organisation may be subject to multiple bilateral assessments each year. For example, UNDP was reviewed through 17 external assessments in 2012-14. Table 2.6 illustrates the situation for selected multilateral organisations by quantifying the assessments carried out by the DAC members. The actual number of assessments is potentially higher considering that other assessments may also take place, such as those undertaken by other multilateral organisations (e.g. through peer mechanisms).[13]

Administrative costs of bilateral assessments are high

When relying on primary data collected by teams of consultants requesting documentation, as well as intensive interactions with staff members, the transaction costs associated with bilateral assessments are high and may drain substantial resources away from multilateral organisations' core activities. Multilateral organisations though have an interest in ensuring that assessments are properly managed and will bear those costs.

These costs could be reduced and efficiency gains could be achieved, as primary information on multilateral organisations' performance is produced on a regular basis by their independent evaluation units and given that bilateral assessments focus largely on the same topics providing scope for using information from existing assessments (OECD, 2013b). However, responses to the 2013 OECD/DAC Survey on Multilateral Aid Allocations show that, of the 14 DAC members which conducted assessments in 2012-14, only eight used existing data for their assessments.

Table 2.5 ***The number of DAC members conducting bilateral assessments has not declined***

	2012	2013	2014
Number of assessments conducted by DAC members	52	99	54
Number of DAC members which conducted at least one assessment	6	10	7

Source: 2013 OECD/DAC Survey on Multilateral Aid Allocations, 2014 MOPAN questionnaire, and OECD/DAC Peer Reviews.

StatLink *http://dx.doi.org/10.1787/888933247863*

Table 2.6 ***Several multilateral organisations undergo multiple bilateral assessments per year***

Multilateral organisation assessed	No. of bilateral assessments by year		
	2012	2013	2014
AfDB (African Development Bank)	1	4	2
AsDB (Asian Development Bank)	1	4	2
Gavi (Global Alliance for Vaccines and Immunisation)	1	2	3
IDA (International Development Association)	1	4	3
IFAD (International Fund for Agricultural Development)	1	3	3
UNAIDS	2	3	2
UN Development Programme (UNDP)	6	6	5
UN Population Fund (UNFPA)	1	3	3
UN Refugee Agency (UNHCR)	2	3	3
UN Chidren's Fund (UNICEF)	2	5	2
World Food Programme (WFP)	2	4	2

Source: 2013 OECD/DAC Survey on Multilateral Aid Allocations, 2014 MOPAN questionnaire, and OECD/DAC Peer Reviews conducted in 2012-15. StatLink *http://dx.doi.org/10.1787/888933247876*

No clear benefits in terms of fostering better performance of multilateral organisations

Interviews with selected multilateral organisations conducted in the context of this report suggest that the administrative burden is not the only downside of these assessments: in most cases multilateral organisations are not informed of the criteria against which they are being assessed and the implications of the assessments. Furthermore, the outcomes of assessments are often not shared with the multilateral organisations upon completion. Little transparency on methodologies, outcomes and implications of these assessments means that learning opportunities are limited, as these processes do not feed into the organisations' reflections on how they can enhance performance.

Moreover, it is essential for donors to support change through channels and mechanisms that reflect the priorities of the broader membership and not just those of one or few donors. This would avoid tensions arising between changes advocated by one donor in its bilateral relations with the organisation and the changes prescribed by the organisation's governing board, which express the full membership's prioritisation of areas for change. Such tensions could create a dilemma for multilateral organisations with respect to either implementing the changes favoured by one donor (and thereby securing more funding) or following its own reform agenda. At times these have been perceived by the rest of the membership as "North-South" divide situations, in which multilateral organisations are faced with a choice between implementing the reforms of large donor countries from advanced economies (the North) and not doing so.

The United Kingdom's Multilateral Aid Review (MAR) stands out as a good example in terms of the transparency of the methodology, outcomes and implications of the assessments: some organisations have pointed out that, despite being a transaction-heavy review, it has led to fruitful discussions on performance. However, by linking implementation of an assessment's recommendations to the donor's decisions on future core funding, these assessments have the potential to put pressure on the organisations, given that many rely strongly on the United Kingdom as a top donor. Some multilateral organisations have stated that they felt there was tension between some of the recommendations from the MAR and their board's priorities for change.

A way forward to ensure accountability at lower cost and with greater impact

There is a need to ensure the accountability of donors' multilateral spending. This can be achieved in cost-effective ways and through processes that engage donors and multilateral organisations in a sustainable and fruitful dialogue that supports improved performance. To this end, donors are encouraged to:

- Use executive boards' discussions to foster changes that will improve the performance of multilateral organisations. This implies that donors will use the findings and recommendations from their bilateral reviews to engage the rest of the membership in a constructive discussion on performance, so that the evidence base for the board's decisions on reforms will be strengthened.
- Rely on existing sources for their bilateral assessments to the maximum extent possible. This implies that donors will support jointly, through governing bodies, the independent evaluation units enabling them to provide the primary information donors need for their assessments. It also implies that donors will make publicly available either the totality or parts of their bilateral assessments, in order to provide useful information for other donors' reviews.

Joint evaluations can also be an effective means to rationalising assessments and promoting better performance. Recognising the need to reduce the proliferation of bilateral assessments of multilateral organisations, an important number of DAC members have come together to conduct joint assessments in the context of the work of the Multilateral Organisation Performance Assessment Network (MOPAN). Some MOPAN members, like Germany, have relied on MOPAN's assessment findings to inform their internal reviews of multilateral organisations. Others, however, continue to conduct bilateral assessments that are transaction heavy for multilateral organisations or have unclear implications. The responses to the OECD/DAC survey suggest that this may because, at the time of the survey, the MOPAN assessments did not have the level of granularity, the focus, or the coverage that some members would have liked to see. For example, Canada mentioned a lack of coverage of results achieved, elements of organisational effectiveness and cross-cutting themes. The United States mentioned lack of comparability of the assessments across institutions. To accommodate some of these information needs, MOPAN is launching a new approach and methodology in 2015. The innovations it is introducing have the potential to increase the impact of the Network's assessments, so that they can contribute more effectively to reducing proliferation.

Box 2.4 *"In my view…" by Richard Manning*

Richard Manning is chair of the Board of the Institute of Development Studies (United Kingdom), a Senior Research Associate at the Centre for the Study of African Economies at Oxford University, and a former chair of the OECD Development Assistance Committee

Bilateral aid can achieve a great deal, but problems of coherence, co-ordination and harmonisation are often troublesome, making it hard to deal effectively with major issues of collective concern through bilateral actions alone. Experience shows that collective action is often best delivered at least in part through fully collective approaches, whether we are talking about the depletion of the ozone layer (the success of the Montreal Protocol Fund being a stand-out example of the success of such an approach); research on agriculture or health that market will under-provide; or the requirements of major epidemics such as HIV/AIDS or malaria. Major multilateral institutions can set standards in transparency (where they are regularly assessed as on average well ahead of bilateral agencies), in rigorous procurement systems, in consistent methods of project appraisal and impact evaluation, or in application of knowledge from across the globe (the World Bank's policy dialogue with Deng Xiao-Peng's China in the 1980s being a classic example).

However, in many donor countries, there is almost a built-in notion (in governments and perhaps still more in legislatures) that "bilateral is best". This is reflected in a somewhat inconsistent attitude to multilateral development institutions. Donor expectations of the performance of multilateral institutions, on issues such as safeguards, transparency, management for results or administrative efficiency, often appear more demanding than the standards achieved by the bilateral agencies of the same countries. Donors complain of fragmentation, even though they have contributed to it. Donors seek to have a strong voice in governance of the institutions, and then bypass the governance system with Trust Funds set up to pursue the donor's own priorities.

This is by no means to imply that multilateral institutions are beyond criticism: rather it is to observe that the behaviour of bilateral donors – who are usually very influential in how multilateral institutions operate – may not always be consistent with ensuring an optimum multilateral approach to development.

So here are three suggestions to bilateral donors to act in ways that enhance the coherence and effectiveness of multilateral development institutions, not least from the point of view of the key development actor – the implementing country. Please:

- **Adapt to changing realities**

  Recognise that continued adaptation of multilateral institutions is required as their clients develop. Be willing to take some risks to achieve this, both in sovereign lending (the recent agreement by the Board of AfDB to open hard-window lending to creditworthy soft fund borrowers for priority projects is a good example) and in the development of instruments which can catalyse enhanced private investment.

…

Box 2.4 *"In my view..." by Richard Manning (Continued)*

Adapt governance much more quickly to changing economic weights (a particular issue for slow-growing OECD countries that too often seek to hold on to votes and Board positions that reflect the situation of earlier decades). It's high time that European donors, for example, adapted their relative shares of the multilateral development banks (MDBs) to current realities, without waiting for a resolution of the position in the International Monetary Fund (IMF).

- **Encourage a more coherent ecology of multilateral institutions**

  While special purpose funds have proven their effectiveness in "upstream pooling", particularly for relatively standardised products, test severely any initiatives that aim to establish new institutions through a more explicitly endorsed "Think Twice" policy as proposed at the Accra High Level Forum of 2008, and apply similar discipline to major new Trust Funds.

  Work, nevertheless, for constructive relationships with new or innovative institutions, once established, including those developed without a central role for "traditional" donors.

- **Assess performance in a smarter way**

  Assess performance of multilateral institutions collectively rather than bilaterally by enhancing the performance and reach of MOPAN. Individual donors do, of course, need to understand and assess the relative efficiency and effectiveness of multilateral organisations, but it is highly dysfunctional for there to be a series of ill co-ordinated individual reviews as opposed to all concerned drawing on well-considered diagnostics agreed collectively.

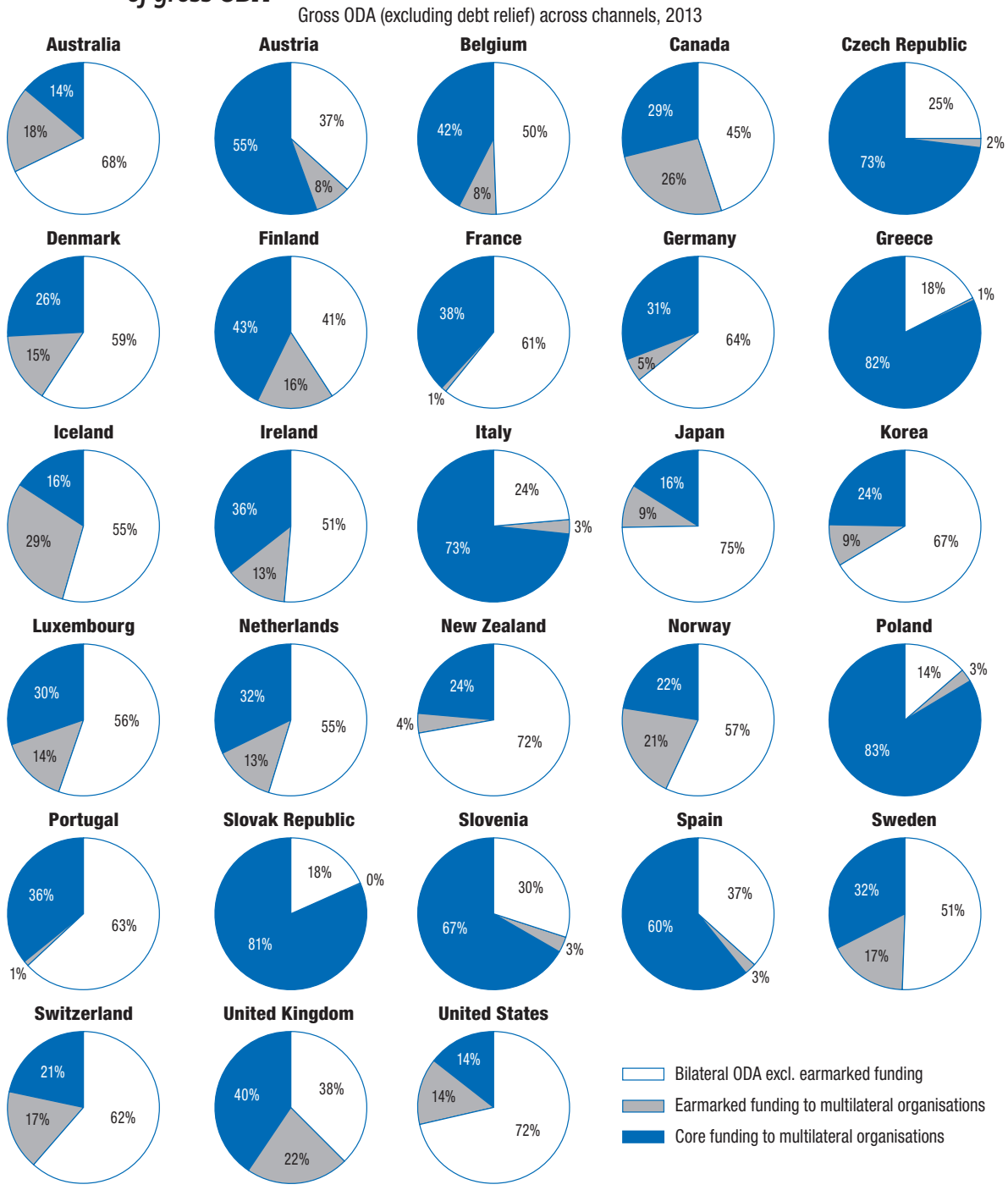
  Assessments based on the organisation's own systems for evaluation are likely to be more useful than periodic blockbuster external assessments by a team of outside consultants, which will struggle to find objective information on performance and impact if such systems do not exist. This, of course, presupposes that such evaluation systems exist and are sufficiently robust and independent: this should be an essential element for all major multilateral institutions.

  Understanding how organisations are delivering or failing to deliver at country level is vital: the voice of local experts (not just government representatives) in countries receiving multilateral aid needs to be more audible at multilateral agency boards and in replenishments.

  Ensure that in judging the effectiveness of donors' own bilateral aid operations they use criteria that are no less demanding than those that they apply to multilateral agencies.

Annex 2.A1 • Additional statistics on DAC members

Figure 2.A1.1 ***For 17 out of 28 DAC countries, "purely bilateral" ODA accounts for more than half of gross ODA***

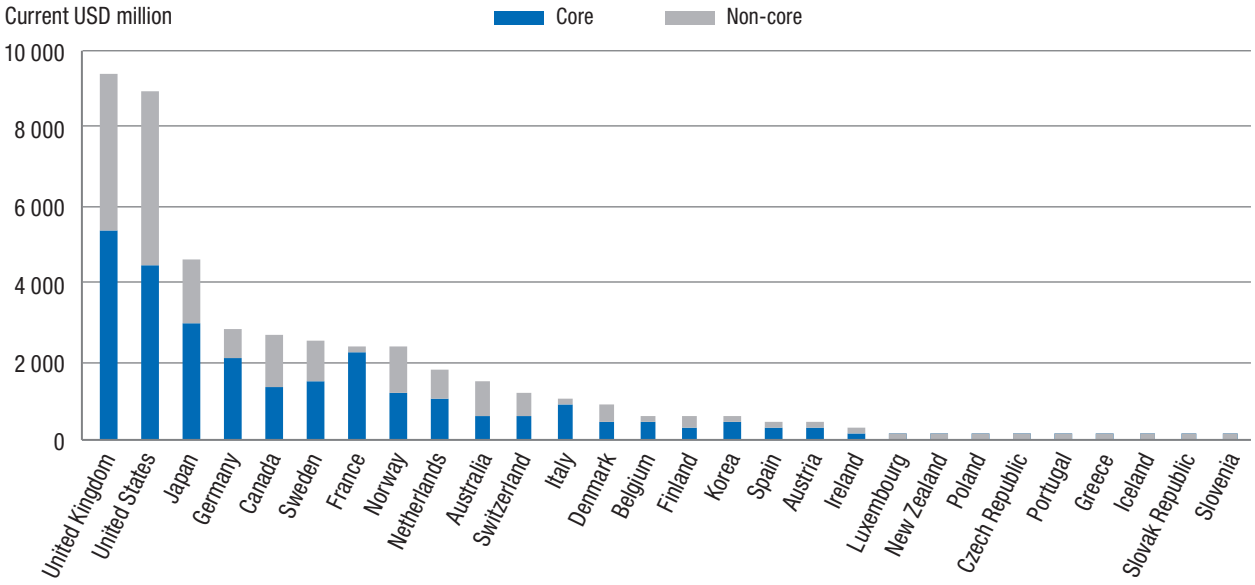


Notes: The European Union (EU) has provided the following clarification: "The EU is unique among DAC members in that it plays a dual role in development assistance. Although the EU is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources, it is often presented as a multilateral organisation in DAC publications for statistical purposes. This report reflects this dichotomy."

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247100*

Figure 2.A1.2 **Total volume of the multilateral system: gross ODA disbursements**

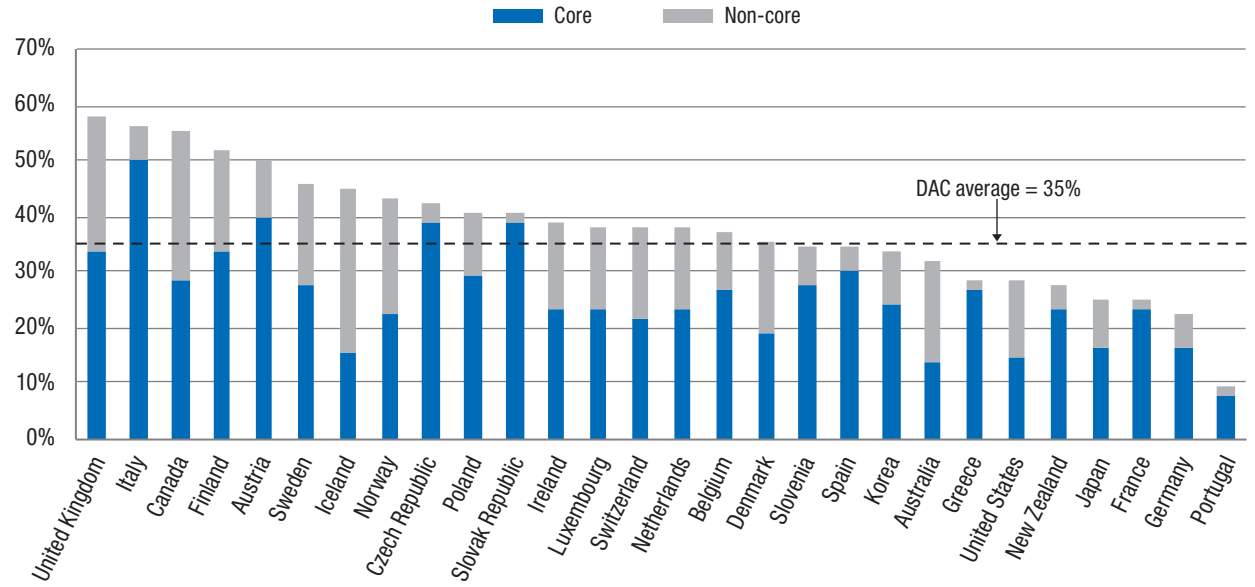
Excluding contributions to the EU and debt relief, in 2013 current USD million



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247117*

Figure 2.A1.3 **Total use of the multilateral system as share of gross ODA disbursements excluding contributions to the EU, 2013**



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247126*

Table 2.A1.1 *Summary statistics on gross disbursements from DAC members, 2013*

Current USD million

Provider	Bilateral ODA excluding debt relief	of which, channelled through multilateral agencies (non-core) excluding debt relief	Multilateral ODA	Total use of the multilateral system	Core multilateral ODA as share of total ODA (%)	Core multilateral ODA and non-core as share of total ODA	Core as share of total use of the multilateral system
	(A)	(B)	(C)	(B+C)	(C/(A+C))	((B+C)/(A+C))	(C/(B+C))
Australia	4 233	901	680	1 581	14%	32%	43%
Austria	503	88	628	716	56%	63%	88%
Belgium	1 346	184	992	1 176	42%	50%	84%
Canada	3 554	1 306	1 436	2 742	29%	55%	52%
Czech Republic	57	4	154	158	73%	75%	98%
Denmark	2 263	460	785	1 245	26%	41%	63%
Finland	822	235	613	848	43%	59%	72%
France	7 500	138	4 592	4 730	38%	39%	97%
Germany	10 832	787	4 777	5 564	31%	36%	86%
Greece	44	1	195	197	82%	82%	99%
Iceland	29	10	6	16	16%	45%	35%
Ireland	546	110	300	411	35%	49%	73%
Italy	926	107	2 541	2 648	73%	76%	96%
Japan	15 536	1 677	2 970	4 647	16%	25%	64%
Korea	1 375	164	446	610	24%	34%	73%
Luxembourg	302	62	131	193	30%	45%	68%
Netherlands	3 763	710	1 789	2 499	32%	45%	72%
New Zealand	351	20	107	127	23%	28%	84%
Norway	4 383	1 158	1 266	2 424	22%	43%	52%
Poland	69	11	351	362	83%	86%	97%
Portugal	334	6	186	192	36%	37%	97%
Slovak Republic	16	0	70	70	81%	82%	99%
Slovenia	21	2	41	43	66%	70%	95%
Spain	931	61	1 430	1 490	61%	63%	96%
Sweden	3 982	1 001	1 909	2 910	32%	49%	66%
Switzerland	2 531	544	691	1 235	21%	38%	56%
United Kingdom	10 895	4 007	7 375	11 383	40%	62%	65%
United States	26 934	4 407	4 501	8 908	14%	28%	51%
Total	**104 078**	**18 163**	**40 961**	**59 124**	**28%**	**41%**	**69%**

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247884*

Notes

1. This chapter is based on statistical data from the OECD-DAC Creditor Reporting System, the 2013 OECD/DAC Survey on Multilateral Aid Allocations (see endnote below), a desk study on the online availability of the multilateral strategy documents of each DAC member, ad hoc consultations with individual DAC members, a questionnaire to donors conducted by the Multilateral Organisation Performance Assessment Network (MOPAN), and reports from the OECD/DAC Peer Reviews.
2. The 2013 OECD/DAC Survey on Multilateral Aid Allocations was carried out in the last quarter of 2013; 22 DAC members responded to it. Poland was not yet a DAC member at the time of the survey.
3. No 2012 data are available for Poland or the Slovak Republic.
4. 2013 OECD/DAC Survey on Multilateral Aid Allocations.
5. The DAC is comprised of 29 members, of which 28 are countries (the EU is a DAC member, but not a sovereign state).
6. Regressing the gross ODA share of total use of the multilateral system on gross ODA actually yields a negative coefficient (-0.0002x), with a fairly low R2 (0.0708).
7. These are economic infrastructure, humanitarian aid, multi-sector aid, productive sectors, social sectors and other. See *http://stats.oecd.org/qwids/* for more information.
8. For the sectoral and geographic allocation of core resources, data on multilateral outflows and, more specifically, what the OECD refers to as "imputed multilateral flows" is used. (The OECD's methodology for calculating imputed multilateral flows is available at *www.oecd.org/fr/investissement/stats/oecdmethodologyforcalculatingimputedmultilateraloda.htm)*. By definition, donor countries cannot determine the final allocation made by multilateral organisations with respect to core contributions, as opposed to bilateral and non-core flows. At most, donors can influence the sector and geographic allocation of core resources upstream by funding multilateral organisations that specifically work on certain sectors or geographic areas.
9. Countries for which bilateral programmes focus on economic infrastructure more than both (imputed) core and non-core allocations are: Denmark, Finland, France, Germany, Japan, Korea, Luxembourg, Norway, Portugal and Spain. For example, for Germany economic infrastructure represents 27% of all bilateral ODA (excluding non-core) and only 3% of all non-core allocations (and 7% of imputed core resources). For Japan, economic infrastructure represents 39% of all bilateral ODA (excluding non-core), 3% of all non-core allocations and 12% of imputed core resources. Additionally, the following countries have bilateral programmes relatively more focused on economic infrastructure than non-core allocations: Italy, the Slovak Republic, Switzerland and the United States.
10. The coefficient of variation is defined as the ratio between a distribution standard deviation and its mean.
11. This section is based on findings from the 2013 OECD/DAC Survey on Multilateral Aid Allocations, a questionnaire to donors conducted by the Multilateral Organisation Performance Assessment Network (MOPAN), and reports from the OECD/DAC Peer Reviews (see *www.oecd.org/dac/peer-reviews/peerreviewsofdacmembers.htm*).
12. The DAC Evaluation Network provides more information regarding these peer reviews among multilateral organisations (see *www.oecd.org/dac/evaluation/evaluatingmultilateraleffectiveness.htm*).
13. Semi-structured interviews with ten large multilateral organisations conducted between October 2013 and September 2014.

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Part II

GEARING UP TO SUPPORT POST-2015 PARTNERSHIPS

Chapter 3

Making earmarked funding more effective: practices and reforms of bilateral providers and multilateral organisations

In 2007-13, funding provided to multilateral organisations as earmarked resources (for specific themes, sectors, regions or countries) has been the fastest growing part of total funding to these organisations and it has come to represent 31% of all funding to multilateral organisations. While earmarked funding can help meet specific needs and evolving development challenges, it can make the co-ordination and coherence of the international development co-operation system more difficult. It can also undermine the strategic and coherent allocation of resources for individual multilateral organisations and providers alike. This chapter discusses steps being made by multilateral organisations and by bilateral providers to better manage earmarked funds. It provides suggestions on how such efforts can be taken forward to ensure financing for the multilateral system that is sustainable and conducive to better development results.

The chapter includes "in my view…" contributions, by Michael O'Neill, Assistant UN Secretary-General, UNDP; and Jürgen Zattler, Deputy Director General, European Union and Multilateral Development Policy, German Federal Ministry for Economic Cooperation and Development (BMZ).

Summary of main findings and recommendations

In aggregate terms, earmarked funding has become an important part of funding to the multilateral system, in 2013 representing 31% (USD 18.2 billion) of total use of the multilateral system or 13% of total gross ODA.[1] It has also been the fastest growing component of funding to multilateral organisations, growing by 93% in 2007-13, as opposed to 24% in the case of core contributions. Multilateral organisations rely on earmarked funding to different extents, with the United Nations (UN) funds and programmes showing the highest dependency (76% of total funding), compared to 28% of the second largest recipient institution, the World Bank.

Earmarked funding can help respond to specific needs, such as humanitarian crises, and to emerging development challenges. It can be used to establish partnerships that leverage a variety of public and private resources from sovereign countries as well as private foundations, corporations and intergovernmental organisations. A wide array of financial arrangements, however, is used to channel earmarked funding, adding significantly to the complexity of the global development co-operation architecture and creating risks of duplication, higher transaction costs and diminished coherence. For providers and multilateral organisations alike, the way these funds are managed has hampered a more coherent and effective spending of resources. The strong reliance of some multilateral organisations on earmarked funding also shapes incentives and disincentives for these institutions.

Members of the OECD Development Assistance Committee (DAC) have increased the use of earmarked funding, driven mainly by the domestic need for visibility of bilateral ODA, the additional influence it allows in shaping a multilateral organisation's development agenda, and greater tracking and oversight of expenditures – partly to respond to perceived inefficiencies of multilateral organisations. Only a few DAC members have developed policies and guidance on earmarked funds. For most there is scattered decision-making around it, which in practice often hampers: i) a comprehensive overview of the total earmarked resources channelled through the multilateral aid system and their overall impact; ii) strategic engagement with multilateral organisations concerning these funds; and iii) strategic and coherent allocations of these resources. While so far some bilateral providers have taken concrete steps to reinforce the coherence and complementarity of funding for the multilateral system, there is scope to revise policies and funding practices for more predictable, more flexible and more strategic earmarked funding.

Earmarked funding has allowed multilateral organisations – such as its key recipients, the World Bank Group and the UN – to expand their activities beyond what would have been possible with core funding alone. The low predictability and scattered decision-making and business processes for earmarked funding make it difficult for multilateral organisations to plan and allocate resources strategically and coherently. To improve the operational and strategic alignment of earmarked funding to their core priorities and promote a more effective use of overall funding, the World Bank Group and UN have launched a series of reforms, such as the one established by the UN's 2012 Quadrennial Comprehensive Policy Review and the World Bank Group's ongoing trust fund reform. These provide an excellent window of opportunity for bilateral providers to support multilateral organisations' efforts to respond more effectively to the development challenges that our world faces.

A critical mass of core resources will remain fundamental for multilateral organisations to be able to carry out their mandates. At the same time, the sectoral focus of the Sustainable Development Goals, and the need to leverage public and private resources in the post-2015 era, suggest that non-core funding will still be relevant going forward. Therefore, donors and multilateral organisations alike will need to manage earmarked funding in ways that maximise its benefits while keeping its costs to a minimum. While acknowledging that the use of earmarked resources can be a politically sensitive issue, DAC members should consider the following:

- **Using earmarked funding based on evidence and strategic considerations about when and why earmarked funding may be the most suitable option.** Bilateral providers should not use earmarked funding when other funding options can achieve better outcomes, or when the same outcome could be achieved through core resources. When choosing to earmark funds, providers should select the arrangement/modality for channelling earmarked resources that is most likely to maximise impact.

- **Providing clear guidance to staff on the use of earmarked funding with a view to support good practices and enhance internal coherence.** Top management commitments to earmarked funding reforms need to be communicated across the agency. A better flow of information is also needed from bottom to top, in order to create a comprehensive view of earmarked contributions and collect first-hand experience of what works better.

- **When extending earmarked funding, consider carefully the implications of the requests and conditions they attach to it.** They should especially consider the consequences of their special requests vis-à-vis the broader membership of the multilateral organisations. In addition, donors should support multilateral organisations in strengthening their overall result frameworks and standards and avoid ad hoc formal and informal monitoring and reporting on earmarked funding.

- **Supporting multilateral organisational reforms aimed at multi-year strategic frameworks and achieving results.** Integrating processes and procedures for managing together core and earmarked resources is an important step to ensure more strategic and coherent use of all resources available. Greater transparency with respect to results will be key to building trust and softening the parameters underpinning earmarking.

Making earmarked funding more effective from a post-2015 perspective

In aggregate terms, earmarked resources have become an important part of funding to the multilateral aid system (Figure 3.1), in 2013 representing 31% (USD 18.2 billion) of total use of the multilateral system and 13% of total gross ODA. It has also been the fastest growing component of funding to multilateral organisations, growing by 93% in 2007-13, as opposed to +24% in the case of core contributions. The expansion of earmarked funding was only in part determined by increased earmarked funding for humanitarian purposes, the latter representing a variable share of total earmarked funding in 2007-13 (ranging from a low of 28% in 2010 to a high of 38% in 2008). For individual organisations earmarked funds can represent a significant part of total funding, up to three-quarters for some. In the case of UN funds and programmes as a whole, 76% of funding from DAC members was provided in this form in 2013. 100% of funding to the UN Office for the Coordination of Human Affairs (UNOCHA) was earmarked and the volume of earmarked funding to the World Food Programme (WFP) was eight times larger than its core funding. For another seven UN entities, earmarked funds represented over 60% of total funding[2].

Earmarked resources have been described as a powerful means to mobilise resources, engage in partnerships and fill co-operation gaps (see, for example, OECD, 2012, 2011b; Thalwitz, 2013). They can help respond to specific needs, such as humanitarian crises (humanitarian aid was the largest sector of earmarked funding in 2013, 36%, see Figure 3.2), and to evolving development challenges. They can also make it possible to engage in partnerships that leverage a variety of public and private resources from sovereign countries as well as private foundations, corporations and intergovernmental organisations. However, a wide variety of financial arrangements is used to channel earmarked funding, adding significantly to the complexity of the global development co-operation architecture. This has created risks of duplication, higher transaction costs and diminished coherence. It has also made the traceability and monitoring of these resources more complex (Box 3.1). For individual multilateral organisations and bilateral providers it has sometimes reduced coherence and impact of allocations.

The sectoral focus of the Sustainable Development Goals and the need to leverage public and private resources in the post-2015 era suggest that this funding will still be relevant going forward. Therefore, donors and multilateral organisations alike will need to manage earmarked funding in ways that maximise its benefits while keeping its costs to a minimum. By presenting the point of view of both bilateral providers and multilateral organisations, this chapter provides three main contributions:

- It explores motivations and current practices on earmarked funding and the main limitations on the ways it is managed.
- It outlines the reforms for better management of earmarked funds put in place by bilateral donors and by the two main recipients of earmarked funding, the United Nations (UN) and the World Bank Group.
- It provides suggestions on how these efforts can be taken forward to make financing for the multilateral system sustainable and conducive to better development results.

Box 3.1 *Towards better traceability and monitoring of flows to and through multilateral organisations*

Since 2008, the Report on Multilateral Aid has shed light on the total use of the multilateral system, looking beyond core contributions to multilateral organisations in order to include all resources channelled to and through the multilateral system. However, in the DAC statistical system it is not always clear whether a flow is "core" or "earmarked". This is mainly because in the DAC statistical system resources to multi-donor trust funds and global pooled funds can be recorded as either "core" or "non-core/earmarked resources" depending on whether they are included in the List of ODA-eligible International Organisations (hereafter referred to as "the List"). Criteria to be eligible for inclusion in the List include that trust funds are not single donor nor country-specific and that they are administered by a multilateral agency.

Over the last few years, the treatment of data on trust funds in the OECD/DAC statistical system has been a recurrent theme in the meetings of the DAC Working Party on Statistics – WP-STAT, signalling that the DAC recognises that the List leaves unsolved a number of issues concerning earmarked funding data and the traceability and monitoring of flows to and through multilateral organisations. Below are some key issues that need to be addressed to improve the robustness and relevance of the data:

- **Consistency:** Understanding whether a flow is bilateral or multilateral ODA is not straightforward. The List was originally designed to distinguish ODA-eligible multilateral institutions from non-ODA eligible multilateral institutions. However, when it comes to trust funds, inclusion on the List basically determines whether funding is counted as bilateral ODA (being considered a channel for implementation of bilateral programmes, or earmarked funding) or as multilateral ODA. While many large trust funds are included on the List (e.g. those for which the World Bank Group acts as a trustee, such as the Global Environment Facility, or the Global Fund to Fight against AIDS, Tuberculosis and Malaria) and funding to them is counted as multilateral ODA, some similar trust funds are not (e.g. the Global Agriculture and Food Security Program) although in principle they meet the criteria. Several multi-donor UN trust funds administered by the Multi-Partner Trust Fund (MPTF) Office are also not on the List. Therefore, funding to trust funds with similar characteristics may end up being treated differently in the statistics, with some being counted as bilateral ODA and some as multilateral ODA.
- **Traceability:** Currently, inclusion on the List means that: the organisation is assigned an individual channel code and statistical data on the organisation's outflows can be collected. Therefore, traceability and transparency of total funding to those trust funds that are not on the List (i.e. that are not assigned individual channel codes) is limited since the volume of total funding to those channels can only be retrieved through time-consuming keyword searches of the description fields of each bilateral record with a multilateral channel code.
- **Relevance:** As defined by the List, a contribution to a trust fund can be considered as multilateral if the fund is managed autonomously by a multilateral entity "whose members are governments". Increasingly, multilateral organisations explicitly consider trust funds and non-core arrangements as an instrument to engage in partnerships

...

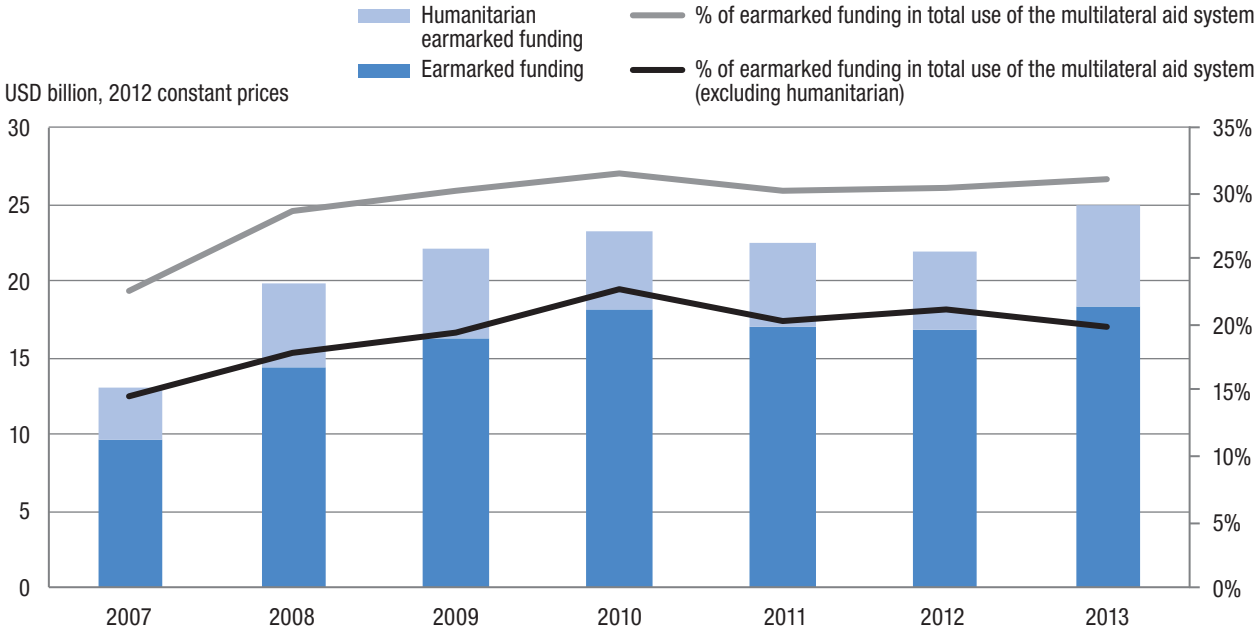
Box 3.1 *Towards better traceability and monitoring of flows to and through multilateral organisations* (Continued)

also beyond their membership. In the post-2015 era, they will be used to pool resources from sovereign and non-sovereign sources, including the private sector. Therefore, going forward, a definition referring to entities whose members "include" governments will probably be needed.

- **Comparability:** The statistical treatment of trust funds in the OECD-DAC statistical system is somewhat different from the one in the statistical records of multilateral organisations themselves (e.g. the World Bank Group). Therefore, a shared definition of trust funds and earmarked funding could foster greater clarity around both the statistical data and the policy messages derived from their analysis.

To address some of these concerns, the WP-STAT is currently discussing a number of measures, including: i) adding further guidelines for assessing the multilateral character of trust funds; and ii) approving a pilot exercise to assign individual channel codes to ten additional organisations that have not gone through the List assessment of their ODA-eligibility, in order to examine the scope for better monitoring flows through a wider set of organisations. These steps are welcome. However, efforts to address the current deficiencies of the statistical system will need to be inclusive and more rapid so that the OECD-DAC Statistical system can track in a more consistent and transparent manner the important – and likely increasing – share of development finance channelled to and through multilateral arrangements.

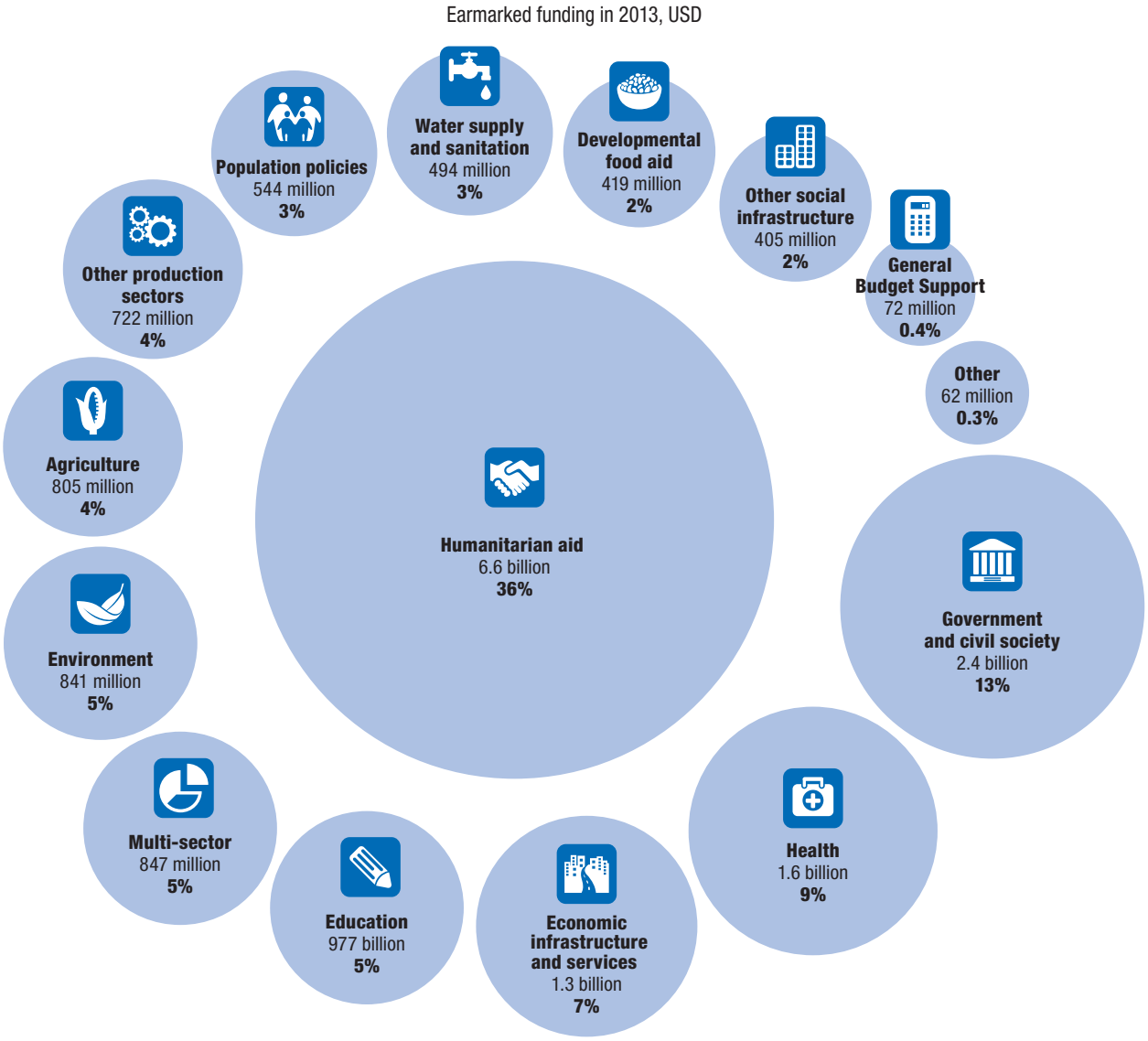
Figure 3.1 ***Earmarked funding has grown in volume and as a share of total funding to multilateral organisations***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247139*

Figure 3.2 ***Earmarked funding is largely concentrated in the humanitarian sector***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
StatLink *http://dx.doi.org/10.1787/888933247142*

Elements on root causes and implications of earmarked funding

Widespread use of earmarked funding has brought about a "bilateralisation" of multilateral organisations

First through voluntary contributions, and later through earmarked contributions, some bilateral donors have gained more influence to shape the priorities of multilateral organisations and their budgets; bypassing "purely multilateral" governance whereby decisions are made by all members according to collectively endorsed rules.

For example, in the case of the UN, the current financing system radically departs from the system originally envisaged in the UN Charter, according to which decision-making by the General Assembly would set the priorities and size of the budget through mandatory assessed contributions by member states. Similarly, the World Bank and other multilateral development banks' current financing systems have created a "bilateralisation" of these institutions: earmarked funding has extended their activities beyond the amounts mobilised through replenishments and increased the influence of groups of donors on specific priorities. This "bilateralisation" of multilateral organisations has also been discussed in previous editions of this report (OECD/DAC, 2010 and 2013).

Determinants of the "bilateralisation" of multilateral organisations are linked to existing governance structures and performance

There are several reasons why this "bilateralisation" has come about, according to the literature. Concerning the governance structure, the current financing system appears to result from a combination of the following three main factors:

- the decisional impasse produced by an increasingly complex multilateral system, in which competing interests make it harder to reach agreement (see, among others, Thompson, 2006; Tierney, 2006)
- actions taken by powerful members to sidestep the will of the majority (e.g. see Graham, 2012)
- the slow pace at which governance reforms reflect the greater relative importance of other sovereign donors (the so-called "emerging" donors), the new role of private for-profit and not-for-profit organisations in the development co-operation landscape, and the emergence of new global challenges[9] that may require customised governance and funding (e.g. see Jenks and Jones, 2013).

Relating to performance, the current financing system appears to have come about in response to donors' perceptions about inefficiencies in the multilateral aid system, as earmarked funding comes with ad hoc arrangements that allow closer donor oversight. In addition, as development co-operation is now receiving greater public scrutiny in many provider countries, donors are under increased pressure to demonstrate results. In this context, earmarked funding can be seen to respond to donors' need for greater accountability and visibility with respect to the amounts they spend on development co-operation (Reinsberg, 2013; Thalwitz, 2013; Weinlich, 2010).

The large reliance of multilateral organisations on earmarked funding affects – in turn – their performance and actual governance

The causal link between governance/performance and the current financing system of multilateral organisations, however, is not one-directional. More than just the result of governance and performance issues, with its large volumes of earmarked funds the current financing system shapes governance and performance. This is because, even within a given multilateral organisation, priorities and activities are increasingly governed by a multitude of governance structures that pool specific groups of donors, including beyond sovereign

member states. Moreover, as multilateral organisations increasingly rely on earmarked funds, they act more and more as hubs for development assistance delivery that compete with each other for funding. Therefore, despite the many potential and actual benefits of earmarked resources, this type of funding can be detrimental to the strategic and coherent allocation of resources and risks fuelling unhealthy competition for resources by multilateral organisations.

Looking at the reasons for providing earmarked funding may help predict where this funding is heading

It seems reasonable that as long as its root causes persist, earmarked funding will persist. Addressing the slow pace of governance reforms to reflect the greater relative importance of other sovereign donors, as well as multilateral organisations' actual and perceived inefficiencies, could therefore effectively shift the financing model. However, the need to close the large development financing gap with additional resources from public and private sources, the greater relevance of non-state actors in the development co-operation landscape, and the focus on thematic (even if cross-sectoral) Sustainable Development Goals are among the reasons why it is reasonable to consider that earmarked funding will continue to play a role in the multilateral funding system. Therefore, alongside addressing the slow pace of governance reforms to reflect the greater relative importance of other sovereign donors, it is essential that multilateral organisations promote reforms that improve their performance, transparency and accountability with respect to results, and that donors and multilateral organisations alike manage earmarked funding in ways that maximise its benefits while keeping its costs to a minimum. The recommendations in this chapter aim to contribute to taking such reforms forward to ensure financing for the multilateral system that is sustainable and conducive to better development results.

Unpacking donors' policies and practices on earmarked funding

DAC members see many advantages in using earmarked funding, but are also concerned by the associated costs

Stated preferences: visibility and the ability to shape multilateral organisations' agendas are the primary reasons for using earmarked funding

In the responses to the OECD/DAC Survey on Multilateral Aid Allocations, the most cited reason for using earmarked funding is the additional influence it allows in shaping a multilateral organisation's development agenda (mentioned by 14 out of 22 members).[3] In particular, DAC members report that earmarked contributions provide a means to align an organisation's agenda to their own priorities, address priorities that are not adequately covered by core funding and design more innovative programmes. The responses to the survey's open-ended questions suggest that DAC members feel they need to influence organisations' agendas when they are perceived not to adjust fast enough to emerging challenges. The answer also

indicate that they wish to give more prominence to specific thematic or geographic priorities, which would not be achieved as effectively without the legitimacy and convening power of these organisations. The second most cited reason for using earmarked funding (mentioned by 8 out of 22 members) is that it provides greater visibility of donor resources. Interestingly, out of the 8 donors citing this reason, 5 are large donors whose net ODA is over USD 5 billion.

Earmarked funding is perceived as a means to achieve better oversight, harmonisation and co-ordination

Survey responses reveal that donors see earmarked resources as a more effective way to monitor implementation and achieve results given the special requirements attached to it, including for reporting. Having special requirements in place may be particularly important when a donor feels that a multilateral organisation's quality assurance systems and practices are not sufficiently robust. In the case of multi-donor arrangements, donors report that earmarking can be a way to reinforce co-operation with like-minded donors on specific issues, to bring in specific expertise from various donors and to harmonise efforts in the field.

Smaller and "new" providers perceive earmarking as a way to reduce their own delivery constraints, to learn from multilateral organisations and to scale up their bilateral efforts

Survey responses suggest that, especially (but not exclusively) for small donors, earmarked funding allows specific thematic priorities to be targeted in regions or countries where they lack field presence or sufficient delivery capacity, and to meet pledges that require greater implementation capacity than they possess on their own. Small donors also see earmarked funding as a way to benefit from the expertise and professionalism of multilateral organisations' fund management, including financial controls, management oversight and investment management. In addition, some small providers have used multilateral organisations' expertise to establish new partnerships and to scale up their own efforts. For example, the Czech Republic has worked with the UN Industrial Development Organization (UNIDO) to establish a trilateral co-operation programme dedicated to supporting agribusiness development in Ethiopia and South Sudan. Korea has partnered with a number of multilateral organisations to scale up its comparative advantage for rural development in Southern Asia. At a time when the comparative advantage of multilateral organisations' "know-how" is believed to be decreasing because of the new sources of expertise now available (e.g. through emerging donors; see Kharas and Blomfield, 2013), these are examples of positive, win-win donor-multilateral organisation co-operation. The normative role, convening power and co-ordinating capacity of a multilateral organisation were successfully combined with the experience and specific knowledge of a bilateral donor.

Despite these benefits, providers also acknowledge that earmarking can increase costs and inefficiencies

High costs in terms of human resources employed for managing earmarked funds were explicitly identified as an issue by 15 of 22 respondents. In fact, providing earmarked funding entails negotiating the initial agreement as well as regular meetings to assess progress – adding to the workload of donors and multilateral organisations alike. Therefore, earmarked funding may be less expensive than bilateral implementation and yet more costly

and transaction-heavy for bilateral providers than one would expect. In addition, some DAC members are well aware of the risks in terms of duplication and overall reduced impact of earmarked funds (see Box 3.2).

No explicit strategies or policies for earmarked funding, and scattered decision-making, both hamper the strategic use of such resources

Most DAC members lack explicit strategies or policies for earmarked funding

Although responses to the Survey point to specific reasons why DAC members make use of earmarked funding, these are not elaborated in policy documents or strategies in which members articulate the objectives and comparative advantages of this particular type of funding. A handful of DAC members (5 out of 22 respondents) indicate having a policy or clear orientation for the balance between core and earmarked funding, although no DAC member has set a quantitative target for the ratio of core and earmarked funding. As discussed below, most DAC members make earmarked contributions on a case-by-case basis, and decision making about core and earmarked resources is often made by different parts of the administration. In this context the approach of Belgium and France stands out, as they have explicitly adopted a "maximum core" policy which is reflected in their allocations, as actual core contributions make up over 80% of their total funding to the multilateral system. Three other DAC members (Austria, Finland and the Netherlands) have committed to increasing core funding in their development policies; they currently provide 68-89% of their total multilateral funding as core contributions. Among DAC members the share of core contributions in total multilateral funding is smallest for: Iceland (35%), Australia (42%), the United States (50%), Norway (52%) and Canada (52%) (2013 data).

Some good practices are emerging to provide staff with better policy guidance on the management of earmarked funding

In most cases, there are no explicit policies to guide the use of earmarked funding. However, some donors are taking positive steps to provide guidance, which may be an emerging good practice. Most responding DAC members (16 out of 22) do not have policies, guidelines or criteria for using earmarked funding. In the few cases where they are in place, they lay out very broad and general principles such as alignment with the member's development co-operation policy or strategic interests, as well as pragmatic motivations including the promotion of new initiatives. Even if it is still too early to know their impact, it is positive that two DAC members have taken steps to provide more specific guidance on managing earmarked funding. The Australian aid programme has worked in 2014 to develop a department-wide trust fund management plan to provide guidance, training and assistance for establishing and managing trust funds. The United Kingdom established a strategy for World Bank trust funds in December 2012. This strategy introduced a set of principles that programme officers are expected to take into account before deciding to provide earmarked funding. One of the principles is to consult with the Department for International Development (DFID) lead department when making any decisions on supporting a new trust fund. In principle, this should allow the lead department to assess, for example, whether Umbrella Facilities – rather than a new trust fund mechanism – would provide an appropriate framework in a particular case. It would also ensure, in principle, that all funding decisions

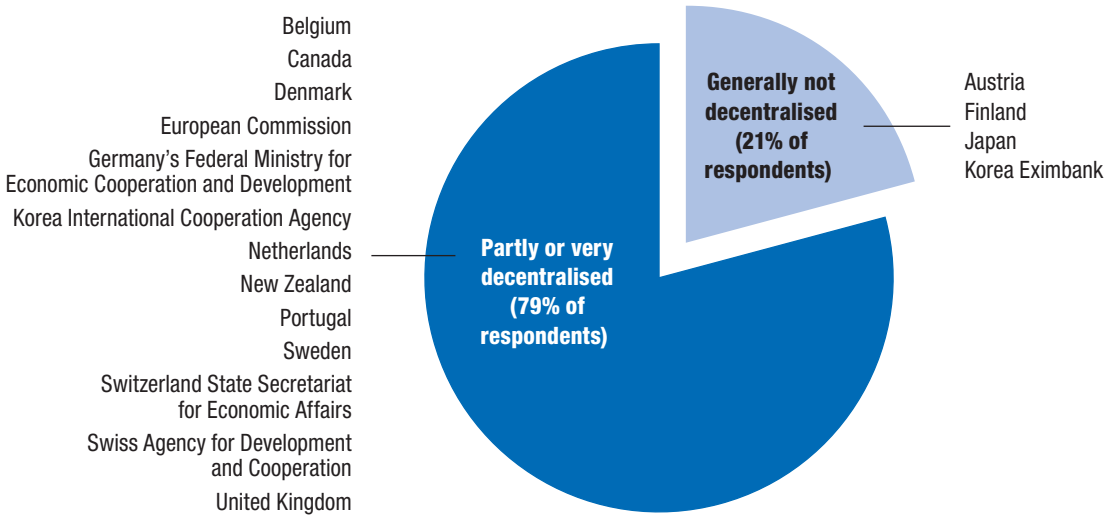
align to the prioritisations made by the Bank's Board. Although this is a promising reform, more time is needed before the United Kingdom can determine whether these guidelines have resulted in more coherent and effective provision of earmarked funding.

In addition, a few members with no explicit policy on earmarked funding have general provisions that favour joint approaches, predictable financing and harmonised procedures. For example, Belgium's 2011 Multilateral Policy Note explicitly discourages ad hoc financing to multilateral organisations (with the exception of humanitarian budget lines and the Belgian Survival Fund). Similarly, Denmark's guidelines on multilateral development co-operation establish that contributions to trust funds may be provided for special interventions in fragile states, but that priority should be given to multi-donor arrangements.

Donor decision-making on earmarked funding is largely scattered – either dispersed across the various departments/institutions and/or decentralised to the field

For each DAC member various ministries/institutions and several departments within the same ministry can provide earmarked resources to multilateral organisations. Moreover, in the case of several DAC members, core and earmarked resources to the same multilateral organisation are not managed by the same ministry/institution or by the same department in a given ministry/institution. This is because the core contributions of many DAC members to UN entities are made by line ministries – e.g. by the Ministry of Agriculture for the Food and Agriculture Organisation (FAO) or by the Ministry of Environment for the UN Environment Programme (UNEP) – while non-core resources to the same entities are extended by the ministry/department in charge of the bulk of the member's development co-operation, reflecting the donor's efforts to look for partnerships to implement the bilateral programme on the ground. The OECD/DAC 2012 Survey on the Levels of Decentralisation to the Field confirms the degree of decentralisation of earmarked funding, pointing out that 15 of the 19 development co-operation agencies that responded to the question reported that their "multi-bilateral" aid (earmarked resources) is partly or very decentralised (Figure 3.3.).

Figure 3.3 ***Fairly decentralised earmarked funding across DAC members' agencies***



Source: Responses to the 2012 OECD/DAC Survey on the Levels of Decentralisation to the Field.
StatLink http://dx.doi.org/10.1787/888933247153

Scattered decision making is leading to piece-meal allocations and limited strategic engagement with multilateral organisations

While the number of departments/institutions involved in decision making on multilateral funding does not necessarily imply sub-optimal allocation of funds, ensuring co-ordination and coherence in funding management practices is an issue for most donors. This scattered decision-making often results in uncoordinated decisions with three main negative impacts. First, donors lack a comprehensive overview of the total earmarked resources channelled through the multilateral aid system and of their overall impact. Most DAC members do not know the number of trust funds to which they contribute or the amounts involved. Therefore, asking the organisations directly is sometimes the only way they can obtain the information. This is confirmed by the fact that several DAC members indicated that compiling the information on trust funds to respond to the 2013 OECD/DAC Survey on Multilateral Aid Allocations was challenging. To address this issue, some organisations, particularly the World Bank Group, have started to offer donors portfolio reviews to provide them with a consolidated view of their contributions. The World Bank has so far conducted portfolio reviews with ten main donors, including Australia, Canada and the United Kingdom (see the following section on "unpacking multilateral organisations' policies and practices for managing earmarked funding").

Second, for most donors dialogue with multilateral organisations on earmarked resources takes place mainly at the operational level with little scope for strategic engagement. However, only engagement at a strategic level can help donors identify shared priorities and the most effective tools to achieve them. Instead, the dialogue between donors and multilateral organisations currently focuses for the most part on operational details, making these organisations implementing agents rather than institutional partners. In this respect, the strategic consultations the World Bank Group started in 2013 (and that some UN entities have with main donors) represent a positive start to help donors and multilateral organisations reflect on what they want to achieve together and how. For example, the United Kingdom has recently established annual portfolio reviews with UNDP and UNICEF that could potentially take its discussions with these organisations to a strategic level. According to the Survey, ten DAC members[4] report having regular portfolio reviews to assess and rationalise their multilateral funding. These exercises are limited in scope for the most part, as they only cover either the World Bank (encouraged by the donor portfolio reviews the Bank is now offering) or selected multilateral organisations, or funding from one ministry/institution. They do, however, represent a positive start to thinking through multilateral funding, its objectives and the best ways to achieve shared priorities. Carrying out strategic consultations and portfolio reviews could represent emerging good practice for the management of earmarked funding.

Donors need better vertical and horizontal communication to ensure that earmarked funding allocations reflect good practice and corporate engagements

Third, without systematic feedback from and to upper management, earmarked funding decisions – particularly at the country level – often do not take account of reforms that have been agreed at the senior level. DAC members should therefore invest in providing clear guidance on earmarking and ensure a co-ordinated two-way flow of information within their administrations. In this respect, establishing an office in charge of centralising all information on earmarked funding and supporting field offices, as in the case of United Kingdom, could be an effective step for some donors.

Box 3.2 *"In my view…" by Dr. Jürgen Zattler*

Dr. Jürgen Zattler is Deputy Director General, European Union and Multilateral Development Policy, of the German Federal Ministry for Economic Cooperation and development (BMZ).

In my view we need to improve the quality and management of earmarked funding and ensure a better alignment with the core business of multilateral organisations.

Effective multilateral organisations and international fora will be the bedrock of the post-2015 development landscape to jointly eradicate poverty, respond to global challenges, and secure and finance the provision of global public goods, as well as deliver sustainable development results. But are the multilateral organisations fit for purpose? Reviewing the recent Ebola crisis we have to ask ourselves whether the difficulties encountered were results of politics and policies we as donors have pursued vis-à-vis multilateral organisations in recent years. The facts and figures featured in the current DAC Report on Multilateral Aid document the steady and rapid increase of earmarked funding to multilateral organisations.

If earmarked contributions are well managed by donors and multilateral organisations alike and aligned with the respective multilateral organisations' core business, they can entail opportunities – such as financing innovation and global public goods, providing funds for fragile states, non-sovereign territories and states in arrears, or securing funds quickly in situations of humanitarian emergency. However, there are challenges posed by the increase of earmarked funding. Comparative advantages of multilateral organisations as agenda- and standard-setters, as donors of last resort in fragile and under-aided states and as development financiers risk becoming blurred. Earmarked funding often competes with multilateral organisations' core business. Due to high transaction costs, core resources are sometimes used to subsidise activities funded by earmarked contributions. Moreover, earmarked funding can undermine the decision-making power of governing bodies and bypass partner countries as the real beneficiaries of (multilateral) development co-operation.

Donors may have legitimate reasons for earmarking. Nevertheless, as bilateral donors, and founders and funders of the multilateral development system, we have a special responsibility to ensure that we make the best use of the multilateral organisations' comparative advantages. How can this be achieved? We have to be honest with ourselves and admit that a shift back towards a funding system which relies solely on core contributions is not realistic, especially given that it is politically not desired by many donors. Since we have to live up to the reality of earmarked funding, the crucial question now is: How can we ensure a better quality and management of earmarked contributions? As Co-Chair of the Busan Building Block "Managing Diversity and Reducing Fragmentation" and a member of the "Senior Level Donor Meeting on Multilateral Reform", Germany initiated a debate on joint principles to govern the earmarking of multilateral funding by bilateral donors. First ideas for such principles are: limited extra reporting or evaluation requirements, establishment of a clear strategy for the provision of earmarked funding, and the set-up of a focal point which monitors adherence to the principles.

…

Box 3.2 ***"In my view…" by Dr. Jürgen Zattler*** *(Continued)*

Moreover, preference should be given to soft earmarking against a country/region or a sector (but not against both!) and alignment of funding with the core business of the multilateral organisation should be ensured. A step even further is the financing of results in certain thematic areas beyond the "borders" of individual multilateral organisations, which is the aim of the newly created "Delivering Results Together Fund" in support of the "One UN" scheme. Multi-donor trust funds are certainly preferable over single-donor trust funds and they should be equipped with sunset clauses to prevent the perpetuation of earmarking. In addition, a minimum financial threshold for setting up trust funds may be warranted to guarantee a certain degree of significance.

In my view, we should make better use of the Results Frameworks, which have been introduced by most multilateral organisations, for adhering to the aforementioned principles. By linking earmarked contributions to the achievement of certain outcomes and indicators set out in the Strategic Plan or Results-based Management System of an multilateral organisation, bilateral donors can pursue their interest in monitoring the allocation of their funding, being visible and embark on a strategic (funding) dialogue with the multilateral organisation (and other funding partners) without undermining the multilateral organisations' efficiency and core business. Thus, Result Frameworks provide an opportunity for bilateral donors and multilateral organisations alike to improve the quality of earmarked funding and ensure its full alignment with the mandate of the respective multilateral organisation.

DAC members have different allocation practices on earmarked funding

The share of earmarked funding extended to multilateral organisations varies largely across providers

The largest providers of earmarked funding are the United States, the United Kingdom, Japan and Canada, which together accounted for 63% of all earmarked funding in 2013. Earmarked allocations ranged from USD 4.4 billion for the United States to USD 376 000 for the Slovak Republic. The share of earmarked funding in total multilateral funding also spans widely, from a low of 1% for the Slovak Republic and Greece to a high of 57% for Australia and 65% for Iceland, with a DAC country average of 31% (Figure 3.4, 2013 data).

The same donor can provide a very different mix of core and earmarked funding, depending on the multilateral organisation

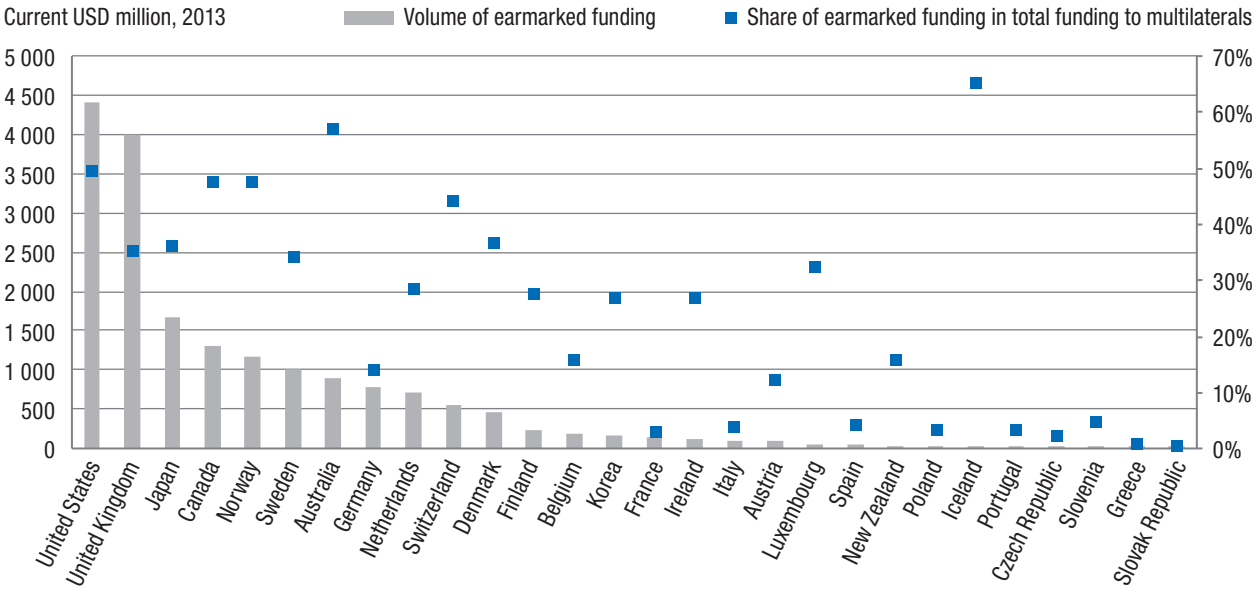
Since it represents an average across many recipient multilateral organisations, the share of earmarked funding in total multilateral funding is a partial indicator of a donor's provision of this type of funding. In fact, the analysis of individual DAC countries funding to 20 main multilateral organisations[5] shows that most donors provide a very different mix of core and earmarked funding depending on the multilateral organisation. Furthermore donors, for which earmarked funding represents overall a low share of their multilateral funding,

may be providing most of their funding as earmarked to a few multilateral organisations. As shown in Table 3.1, in 2013 seven DAC members[6] provided a smaller share of earmarked funding (33% or less) to at least half of the multilateral organisations they funded (highlighted in blue). On the other extreme, seven other DAC members[7] provided a large share (50% or more on average) to more than half of the multilateral organisations they funded.

Table 3.1 also shows that the same donor can provide mainly core contributions to some multilateral organisations and almost exclusively earmarked funding to others. For example, Norway provided all funding to UNOCHA as earmarked resources, 94-95% of funding to UNESCO, the International Labour Organization (ILO) and FAO as earmarked resources (95%, 94% and 94%, respectively), and mostly core resources to the International Fund for Agricultural Development (IFAD) (81%), the Inter-American Development Bank (IADB) (78%), OHCHR (78%) and UNRWA (75%).

The fact that most donors provide a very different mix of core and earmarked funding depending on the multilateral organisation can be explained (as suggested by the survey responses) by the fact that DAC members provide earmarked funding on a case-by-case basis, influenced by factors such as their own assessment of agency effectiveness, alignment between the multilateral organisation's policy mandate and their own development policy priorities, the mandate and international role of the multilateral organisation, and their own capacity to influence the organisation.

Figure 3.4 ***For the largest providers of earmarked funding, it can represent up to 50 % of their total funding to multilateral organisations***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink http://dx.doi.org/10.1787/888933247160

The same organisation may receive almost exclusively core from one provider and almost exclusively earmarked funding from another

The same organisation receives a very different mix of core and earmarked resources from different providers: while OCHA received 100% of funding as earmarked resources by most DAC members, other multilateral organisations such as FAO, IFAD and the UN Population Fund (UNFPA) received 100% as earmarked funding from some DAC members, but exclusively core funding from others. This could suggest that donors have different needs for multilateral organisations' expertise vis-à-vis their own; for example, DAC members rely to a different extent on various multilateral organisations for emergency operations or for implementation of their bilateral programme in the field. Furthermore, this could suggest either that multilateral organisations' performance is not a key determining factor for decisions about the core/non-core balance, or that donors' perceptions of the same multilateral organisation's performance diverge. Further research could help shed light on this point.

Providing large volumes of earmarked funding makes donors influential partners and gives them means to impose specific priorities on the multilateral organisations

The share of earmarked funding in total multilateral funding is not the only parameter that it is useful to consider. The total volume of earmarked funding is also telling. Large volumes of earmarked funds make donors extremely influential partners for some multilateral organisations. For example, in 2013 the United Kingdom alone provided 35% of total earmarked funding to the World Bank, Japan provided 22% of total earmarked funding to UNDP, and the United Kingdom, Japan, and the United States together provided more than half of all earmarked funding to UNICEF.[8]

Large providers of earmarked funds are more likely to request customised reporting on the use of resources, as in the case of the United Kingdom, which has requested the World Bank to adopt a specific due diligence policy for trust funds since 2013, and which is currently negotiating framework agreements with UNDP, UNFPA and UNICEF that establish specific accountability and reporting standards for that country's funds. From the perspective of multilateral organisations, it may be worthwhile to respond to requests for customised reporting from countries making large contributions even if doing so is an extra burden. In that respect, the organisation acts as a service provider and the donor as a client agreeing to a contract for the provision of a service. However, such a "market-like" approach may pose some challenges. In particular, when not fully recovered, the cost of administering activities funded with earmarked resources may be subsidised by core resources. In addition, donors' low tolerance for fraud and corruption may give rise to conditions that could be reasonable in a private market context but controversial in the context of a multilateral organisation. This is the case, for example, with respect to conditions for recovering funds where there is fraud when the organisation has not recovered the funds itself, which de facto translates into subsidisation of earmarked resources (paid by a few donors) with core resources (paid by the full membership of the organisation).

Preferences for the type of earmarking also vary across donors. In interviews with selected organisations it was pointed out that DAC members' preferences vary in terms of soft or hard earmarking19 and single or multi-donor arrangements. However, quantitative information regarding the various types, with which to further understand these patterns, is not available.

Table 3.1 *Most donors provide a very different mix of core and earmarked funding depending on the multilateral organisation*

Donors' shares of earmarked funding across 20 main multilateral organisations, 2013

	maximum	minimum	average	dispersion	above average
Slovak Republic	100% (UNDP)	0% (World Bank Group, OHCHR, UNFPA, FAO, ILO, WFP, WHO, UNDPKO, UN Secretariat, UNESCO, UNHCR)	14%	34%	15%
New Zealand	67% (ILO)	0% (WHO, UNESCO, OHCHR, UN Secretariat, IFAD, UNDPKO, UNHCR)	15%	21%	38%
Portugal	100% (UNFPA)	0% (UN Secretariat, WHO, OHCHR, WFP, UNESCO, World Bank Group, FAO, AfDB, IADB, UNRWA, UNICEF)	19%	36%	25%
Poland	100% (UNOCHA)	0% (WHO, UNECE, UN Secretariat, UNDPKO, ILO, OHCHR, UNFPA, World Bank Group, FAO)	20%	29%	33%
Slovenia	100% (WFP, UNHCR)	0% (UNDP, UNRWA, OHCHR, WHO, UNDPKO, World Bank Group, UN Secretariat, FAO, ILO)	21%	37%	21%
France	100% (UNOCHA, IFAD)	0% (AsDB, UNDPKO, IADB, UNESCO, OHCHR)	30%	38%	26%
Germany	100% (UNECE, UNOCHA)	0% (AsDB, OHCHR, IADB, IFAD)	32%	36%	40%
Austria	100% (UNOCHA, WFP)	0% (UNECE, UN Secretariat, OHCHR, UNDPKO, UNESCO, ILO, IFAD)	34%	36%	40%
Belgium	100% (UNOCHA)	0% (AfDB, AsDB, IADB, UNDPKO, UNECE)	37%	32%	47%
Ireland	100% (UNOCHA)	0% (AsDB, OHCHR, IFAD, UNDPKO)	38%	29%	47%
Italy	100% (UNOCHA, UNESCO, UNECE)	0% (AsDB, AfDB, IADB, IFAD, UNDPKO)	39%	37%	56%
Korea	100% (UNOCHA)	0% (AsDB, OHCHR)	40%	40%	37%
Czech Republic	100% (UNRWA, UNICEF, WFP, UNFPA)	0% (UNDPKO, World Bank Group, WHO, ILO, UNESCO, UN Secretariat, UNECE)	42%	47%	43%
Japan	100% (UNOCHA)	0% (IFAD, IADB)	44%	40%	47%
Luxembourg	100% (UNOCHA)	0% (IFAD, UNESCO, UNDPKO)	45%	36%	47%
Iceland	100% (WFP, UNOCHA, UNFPA, UNHCR)	0% (FAO, OHCHR, WHO, UNDPKO, UNESCO, ILO)	46%	42%	47%
Sweden	100% (UNOCHA, UNECE)	0% (IADB, IFAD)	46%	33%	50%
Denmark	100% (UNOCHA, IADB, IFAD, OHCHR)	1% (WHO)	46%	36%	47%
Netherlands	100% (UNOCHA, AsDB, UNDPKO)	0% (AfDB)	47%	32%	50%
Spain	100% (UNFPA, UNOCHA, UNICEF, IFAD, WFP, OHCHR, UNHCR)	0% (World Bank Group, UN Secretariat, IADB, UNDPKO, UNECE)	47%	45%	50%
Finland	100% (UNOCHA, UNDPKO)	0% (AsDB, UN Secretariat)	47%	35%	39%
Greece	100% (WFP, UNECE, OHCHR, UNHCR)	0% (WHO, UNDPKO, UNESCO)	50%	50%	50%
United Kingdom	100% (UNOCHA, UNECE, IFAD, IADB)	0% (ILO, UN Secretariat)	54%	39%	55%
Norway	100% (UNOCHA, UNECE)	4% (UNDPKO)	54%	31%	50%
Australia	100% (IADB, UNOCHA, UNICEF, UNHCR)	0% (OHCHR, UNRWA, UNESCO)	55%	39%	56%
Switzerland	100% (OHCHR, UNOCHA, UNECE)	2% (AfDB)	57%	30%	45%
Canada	100% (OHCHR, UNRWA, UNOCHA)	4% (UNESCO)	59%	34%	58%
United States	100% (UN Secretariat, UNRWA, UNOCHA, ILO, WFP, UNDP, UNESCO, UNHCR)	0% (IFAD, UNDPKO, IADB)	61%	43%	58%

Note: Above average = the share of multilateral organisations receiving a larger proportion of non-core than the average proportion the donor allocates across the 20 multilateral organisations.

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247892*

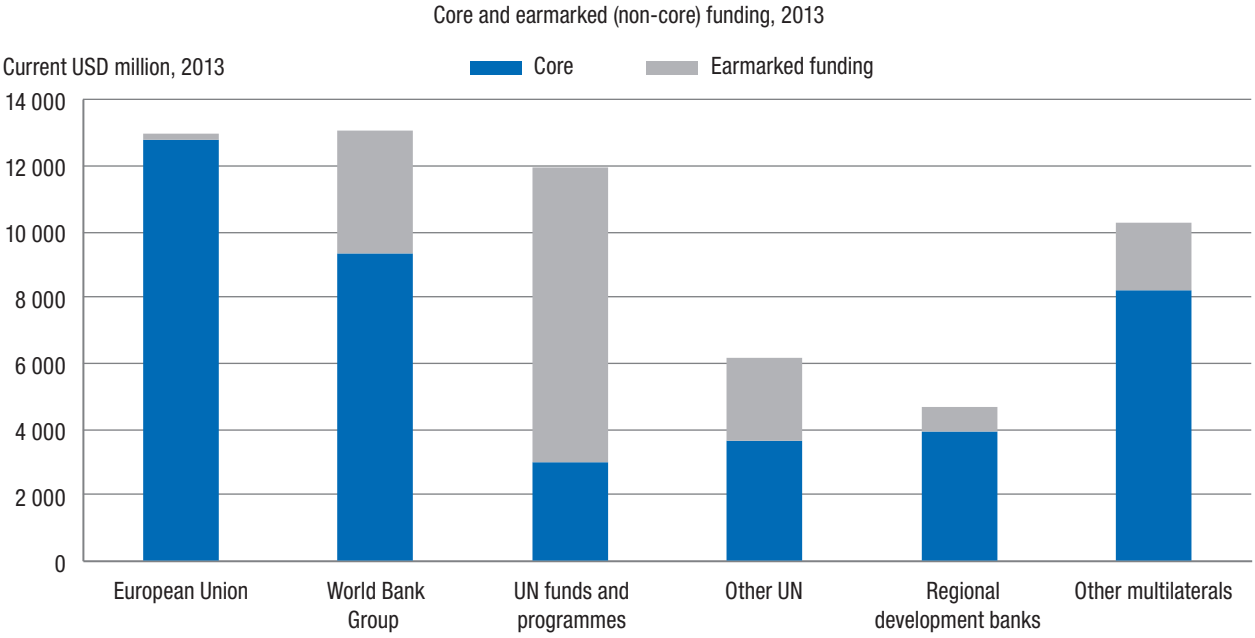
Unpacking multilateral organisations' policies and practices for managing earmarked funding

Earmarked funding presents opportunities and challenges for multilateral organisations

The UN and the World Bank Group are the largest recipients of earmarked funding

The UN received USD 8.9 billion and the World Bank Group USD 3.7 billion[9] in 2013. UN entities and the World Bank Group also have the highest "earmarked funding-dependency rate" (earmarked funding as a share of total funding), respectively 76% and 28% (Figure 3.5). From the perspective of multilateral organisations, growth in earmarked funding reflects both the preferences of many "traditional" donors for earmarked funding and the broadening of the funding base to new state and non-state actors. In 2013, funding to UN entities from non-state providers, such as private charities, non-governmental organisations (NGOs) and other multilateral organisations such as global funds, amounted to around USD 6.8 billion (up from USD 4.7 billion in 2012 (UN, 2014a and UN 2015); these resources all qualify as earmarked funding.

Figure 3.5 ***The United Nations and the World Bank Group are the largest recipients of earmarked funding***

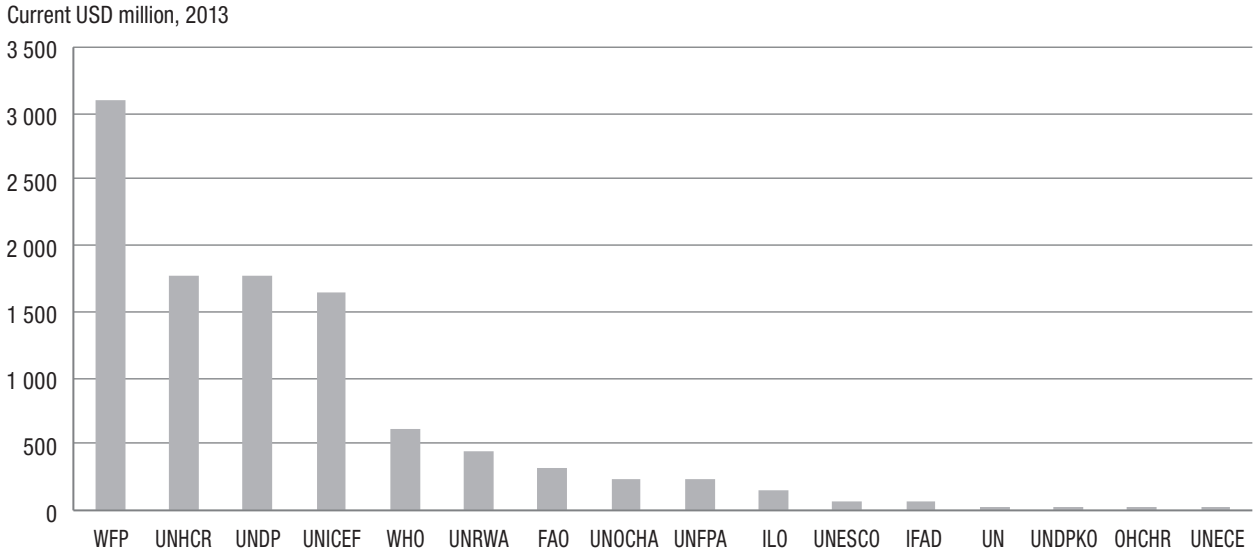


Notes: The European Union (EU) has provided the following clarification: "The EU is unique among DAC members in that it plays a dual role in development assistance. Although the EU is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources, it is often presented as a multilateral organisation in DAC publications for statistical purposes. This report reflects this dichotomy."

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247172*

Figure 3.6 **A few organisations receive the bulk of earmarked funding to United Nations entities**



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247186*

Within both the UN and the World Bank Group, earmarked funding takes a variety of forms

Although nearly 40 UN system entities received earmarked funding in 2013 for development and humanitarian activities, 85% of the funding is concentrated on five of them – WFP, UNHCR, UNDP, UNICEF and WHO (from largest to smallest recipient; see Figure 3.6). All UN entities have trust fund mechanisms to manage earmarked funds received from donors and vertical funds. In addition, the Multi-Partner Trust Fund Office housed by UNDP was established in 2004 as a one-stop shop fund which consolidates funding from multiple partners for implementation by multiple UN agencies and provides the UN system and national governments with dedicated administrative services for earmarked funds. The MPTF Office currently hosts 55 trust funds. Unlike the World Bank, it only acts as the trustee while all decisions on allocations (implementation) are made at the field level. The World Bank Group hosts over a thousand trust funds, with funding from around 200 different donors. It classifies trust funds according to three main categories:

- International Bank for Reconstruction and Development/International Development Association (IBRD/IDA) trust funds used to support activities implemented/supervised by the IBRD/IDA, which can be either bank-executed or recipient-executed
- Financial Intermediary Funds, which are multilateral financial mechanisms that finance global development initiatives (the World Bank acts as financial trustee and provides financial intermediary services)
- International Finance Corporation (IFC) trust funds, which support IFC advisory services and investment initiatives and are managed by IFC.

Earmarked funding has allowed both the UN and the World Bank Group to expand their activities beyond what would have been possible with core funding alone

As the growing component of multilateral funding in an environment of stagnating core contributions, earmarked funding has allowed both the UN and the World Bank Group to expand their activities. In the case of the UN, this increase has translated into an expansion of development and humanitarian activities compared to its norm- and standard-setting activities. Earmarked funding (trust funds) has allowed the World Bank Group to fund operations where its lending instruments are unavailable, such as in cases where the borrower is not a World Bank member country or (in the case of IDA) has allowed higher levels of funding in fragile situations.[10]

Earmarked funding can be transaction heavy for multilateral organisations, and costs are not always recovered

While donors point to the cost of additional human resources as a major downside of earmarked funding, managing earmarked funds can also be extremely burdensome for multilateral organisations due to negotiating efforts aimed at reaching agreement on the uses of funds as well as additional administrative costs, including those stemming from added reporting requirements linked to earmarked funding. Multilateral organisations charge donors a percentage fee as a recovery cost, but there are diverging positions between institutions and donors on the adequateness of the fee levels. Several donors claim the fees are not transparent and would like to receive an itemised report of incurred costs to make sure earmarked resources do not subsidise core activities. On the other hand, multilateral organisations claim that core resources are actually subsidising non-core activities (e.g. see UN, 2012), with fees often not allowing incurred costs to be fully recovered. This issue is also presented as core contributors subsidising donors that provide earmarked resources. As it is mainly "traditional donors" (DAC members) that make use of earmarked resources,[11] this issue could be source of tension among shareholders of the multilateral system, in which "emerging donors" and recipient countries could potentially be subsidising some of the additional costs associated with the administration of earmarked funds. This is a main reason why the question of cost recovery features prominently in the reform agenda of both the UN and the World Bank,[12] as detailed below.

Earmarked resources display low predictability, which makes it difficult for multilateral organisations to carry out integrated planning for core and earmarked resources

As discussed in Chapter 2, several donors make multi-annual commitments for non-core resources, which means that once secured, these resources may be even more predictable than core resources.[13] However, earmarked resources remain uncertain by nature, as multilateral organisations do not know at the outset whether they will be receiving such resources. For example, it was estimated that while total year-to-year movements of total earmarked contributions to UN entities were fairly smooth, earmarked funding from individual sources was more volatile, with 67% of 2013 earmarked contributions by main donors changing by more than 20% compared with the previous year (UN, 2015).

Separate decision-making processes for core and earmarked resources have also hampered strategic and coherent allocations, although good practices are emerging

At the start, in both the UN and the World Bank Group, earmarked resources had separate negotiation, implementation, and monitoring processes. The World Bank Group has made progress in integrating its trust funds into its core business from an operational point of view, so that the same business processes are applied to all Bank-funded activities.[14] For many UN entities, however, the decision-making processes for core and earmarked resources are still separate, although the implementation of the Quadrennial Comprehensive Policy Review (QCPR) requires the adoption of integrated budgets. Steps have, however, been taken by UNDP, UNFPA, UNICEF and UN Women in this direction (see also the section on QCPR below).

UN reforms – an ambitious agenda

Agency-specific and system-wide reforms have run along parallel tracks and need to be better aligned

Compared to the World Bank Group, management of earmarked funding in the UN system presents a higher level of complexity, as the system is composed of nearly 40 entities receiving this type of funding and operating according to different business models and procedures, including for funding windows and trust fund mechanisms. Over the past decade, several individual UN funds, programmes and agencies have adopted specific measures to address funding issues either indirectly – through reforms aimed at improving performance[15] and communication on results, and thus at attracting more core funding or more flexible and better quality earmarked funding[16] – or directly, through strategies to diversify and consolidate their resource base (Box 3.3). At the same time, the UN system as a whole has put in place several reforms with important implications for its financing system and performance, including Delivering as One, the Multi-Partner Trust Fund, and the 2012 QCPR. These initiatives signal the UN's commitment to undertake the transformations needed to respond to today's development challenges. Some of these initiatives have fostered substantial improvements. The specificities of the individual agencies and some elements of the configuration of the overall UN system could, however, challenge full implementation of these reforms. Donors have a role to play in bridging system-wide reforms with reforms adopted by individual UN entities. In addition, donors themselves need to align to these UN reforms, so that their behaviour and allocation decisions do not stand in the way.

Some progress is being made in implementing the promising reforms of the 2012 Quadrennial Comprehensive Policy Review

The QCPR Resolution is celebrated by donors and UN agencies alike as a major achievement as it provides clear strategic priorities and direction for reforming the UN development system. With respect to financing, the QCPR stresses the importance of core resources while acknowledging the increasing weight of earmarked resources. It encourages those providing earmarked funding to enhance the "quality" of such funding, prioritising

pooled, thematic and joint funding mechanisms at the global, regional and country levels.[17] It also requests:

- a definition of "critical mass of core resources".
- adoption of integrated budgetary frameworks comprising core and non-core resources.
- implementation of full cost recovery.

Since its adoption in 2012, some progress has been made in implementing the QCPR. By promoting greater alignment to strategic priorities, multi-year and multi-donor funding, and less cross-subsidisation of core and non-core resources, the QCPR touches upon issues that are crucial for the UN to be able to function well. These issues have also been recognised as fundamental elements for the longer term positioning of the UN development system (ECOSOC Dialogue; UN, 2015). However, the different business models and management systems present a major challenge for implementation. The current reform discussion nevertheless provides an excellent window of opportunity for donors to support the UN in implementing the changes it needs to be fit for delivering in the post-2015 era.

In 2014, structured dialogues on the "critical mass" of core resources helped to advance towards a common understanding of the meaning of this term. Out of 22 responding UN entities, 17 worked to define common principles for the concept of critical mass (UN, 2014b). However, different definitions are still being explored, not just across UN entities but also within the same UN entity. In its implementation, the concept of the critical mass of core resources will need to reflect the specific mandates and business models of each organisation (Box 3.3).

The executive boards of UNDP, UNFPA, UNICEF and UN Women developed multi-year strategic plans for the period 2014-17 and introduced integrated budgetary frameworks comprising core and non-core resources as a step forward. Furthermore, at the end of 2014 a total of 17 UN entities consolidated all projected core and earmarked resources within an integrated budgetary framework (UN, 2014b). These frameworks will allow an allocation of both core and non-core resources that is more in line with the multilateral organisations' strategic priorities. They will also offer donors the opportunity to provide contributions that fit more closely with the UN agencies' strategic priorities and that are more predictable, covering up to the entire three-year span of the strategic plans.

In addition, by the end of 2013, 11 UN entities[18] (including UNDP, UNFPA and UNICEF) introduced harmonised cost recovery frameworks to improve the transparency and consistency of development project costing to address a long-standing concern that core resources may have subsidised non-core activities (UN, 2014b). However, rather than implying that these entities adopt the same cost recovery fees, "harmonised frameworks" imply that the fees charged aim to avoid cross-subsidisation between core and non-core resources, according to the cost structures of individual organisations. In practice, the UN Secretariat and specialised agencies (e.g. FAO, ILO, UNESCO and WHO) still have a standard support cost rate of 13% for funds-in-trust, while the UN programmes and funds (e.g. UNDP, UNFPA, UNICEF and WFP) have raised their standard indirect support cost rate of 7% to 8%.

The Multi-Partner Trust Fund Office has successfully reduced costs for donors and promoted softer earmarking, but larger buy-in, predictability and flexibility of funding, and reduced costs for multilateral organisations remain key challenges

Hosted by UNDP, the MPTF Office provides fund administration services to the UN system and national governments. It receives funds from donors, invests them, transfers them, and receives financial reporting on results. The MPTF Office then compiles the information in annual reports for donors. This model accommodates various ways of raising and allocating resources.

The key objectives of establishing the MPTF were to reduce transaction costs and increase coherence and co-ordination. Indeed, donors and UN entities with no implementing capacity such as the Peacebuilding Fund (PBF) see a clear advantage in fund administration by the MPTF Office because of the reduced transaction costs, increased transparency on cash, and shifted fiduciary responsibility. UN entities with implementing capacity, however, sometimes have less of a clear incentive to delegate funds administration to the MPTF Office, preferring direct administration of resources. A recent evaluation (Downs, 2011) highlighted that the MPTF Office lowered transaction costs mainly for donors, while it increased them for the resident co-ordinator office (which plays a role in allocation decision making to ensure that country priorities are met and overall UN coherence is preserved) and the implementing agencies. Increased transaction costs mainly stem from the new processes established to ensure greater co-ordination, coherence and national ownership, showing that increased coherence and co-ordination come at a significant short-term cost of organisational and staff time.[19] Therefore, the system needs to be prepared to support these costs and at the same time attempt to streamline co-ordination processes.

The MPTF mechanism was also expected to improve the quality of funding to UN agencies by increasing the predictability and flexibility of funding thanks to multi-year funding arrangements and softer earmarking. However, as suggested by interviews with UN agencies, MPTF funding is declining and it represents a shrinking share of funding for many UN entities. Furthermore, it is often less predictable and less flexible than other earmarked financial sources because of late decisions by the MPTF Steering Committee, approvals on a project-by-project basis, and tighter monitoring. In addition, while some high profile UN priorities have received greater continuity in funding by a large set of donors, the evaluation of MPTF did not find clear evidence of more frequent multi-year commitments under the MPTFs than under other donor funding agreements. Interviews carried out with UN staff and the MPTF evaluation both suggest, however, that earmarking with respect to the funds administered by the MPTF Office is softer today than in the past, and that earmarking is softer under the MPTFs than in trust funds managed by individual UN entities.

To ensure that funds are used for strategic objectives, and to reduce transaction costs for the MPTF, there are discussions about setting a financial threshold for the creation of trust funds. Different thresholds could be set depending on the administrative agent, to reflect its cost structures and the services provided, or on the likely number of allocations or the time-horizon of the fund.

Box 3.3 *"In my view…" by Michael O'Neill*

Michael O'Neill is Assistant UN Secretary-General, United Nations Development Programme (UNDP).

2015 is a landmark year. World leaders have big decisions to make in Sendai, Addis Ababa, New York and Paris. These four global conferences offer a major opportunity to strengthen international co-operation for sustainable development and resilience. The issues are not new. But such an opportunity to address them decisively and comprehensively is rare and must be seized. Current debate on how to make multilateral organisations fit for purpose for the post-2015 era is therefore particularly timely.

The UN Secretary-General's synthesis report on the post-2015 development agenda challenges governments to transform their economies and societies on to a path of sustainability (UN, 2014c). At the same time, the UN system is taking a hard look at itself to improve its performance, in particular the support we offer at country level. This includes practical steps to enhance the current form, function and funding of the UN development system.

Funding for the multilateral system has grown at an average rate of 6% a year since 2007, primarily driven by increases in earmarked funding. This is also apparent in UNDP's funding. As the UN's largest development organisation, UNDP receives voluntary contributions from various sources and in different forms. Regular or "core" resources average about 20%, with the other 80% as earmarked contributions from bilateral agreements (42%), funding from developing countries spent on their own development needs and South-South co-operation (19%), funding from vertical funds and other sources (14%).

Core resources are essential as they allow us to be strategic and responsive to countries' needs – in 2014, 90% of UNDP's core resources went to low income countries (LICs) and 74% to least developed countries (LDCs) – and to respond swiftly to crisis. Earmarked resources are equally vital, as they allow us to deliver key development interventions at scale. However, the current concentration of highly-earmarked and projectised funding brings constraints, including high transaction costs, limited flexibility, and a risk of lack of strategic focus.

For instance, UNDP financial data show that most country programmes are successful in mobilising resources beyond core funds. A closer look at these aggregate figures, however, shows how earmarking has led to an imbalance in resources across countries' needs and Strategic Plan outcomes. In a bid to reverse this trend, we are currently reviewing our funding framework and advocating for a higher proportion of core and minimally earmarked resources – a concept we have termed "critical mass plus".

The objective is to secure a larger and more stable base of core resources, to allow UNDP to prioritise and ensure a predictable flow of funding to the poorest countries; and at the same time to increase the proportion of minimally earmarked resources, to provide the flexibility needed to reach the poor and extreme poor wherever they live.

…

Box 3.3 **"In my view…" by Michael O'Neill** *(Continued)*

To achieve this, we are creating new funding windows to help optimise and rationalise the number and management of UNDP's earmarked funding channels. With better incentives built into their design, the new funding windows will allow for performance-based approaches to fund allocations, lower transaction costs – leading to improved traceability between contributions and results, and greater efficiency and effectiveness.

The review of our funding framework is part of an intensive drive to be more efficient and effective. This includes the adoption in 2013 of a Strategic Plan for 2014-17 that is more ambitious and more focused – centred on a vision of eradicating poverty and reducing inequality. We have instituted a multi-year integrated budget, with a single framework to map resources and results. We have reshaped HQ structures to be less top-heavy and more streamlined, while moving staff out of New York to increase support to Country Offices. We take transparency ever more seriously – in 2014 we were independently rated the most transparent aid organisation in the world. And we have aligned our functions and structures to better deliver and report results, with more investment in monitoring and evaluation.

UNDP values every contribution it receives from its partners, working to support priorities and needs of each country and region, in line with our mandate and global offer set out in the Strategic Plan. We are working hard to enhance our own effectiveness to remain a partner of choice for delivering sustainable development solutions. Our extensive overhaul of strategy, structures and delivery, with new funding windows to become operational in 2016, will make us better "fit for purpose" to offer that support.

Positive steps have been made towards adopting system-wide reporting on UN operational activities for development

The UN is taking concrete steps to improve accountability. An integral part of implementation of the QCPR is the setting of a QCPR monitoring framework, which was developed by the UN Department of Economic and Social Affairs (UN DESA) (UN, 2014a). The framework promotes important improvements regarding the coverage and comparability of system-wide funding (UN, 2013c, 2012). UN DESA collaborates with the OECD/DAC with the aim of enhancing the overall coherence and comparability of these two sources of statistics.

World Bank Group reforms – an ongoing effort

Reforms are moving from operational to strategic alignment of trust funds

In 2007 the World Bank launched a series of reforms under the Trust Fund Management Framework (WB, 2007). The Bank's trust fund reform has been under way since then, progressively moving from a focus on increasing the alignment of trust funds from corporate standards and rules to the corporate strategic focus. The new strategy of the World Bank Group

emphasises the importance of partnerships and highlights trust funds as a key instrument – if not *the* instrument – for engaging with partners beyond World Bank membership. Some of the key elements of the recent trust fund reform are outlined below.

The World Bank's strategic consultations with providers and portfolio reviews has supported the streamlining and consolidation of trust fund portfolios

Compared to the fiscal year 2011, the number of active trust fund accounts in 2012 decreased from 1 072 to 1 064. These figures reflect a decline in the number of IBRD/IDA trust funds from 748 to 720, an increase in the number of IFC trust funds from 273 to 290, and a slight increase in the number of financial intermediary funds, which represent the largest share of funds held in trust (61%). The aggregate dollar value of these trust funds has not varied significantly. The value of the funds held in trust by means of financial intermediary funds grew by 68% between the fiscal years 2008 and 2012, mainly because of the expansion of the Global Fund and the Global Environment Facility (GEF) and the creation of the Climate Investment Funds (CIF) (WB, 2012).

This encouraging start in consolidation is the result of the World Bank's efforts to enter into strategic consultations with donors and offer them portfolio reviews. Through these consultations the Bank aims to help donors rationalise the number of accounts by closing down dormant funds or shifting smaller funds into larger accounts. For example, DFID reduced its portfolio from 220 to 175 accounts within one year. Many donor countries have conducted strategic reviews (Joint Donor Trust Fund Portfolio Reviews) of their growing trust fund portfolios, which has supported efforts to consolidate accounts. Between 2011 and mid-2013, the Bank conducted trust fund portfolio reviews with ten major donors34 and strategic consultations with several donors.[20]

The World Bank also appears to have been successful in encouraging donors to close down single-donor trust funds. Over the last five years, 144 single-donor trust funds have been closed and multi-donor trust funds now account for about 50% of active trust funds, up from 30% five years ago (WB, 2012). Concerning multi-donor trust funds, the Board recently endorsed the "exit letter", an instrument proposed by the Bank to enable donors to leave ongoing programmes while establishing clarity about what will happen regarding leftover donor funding. The Bank has encouraged the establishment of multi-donor instead of single-donor trust funds by introducing a threshold of USD 1 million for single-donor trust funds in 2008, raised to USD 2 million effective July 2013.

Umbrella Facilities are an innovative approach but some concerns remain – for donors and country-level integration

The World Bank is seeking to better match donor interest with Bank priorities for more strategic use of the funds. Following the recommendations by the Independent Evaluation Group (IEG, 2011), the Bank has worked towards greater "upstream" selectivity, including through the establishment of Umbrella Facilities. The Bank considers these a good practice, as they help match donor interest with Bank priorities for more strategic use of funds. Moreover, since donors cannot earmark specific activities with Umbrella Facilities, this is a fairly flexible source of funding. The Bank has currently established such arrangements for capacity building, gender, trade and education.

While they are good practice for the World Bank, donors may have some concerns about Umbrella Facilities. For example, for donors they may have limited ability to participate in fund management and to obtain both financial and results reporting tailored to their needs. The Bank appears to be working to address these concerns, however, through measures such as improvements to its results frameworks. The new Management Framework for Partnership Programs and Financial Intermediary Funds will also be relevant, as it will clarify participation in governance, decision making and risk management. Another source of criticism is that although allocations of Umbrella Facility resources are made through block grants,[21] the thematic focus of Umbrella Facilities can hinder a cross-sectoral perspective and fragment dialogue at the partner country level. Both the World Bank Group strategy and interviews with Bank officials point out, however, that the Bank is fully aware of these risks and plans to work towards minimising them. For example, the World Bank Group strategy emphasises that "The World Bank Group also needs to ensure that its global engagements complement country programs and that any conflicts are productively reconciled. […] Trust funds and partnerships must be managed to contribute to and align with the World Bank Group's country-based work and global program initiatives" (WB, 2013).

Enforcing standardised governance clauses

New trust funds include certain standardised governance clauses to facilitate management. Sunset clauses set a clear end date for the trust fund instrument and clarify what happens with respect to residual funds. These clauses reflect the idea that trust funds should be temporary financing mechanisms for specific aims, and they prevent the growth of dormant funds. Standardised fees also reduce the Bank's transaction costs. If donors wish to maintain specific requirements, standardised yet differentiated fees that reflect the additional burden imposed on the Bank could increase the incentive for donors to provide un-earmarked contributions to trust funds.

However, donors have asked the Bank to refine its lifecycle approach. In other words, they are asking the Bank to introduce clear principles for entry and exit and to be stricter in closing trust funds that are no longer needed or in regard to which the Bank does not play an important role. Donors have called for refinement of the criteria for setting up a trust fund. At its July 2013 Board Meeting, donors suggested the Bank consider the impact that a trust fund may have on further fragmentation of the multilateral aid landscape.

Towards some replicable good practices for providing and managing earmarked funding

Earmarked funding has increased dramatically in the last decade. It has become a conspicuous source of funding for multilateral organisations working on development. Earmarked funding entails opportunities and challenges for all stakeholders. This is why increasing the effectiveness of earmarked funding features prominently on the international political agenda. While multilateral organisations' greater transparency and communication on results could lead to less tight earmarking/more core funding, the sectoral focus of the Sustainable Development Goals and the need to leverage public and private resources in the

post-2015 era suggest that going forward this funding will still be relevant. Therefore, donors and multilateral organisations alike will need to manage earmarked funding in ways that maximise its benefits while keeping its costs to a minimum.

This chapter outlined the main features of the practices of donors and multilateral organisations in managing earmarked funding. It also discussed some reforms put forward to address key challenges posed by this type of funding. UN and World Bank reforms have similar objectives, aiming at alignment and at a consolidated and more strategic dialogue on earmarked funding with funding partners. These reforms present an excellent window of opportunity for donors to look for ways to support the transformations that multilateral organisations need to undergo in order to respond more effectively to development challenges in a post-2015 era.

While so far some bilateral providers took concrete steps to reinforce the coherence and complementarity of their policies and practices on the use of the multilateral system, bilateral donors need to revise their policies and funding practices in a view to provide better quality earmarked funding: more predictable, more flexible, more strategic, etc. At the same time, a critical mass of core resources will remain fundamental for multilateral organisations to be able to carry out their mandates. Therefore, providers need to help ensure such critical mass and continue to support the reforms on earmarked funding that organisations are implementing in a view to be more effective development partners. Existing platforms, including the Building Block on Fragmentation and Diversity of the Global Partnership for Effective Development Co-operation and the UN Development Co-operation Forum can be used to promote dialogue and identify good practices.

While acknowledging that the use of earmarked funding can be a politically sensitive issue, the review in this chapter leads to a number of recommendations:

- **Providers should base their use of earmarked funding on evidence and strategic considerations about when and why this type of funding may be the most suitable option.** Donors should not use earmarked funding when other funding options can achieve better outcomes or when the same outcome could be achieved through core resources. When they choose to earmark funds, they should select the arrangement/modality that is most likely to maximise impact. This will require continued efforts from donors to support the evidence base needed to inform their decisions. It will also require deeper internal reflection on the overall balance between bilateral and multilateral co-operation, including earmarked funding, and on the various funding instruments available. Finally, it will require strategic discussion with multilateral organisations on shared objectives to achieve through earmarked contributions.

- **Providers should give guidance on the use of earmarked funding with a view to support good practices and enhance internal coherence.** It is important that reforms supported at the top management level of donor agencies are not over-ridden by day-to-day practices at other administrative levels. For this reason, top management commitments on earmarked funding reforms should translate into clear directions for staff. A better flow of information is also needed from bottom to top to create a comprehensive view of earmarked contributions and collect first-hand experiences of what works best. For some donors it could be useful to establish a central unit for earmarked funding, tasked with providing guidance and assistance and centralising information flows on earmarked funding.

- **When extending earmarked funding, providers should carefully consider the implications of their requests and the conditions they set.** Donors should especially consider the consequences of their special requests, so that conditions negotiated bilaterally do not undermine the multilateral organisations' commitments to other members. In addition, donors should support multilateral organisations' effort to strengthen their overall results frameworks and avoid ad hoc formal and informal monitoring and reporting on earmarked funding.

- **Providers should support multilateral organisational reforms aimed at multi-year strategic frameworks and achieving results.** Integrating processes and procedures for core and earmarked resources will be an important step to ensure more strategic and coherent use of all resources available. Greater transparency with respect to results will be key to building trust and softening the parameters underpinning earmarking.

Some of these recommendations build on the principles presented in OECD, 2013 ("Box 4.10. Principles to reduce the proliferation of multilateral channels"); others reflect emerging good practices. Developments discussed in this chapter show that donors and multilateral organisations are making good progress – but they can do more and have much to learn from one another. These recommendations are a further step in promoting use of the multilateral system so as to maximise impact for partner countries and mitigate the risks associated with earmarked funding.

Notes

1. This chapter draws on five main sources of information: i) statistical data from the OECD Creditor Reporting System (CRS); ii) responses by 22 DAC members to the 2014 OECD/DAC Survey on Multilateral Aid Allocations (henceforth "the Survey"); iii) semi-structured personal interviews conducted in October 2013 with WBG officials and staff from a range of UN entities; iv) semi-structured interviews with representatives of selected multilateral organisations conducted between January and May 2014 in the framework of the OECD/DAC peer reviews; and v) desk research. Data reflect gross disbursements excluding the EU and debt relief, unless otherwise specified. The 22 responding DAC members were: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, the Slovak Republic, Slovenia, Switzerland, the United Kingdom and the United States. (At the time the Survey was conducted, Poland was not yet a DAC member.) The UN entities were: the UN Development Programme's (UNDP) Multi-Partner Trust Fund Office (MPTF Office), the UN Children's Fund (UNICEF), the UN Department of Economic and Social Affairs (UN DESA), the UN Development Programme (UNDP), the UN Peacebuilding Fund (UNPBF) and the UN Population Fund (UNFPA).
2. The World Health Organization (WHO) (62%), the Food and Agriculture Organization (FAO) (65%), the Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) (67%), the UN Development Programme (UNDP) (68%), the UN Children's Fund (UNICEF) (73%), the UN Refugee Agency (UNHCR) (82%) and the UN Economic Council for Europe (UNECE) (87%).
3. The answer was elicited through the open question: "In your view, what are the main advantages of contributing earmarked funding to multilateral organisations, for example to a trust fund, rather than providing core resources?" (Question B8 in the Survey).
4. Australia, Belgium, Canada, the Czech Republic, Italy, Korea, New Zealand, Switzerland, the United Kingdom and the United States.
5. The World Bank Group, six UN funds and programmes (UNDP, UNFPA, UNHCR, UNICEF, the UN Relief and Works Agency for Palestine Refugees in the Near East [UNRWA], WFP), nine UN agencies (FAO, the International Fund for Agricultural Development [IFAD], the International Labour Organization [ILO], OHCHR, the UN Department of Peacekeeping Operations [UNDPKO], the UN Economic Commission for Europe [UNECE], the UN Educational,

Scientific and Cultural Organization [UNESCO], the UN Office for the Coordination of Humanitarian Affairs [OCHA] and WHO), the UN Secretariat, and three regional banks (the African Development Bank [AfDB], the Asian Development Bank [AsDB], and the Inter-American Development Bank [IADB]).

6. France, Germany, New Zealand, Portugal, Poland, the Slovak Republic and Slovenia.
7. Greece, the United Kingdom, Norway, Australia, Switzerland, Canada and the United States.
8. These figures refer to all earmarked funding from DAC countries.
9. This figure does not include the amounts provided to large World Bank trust funds such as the Global Environment Facility (GEF) and the Global Fund to Fight AIDS, Tuberculosis and Malaria, which are recorded in the DAC statistical system as core multilateral aid.
10. The Bank also stresses that trust funds have allowed it to scale up work on global public goods, such as knowledge or climate change, and to pilot innovations (WB, 2012).
11. In the past few years non-DAC members have significantly stepped up their financial contributions to multilateral organisations with a developmental mandate. However, their share of earmarked contributions is still small compared to that of DAC members. While comprehensive data are not available on non-DAC members' earmarked contributions to all multilateral organisations, if funding to the UN from its top 50 donors is considered, non-DAC members provided 6% of total non-core resources. See data in the statistical annex to UN (2012).
12. The World Bank moved from a marginal cost recovery approach, which was justified when earmarked funding constituted a small addition to its overall portfolio, to one of full cost recovery. In addition, in 2012 the Bank launched a Trust Fund Simplification Study to explore options to further simplify IBRD/IDA trust fund fees and reduce the need for customised arrangements.
13. The United Kingdom presents an interesting case, as core contributions are conditional on performance (as assessed, for example, though the Multilateral Assessment Review, MAR) and thus more unpredictable, while earmarked funding is not
14. Recipient-executed trust funds (RETFs) follow the operational processes that apply to regular Bank loans and credits, and Bank-executed trust funds (BETFs) follow the processes that apply to the Bank's administrative budget. In addition, in 2012 the Bank launched a new initiative on Trust Fund Business Process Integration on its Operations Portal and developed the Integrated Planning System (IPS) to integrate BETF administrative expenditures in budget planning (WB, 2013).
15. For example, in a report prepared for UN DESA for the QPCR it was highlighted that the various UN agencies interviewed for the study had implemented many initiatives aimed at improving results-based management in their respective organisations (Bester, 2012).
16. For example, to reduce the transaction costs entailed by single-donor trust funds and increase the flexibility of earmarked resources, UNFPA has established two thematic trust funds: the Global Programme to Enhance Reproductive Health Commodity Security, and the Maternal Health Thematic Fund. Similarly, UNICEF has established nine thematic trust funds for the seven priority areas of its 2014-17 strategic plan as well as for gender and humanitarian aid.
17. ECOSOC resolution E/2013/L.17 on Progress in the implementation of General Assembly resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system.
18. NDP, UNFPA, UNICEF, UN Women, UNEP, the UN Human Settlements Programme (UN-Habitat), UN Office on Drugs and Crime (UNODC), UN Office for Project Services (UNOPS), WFP, FAO and WHO.
19. The evaluation also suggests, however, that the trust funds hosted by individual agencies may be a more appropriate choice for receiving single or multi-donor funds when these are meant to be used solely by the recipient agency or to be used by partners working completely under the programmatic mandate and responsibility of the recipient agency.
20. These included Denmark, Finland, Korea, the Netherlands, Norway, Sweden, the United Kingdom and the European Commission.
21. Block grants are *a priori* principle-based funding allocations to Bank units that are then further managed in the context of strategic priorities the Vice Presidential Units (VPUs) and consistent with the trust funds' objectives and results frameworks.

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Chapter 4

Global pooled funding mechanisms and other instruments to earmark funding: how effective are they on the ground?

The past decade has seen a rapid growth in the funding sources and instruments used to foster inclusive growth in developing countries, including a wider array of multilateral funding mechanisms. This chapter describes the complexity of these mechanisms from a partner country perspective using a case study on Tanzania as an illustrative example. The chapter also provides a comparative analysis of the effectiveness of global pooled funding mechanisms and other instruments to earmark resources in: i) promoting country ownership; ii) providing stable/predictable flows; iii) contributing positively to the co-ordination of development partners and reducing fragmentation; iv) leveraging resources/knowledge from partners beyond the members of the OECD/DAC; and v) innovating. As the global community reflects on the post-2015 development agenda, evidence on the relative strengths and weaknesses of various multilateral mechanisms can help providers choose the most appropriate mechanisms for specific needs and enhance their effectiveness.

The chapter includes an "in my view…" piece by State Minister Ahmed Shide, from the Ministry of Finance and Economic Development of Ethiopia.

Summary of main findings and recommendations

The case study on the United Republic of Tanzania (hereafter Tanzania) illustrates that more sources and instruments of development finance are now available to developing countries, including more multilateral sources and instruments. Global pooled funding mechanisms and other earmarking instruments have inherent strengths and weaknesses in terms of their ability to:

- promote country ownership.
- provide stable and predictable flows.
- improve the co-ordination of development partners and reduce fragmentation.
- leverage resources and knowledge from partners beyond the members of the OECD Development Assistance Committee (DAC).
- promote innovation.

The differences mainly stem from these instruments' particular arrangements and business models. However, the recipient country context (e.g. income levels and situations of fragility) also plays a role in determining outcomes in terms of effectiveness. This is because the country context influences the overall volume of earmarked funding, its relative importance compared to other forms of development finance, and the leadership and bargaining power of partner countries.

Vertical funds and global pooled funding mechanisms have been successful in leveraging financial resources and knowledge beyond the DAC (especially from private foundations). They also created partnerships with or incentives for businesses to invest in new technologies and solutions. Their inclusive governance structures and business models have been highly innovative and spurred innovative approaches to targeted development challenges. However, the evidence regarding their ability to promote country ownership is mixed. As regards co-ordination among providers, despite some improvements, vertical funds often create challenges because they use parallel co-ordination mechanisms. Finally, there is evidence that vertical funds at country level are more volatile than other earmarked funding mechanisms. This could be, however, linked to the specific life-cycle of programmes and future research could shed light on the extent to which such volatility actually results into actual lack of predictability for partner countries.

Other examples of pooled funding mechanisms include the country-specific multi-donor trust funds (MDTFs), which tend to perform better on average than other multilateral earmarked funding mechanisms in promoting ownership and co-ordination, but have been only marginally able to innovate and to leverage resources and knowledge from providers beyond the DAC. The ownership of country-specific MDTFs, however, has been hampered in practice by the use of parallel structures and earmarking within the pooled fund.

The One United Nations (UN) Fund, which is a specific MDTF, was conceived as a gap-filler for the UN country programmes, which are generally well-owned by partner countries due to a highly consultative process throughout the programme cycle. However, funding to the One UN Fund is declining and although accepted by prevailing UN guidelines, donors are increasingly earmarking resources within this fund, which complicates management of the

One UN Fund. This phenomenon introduces a secondary system of prioritisation – reducing the value and power of initial consultations and negotiations with the partner country, and limiting partner country ownership overall. As the UN plans to take the Delivering as One initiative to a global scale, it will be important to promote further harmonisation at headquarters, simplify co-ordination procedures that are often articulated around overly complex joint programming, and create the right incentives for UN entities to co-ordinate. UN MDTFs generally provide an opportunity to engage with a broader set of stakeholders. Providers beyond the DAC, however, have so far extended funding to a small number of MDTFs for relatively small amounts of funding. Nevertheless, despite still being limited, their pooled contributions are rising, especially in support of peace and security and in fragile situations.

For other earmarked funding, either single-donor or pooled, performance depends on the extent to which these mechanisms are integrated into the processes and procedures of the multilateral institutions that receive them. In the case of the UN, this type of funding needs to fall within the set of priorities identified by the UN Development Assistance Framework or UN Development Assistance Plan, which is generally developed in consultation with the partner country and reflects their needs. Therefore, donors' earmarked funding of this kind would be roughly aligned to partner country priorities. In the case of the World Bank Group, activities funded through trust funds are currently managed fairly independently by the trust fund managers (at country level or at headquarters) and may or may not feed into discussions held within in-country co-ordination structures. These mechanisms, in general, have not been found to promote innovative development solutions. Of the 27 most recent independent evaluations of World Bank Country Assistance Strategies, only one makes explicit reference to the use of trust fund resources to pilot new programmes, and both the sectors funded and modalities adopted for the use of trust fund resources suggest that the level of "content" innovation is low.

Meeting the Sustainable Development Goals will depend heavily on using the most appropriate multilateral channels and modalities for providing concessional finance to developing countries. Bilateral providers should use available evidence assessing the strengths and weaknesses of various multilateral mechanisms to guide their funding decisions across channels. They should also foster greater effectiveness by helping to address the key challenges these mechanisms face, and learn from the lessons of the past when establishing new funding mechanisms.

Different features and challenges for multilateral channels at country level

The past decade saw rapid growth in the array of sources and instruments available to fund development in developing countries (OECD, 2014a). The number of multilateral mechanisms through which development is financed on the ground has also increased. Large vertical funds and global pooled funding mechanisms (e.g. Gavi and the Global Fund) have emerged and established themselves as large sources of funding in some countries. Bilateral providers have increasingly earmarked funds[1] for specific purposes through country-specific pooled funding mechanisms, such as the Afghanistan Reconstruction Trust Fund and the post-tsunami reconstruction fund for Aceh and Nias in Indonesia. Bilateral providers have used different instruments to earmarked resources and Box 4.1 sets out a taxonomy of relevant earmarked funding mechanisms at country level.

These various funding mechanisms impact differently on partner country ownership; volatility and predictability of flows; the fragmentation and coordination of development partners; and opportunities to include partners beyond the DAC. In addition, while these mechanisms have so far been assessed mainly against programme and project outputs, more recent literature has started to examine the unintended systemic effects that some of these mechanisms have (see for example on vertical funds Kapilashrami et al., 2013). This chapter presents a case study on Tanzania to illustrate the complexity and consequences of different earmarked funding mechanisms. It then extends the analysis beyond the case of Tanzania to provide a broader comparative analysis[2] of the implications of different types of earmarked funding mechanisms from the country level perspective. It makes recommendations to enhance these funding mechanisms and the allocation of resources across them.

Tanzania: The multi-faceted nature of global pooled funding mechanisms and other instruments to earmark resources

In the past decade Tanzania's economic growth has been sustained, but poverty remains widespread. In 2013, Tanzania was the seventh largest recipient of net ODA worldwide (USD 3.4 billion, or 11% of the country's gross national income). The top five providers accounted for 61% of total net ODA, and yet Tanzania's development co-operation landscape is far from being concentrated; more than 40 providers are active in Tanzania and 33% of total ODA is disbursed by 88% of all providers (Figure 4.A1.1 in Annex 4.A1). With a large number of actors present, Tanzania has long recognised the need for better co-ordination of development partners and it has set up one of the most complex development co-ordination structures in Africa. However, this structure has proven process-heavy and has not allowed providers to deepen the policy dialogue with the government or to align better to the government's priorities. Providers' fiscal years are not aligned and reporting requests are not synchronised. Providers approach the government individually even within sector programmes and pooled funds. They are pulling out of general budget support and reducing pooled and basket funding and returning to project funding. (Annex 4.A1).

Between 2007 and 2012, 26% of all flows extended from and through multilateral organisations was earmarked funding (USD 412 million). In 2013 these funds were mainly concentrated in the health and humanitarian sectors (65%) and were provided largely by Canada, Germany and the United Kingdom (67% of the total) (Figure 4.1). All types of earmarked funding mechanisms are found in Tanzania. Global pooled funding mechanisms and vertical funds provide considerable volumes of funding and the Global Fund is among the ten largest sources of concessional funding. Tanzania is a Delivering as One pilot country, with a One UN Fund. Three multi-donor and multi-agency funds are managed by the UN Multi-Partner Trust Funds Office: the Tanzania One UN Fund; the Expanded Delivering as One Funding Window; and UN-REDD[3] (for a total of USD 117 million in 2010-14, approved budget). The World Bank Group had 24 active trust funds as of April 2014. Between 2009 and 2013 there was a portfolio of recipient-executed trust funds of USD 72 million (commitments), whereas the portfolio of the International Development Association (IDA) totalled nearly USD 3 billion. UN entities rely on earmarked funding to different extents.

The main findings from the case study of Tanzania on the various forms of earmarked funding are summarised here:

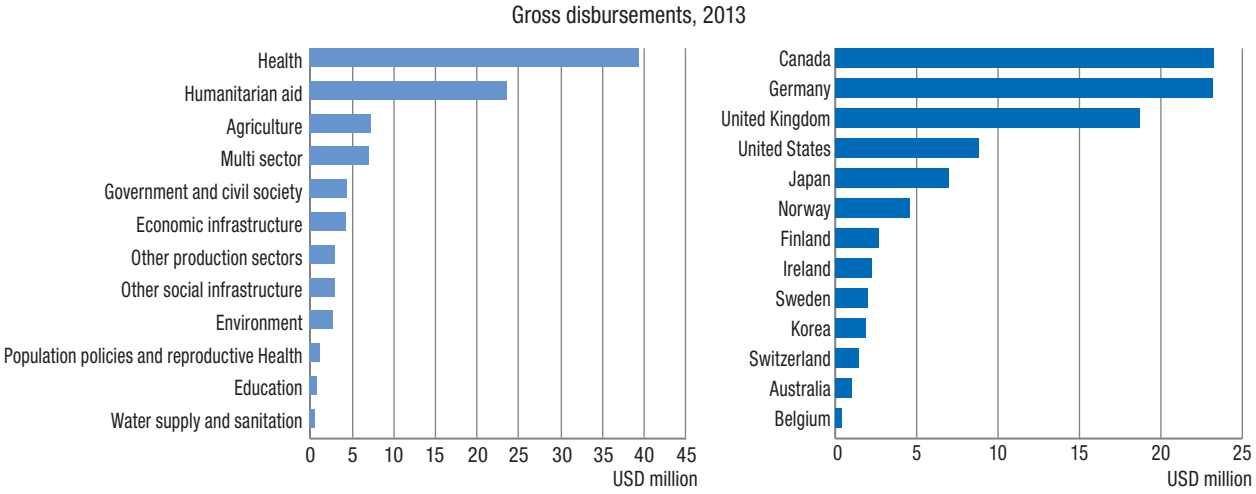
- **Context matters.** The analysis of earmarked funding in Tanzania should be framed in the context of the expected growth in the country's domestic revenues and the country's good implementing capacity. These elements strongly affect the extent to which providers rely on multilateral organisations for implementation. Since 2009, data show a decline in earmarked funding in Tanzania (excluding flows from global and vertical funds). Interviews with representatives from both bilateral providers and multilateral organisations suggest that implementation by multilateral organisations is limited by the fact that donors can rely on national capacities for implementation. Some multilateral organisations even emphasised that, as Tanzania's economic position improves and service-delivery needs increase, they would expect increasing demands for service provision. Global pooled funds largely rely on national structures for implementation. Overall, this suggests that the relationship between providers, multilateral organisations, and Tanzania is changing.
- **Some provider behaviours undermine the potential benefits of pooled funding mechanisms.** While providers recognise that they can rely on Tanzania's own implementing capacity, funding through country-level pooled funding mechanisms is declining (Annex 4.A1). This suggests that besides the country context, the overall situation is affected by other factors – such as provider behaviours, including donor fatigue.
- **Different business models and procedures across UN entities lead to significant differences in the benefits and disadvantages of managing earmarked funding.** While for some UN entities the costs and risks of earmarked funding are of particular concern, a smaller number of UN entities (less dependent on earmarked funding) consider earmarked funding similar to any other funding source.
- **Global pooled funding mechanisms/vertical funds have different impacts, largely depending on their governance structures and business models.** Gavi and the Global Fund, which provide considerable volumes of finance to Tanzania, stand out as donors in their own right rather than pass-through mechanisms. For large and influential providers, it can be difficult to strike a good balance between ownership and accountability. In practice, their relation with the Government of Tanzania promotes ownership to different extents. Some other global funds, such as the Global Environment Facility (GEF), are less visible from a partner country perspective, as there may be no direct interaction except when the grant agreement is officially signed. In these cases there is room to increase alignment to partner country priorities through the implementing agencies' consultation and negotiation processes with the government, in the framework of their overall portfolio.

Effectiveness of global pooled funding mechanisms and other instruments for earmarking resources

On the whole, almost one-third of all concessional flows by and through multilateral organisations (hereafter referred to as "multilateral concessional financing") to developing countries is composed of earmarked funding (including from global pooled funding mechanisms) (29% in 2013). However, for many small islands and fragile states earmarked funding represents the largest share of multilateral concessional financing (Figures 4.2 and 4.A3.1). Global pooled funding mechanisms[4] are less focused on fragile states, as opposed to other earmarked funding mechanisms (Figure 4.A3.2).

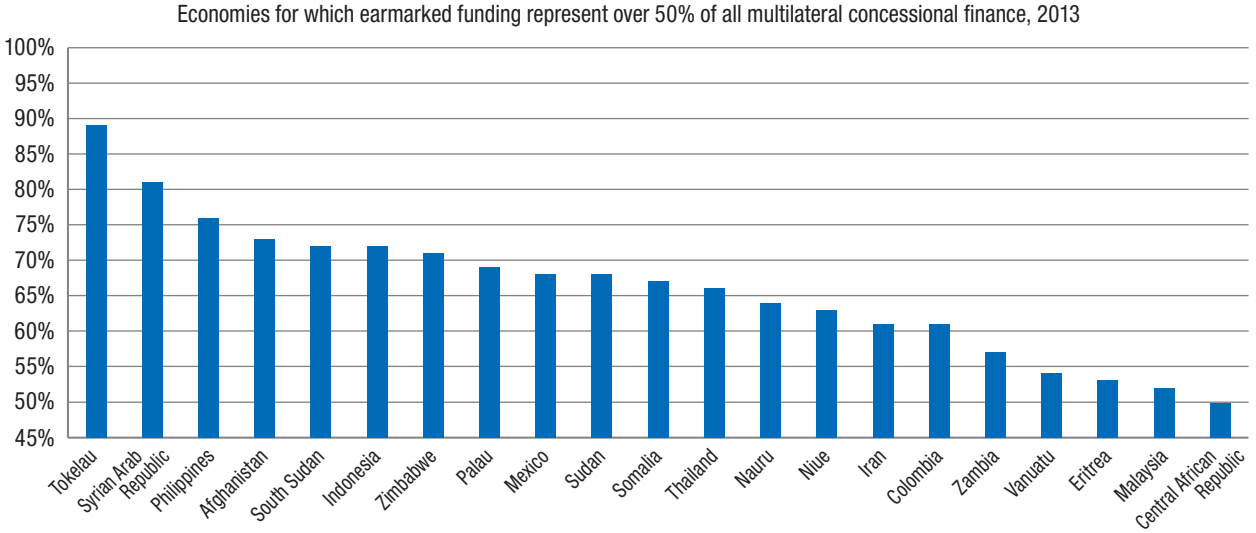
The reminder of this chapter unpacks the effectiveness of global pooled funding mechanisms and other instruments used to channel resources through multilateral mechanisms and organisations (Box 4.1) by examining their ability to: i) promote country ownership; ii) provide stable/predictable flows; iii) improve the co-ordination of development partners/reduce fragmentation; iv) leverage resources/knowledge from partners beyond the DAC; and v) innovate. The first three dimensions derive from the "traditional" Paris aid effectiveness agenda. The other two – leveraging resources beyond the DAC, and innovation – have gained momentum more recently. All five dimensions will be essential in delivering the post-2015 development agenda.

Figure 4.1 ***Earmarked funding to Tanzania by sector and provider***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
StatLink *http://dx.doi.org/10.1787/888933247194*

Figure 4.2 ***For several small islands and fragile states, earmarked funding represents over half of all the multilateral concessional financing received***



Note: The list of fragile states used to classify countries is the one in Figure 0.1 in *States of Fragility 2015: Meeting Post-2015 Ambitions* (OECD, 2015).
Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
StatLink *http://dx.doi.org/10.1787/888933247206*

Box 4.1 A taxonomy of relevant earmarked funding mechanisms at country level

Country-specific multi-donor trust funds operate in a wide range of contexts: humanitarian, transitional and development. They are commonly administered by the UN, the World Bank Group or both, but six have national authorities as their administrative agent: the Democratic Republic of the Congo's National Fund for Reducing Emissions from Deforestation and Forest Degradation (REDD+); Ethiopia's Climate Resilient Green Economy Facility; the Ecuador Yasuni Capital Window; the Ecuador Yasuni Revenue Window; the Mali Climate Fund; and the Mali Stabilisation Fund (Fonds National de Stabilisation Economique et Sociale du Mali). There is no standard governance structure for these funds, but a governance structure often includes: i) a deliberative body that sets policy, generally with participation by national authorities; ii) a funding decision body made up of contributing providers and usually national authorities; iii) a project review body; and iv) a secretariat that services the other three bodies. Some MDTFs (e.g. the Liberia Reconstruction Trust Fund and those in Sudan and Haiti) combine in one body the functions of policy deliberation, funding decision making, oversight, and financial and implementation monitoring Other MDTFs (e.g. the Afghanistan Reconstruction Trust Fund) have a dedicated committee that makes funding decisions.

Other multi-donor trust funds, such as the One UN Fund. Apart from some that are country-specific, other UN-administered multi-donor trust funds include the One UN Fund and the UN Peacebuilding Fund (PBF). The One UN Fund was established in 2007 within the framework of the UN Delivering as One reform. "One Budget" is one of the pillars of Delivering as One. Its intention is to strengthen joint planning and co-ordination through coherent mobilisation, allocation and disbursement of resources in accordance with the One UN Programme at country level. Delivering as One began in 2007 with pilots in eight countries (Albania, Cabo Verde, Mozambique, Pakistan, Rwanda, Tanzania, Uruguay and Viet Nam), and an independent evaluation of lessons learned from the Delivering as One pilot phase was completed in 2012. A second generation of Delivering as One is now being implemented in some 40 countries. Delivering as One is expected to be brought to scale globally.

Vertical funds and global pooled funding mechanisms. These funds are created to respond to specific global or thematic challenges in multiple recipient countries or regions. This definition largely coincides with the funds the World Bank classifies as Financial Intermediary Funds (FIFs). There are 16 active FIFs. The FIFs received USD 30 billion in fiscal years 2002-10, accounting for over half of all World Bank trust fund contributions (IEG, 2011). Each FIF was established in an ad hoc way, many as part of high-level political initiatives. In this chapter, global pooled funding mechanisms are considered as pooled earmarked funding mechanisms as they usually allow to earmark resources for specific purpose, especially critical and time-bound initiatives. The International Development Association is technically a World Bank trust fund, yet it considered, both in OECD/DAC statistics and in this chapter, as an organisation in its own right (core funding), given its governance structure and its role within the World Bank Group. In this chapter, specific reference is made to three FIFs: the Global Environment Facility, the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) and Gavi.

...

Box 4.1 ***A taxonomy of relevant earmarked funding mechanisms at country level*** *(Continued)*

Other earmarked funding. Other earmarked funding may come from a single donor or various donors. It is most often initiated at country level. The weight of such funding in the overall portfolio of a multilateral organisation may vary significantly from country to country and across different organisations.

Effectiveness dimension 1: partner country ownership and capacity development

Some argue that multilateral co-operation would promote greater partner country ownership since it limits the scope for individual providers to pursue their own interests (Barder, 2012; Klingebiel, 2013; Milner and Tingley, 2013). However, earmarked funding can potentially reduce partner country ownership as it may reflect the priorities of bilateral donors in the form of conditions applied to the use of funds (Powell and Bobba, 2006).

Among the multilateral earmarked funding mechanisms, country-specific multi-donor trust funds (MDTFs) should in principle perform best in terms of supporting partner country ownership, as their governance structure is meant to reflect the country's specificities and to include high-level representatives of government officials. In practice, however, country ownership of these funds is weakened by: i) providers earmarking through "preference systems"; ii) development partners' impatience for quick results; and iii) the use of parallel structures. The One UN Fund finances the joint UN programme, which is generally found to be owned by recipient governments. However, the One UN Fund accounts for only a small fraction of funding for the UN programmes and is often unable to fill the funding gap, and cannot yet be considered a powerful instrument for promoting ownership. Among pooled funding mechanisms, the ones that best foster ownership are those whose governance structures and business models encourage country leadership and dialogue processes on an equal footing.

Country-specific MDTFs show the strongest potential to support partner country ownership, but providers' practices and built-in features of these funds can weaken ownership

Among earmarked funding mechanisms, country-specific MDTFs show the highest potential to support partner country ownership. Originally these funds were explicitly conceived to release public sector capacities spent on negotiations with bilateral partners (Barakat, 2009) and designed to engage in a dialogue on shared priorities and the means to pursue them. Compared to global pooled funding mechanisms and vertical funds, the governance of country-specific MDTFs is generally specifically tailored to the country's situation and meant to include high-level representation from government officials.

In addition, country-specific MDTFs are commonly designed to align with country systems, including public financial management systems. In this way, the MDTF should enhance partner country capacities to design, financially manage, implement and monitor development and/or reconstruction (Box 4.4).

In practice, the outcomes in terms of ownership of country-specific MDTFs are mixed, conditional to country context and donor practices. In higher-income countries it seems easier to find positive examples of strong ownership of country-specific MDTFs. This is due in part to stronger national capacities and also to the reality that MDTFs allow access to grant resources otherwise unavailable once the country has transitioned away from concessional financing by International Financing Institutions. In post-crisis and fragile situations, where these funds are providers' preferred modality, several assessments point to weak governmental involvement and thus little opportunity for ownership and capacity building. These countries often lack clear legitimate interlocutors and/or have limited or non-existent institutional capacities, leading to providers driven processes. This is why prioritising capacity building from the outset is an essential part of fostering ownership of these funds and promoting the use of country systems. Providers' practices in terms of "use of preference systems", impatience for quick results and use of parallel structures would also affect ownership (Box 4.2).

Box 4.2 *Enhancing ownership of multi-donor trust funds – areas for potential reforms*

There is much that the development partners community can do to enhance the ownership of MDTFs. A number of challenges undermine potential for countryspecific MDTFs to support ownership and build capacities:

Side-stepping governance of the fund. Donors have often wanted to retain influence not just over the scope and policy framework of funds, but also over the details of how the funds are channelled and spent. This is why – alongside often micromanaging funds at the project level – donors finance several MDTFs through a system of "preferences" (i.e. soft earmarking by means of which the donors select which part of the MDTF portfolio to finance), which undermines a MDTF's flexibility as well as limiting the government's role in decision making. Through this system donors lock in resources for specific purposes, creating rigidities for programming and increasing pressure to disburse to preferred areas. These practices slow down MDTFs, which become risk averse and bureaucratic-nullifying some of the main advantages the MDTFs are meant to bring.

Appetite for quick results and setting parallel structures. Irrespective of the long-term goals established for country-specific MDTFs, these funds are given relatively short timeframes, with a tendency to expect "too much too soon" because of donors' impatience for quick results and rapid disbursements. Then, when progress is not fast enough, donors tend to switch again to direct execution of projects and programmes undermining existing local democratic institutions, formal governmental channels and national capacities.

Recommendations in this regard are presented in the conclusions at the end of this chapter.

Source: Barakat et al., 2006; Barakat, 2009; Byrd, 2007; Goodhand and Ludin, 2010; Scanteam, 2007, 2010.

Vertical funds and global pooled funding mechanisms: size, governance structure and business models affect ownership

There is a substantial difference between vertical funds that become large sources of funding at country level and those that channel relatively smaller amounts. When a global fund features among a country's top providers (as is the case for Gavi and the Global Fund in several countries) it is well placed to hold a meaningful dialogue with national authorities around large-scale programs for funding. However, dependency on the fund's resources gives it leeway to impose conditions and requests. The business model and governance structure of these funds therefore play a key role in promoting or deterring partner country ownership. Gavi, which in 2012 was among the 10 largest donors in 12 developing countries, is generally assessed positively on ensuring partner country ownership, and it has demonstrated a strong commitment to work closely with partners (CEPA, 2010; MOPAN, 2012). Regarding the Global Fund, both Kapilashrami et al (2013) writing about India, and interviews in Tanzania suggest that the increased focus on results-based management and accountability following allegations of fraud led to excessively rigid conditions and micromanagement of funds. Care should be taken in generalising from findings reported from two countries.

Ownership is limited for programmes funded by vertical funds that are relatively small at the country level. This is the case, for example, for the GEF and other vertical funds that channel considerable volumes globally but are not large sources of funding at country level. Programmes funded through these funds largely remain outside the negotiations between the partner country and the implementing agency's country assistance strategy. Interviews conducted for this study suggest that line ministries would only be involved at the stage of signing off on the grant. To improve ownership, global funds are now placing greater emphasis on co-financing as a way to enhance ownership and sustainability. For example, GEF has tripled its co-financing share between 2005 and 2013 (GEF, 2013, 2008). The World Bank Group has reformed its organisational structure to better integration of thematic concerns in country-level programming. It is now based on 14 global practices and 5 cross-cutting areas that assemble experts and knowledge with no compartmentalisation based on geographical areas. In addition, the World Bank Group has developed Country Partnership Frameworks (to replace the Country Assistance Strategy), in which better integration of trust funds is explicitly envisaged.

Country ownership of activities funded through the One UN Fund is good, but providers' buy-in is limited

Another multi-donor fund, the One UN Fund, finances the joint UN programme, which is generally found to show good ownership by recipient governments due to a highly consultative process throughout the programme cycle. "One Budget", one of the pillars of the Delivering as One UN reform, is intended to support coherent resource mobilisation and allocation of donor resources in accordance with the One UN Programme. However, the One UN Fund often does not fill the funding gap it is intended to fill is therefore not yet proven to be a powerful instrument for promoting ownership. The Survey of Resident Coordinators (UN, 2013b) indicates that resources from pooled funds, including the One UN Fund, account for less than 20% of total resources. In addition, only a few donors contribute to the One UN fund, with the top five donors accounting for 83% of all commitments (UNEG, 2012).

In Tanzania, which has been a pilot country for the Delivering as One initiative, the sustainability of the One UN Fund is currently in question, with funding decreasing due to the withdrawal of some of the main donors and others starting to earmark within the fund, although accepted by prevailing UN guidelines. As is the case with other MDTFs, earmarking introduces a secondary system of prioritisation that reduces the value and power of initial consultations and negotiations with the partner country, limiting ownership. In Tanzania too the UN country team was considering a new prioritisation to shrink the scope of the programme to fit available resources.

Effectiveness dimension 2: stable and predictable funding

Development co-operation flows can be very volatile – significantly more so than other resources for development such as domestic revenues (Bulíř and Hamann, 2006, 2003; Hudson and Mosley, 2008). While there can be volatility for good reasons, such as in response to unanticipated emergencies (IMF, 2005), reducing uncertainty about future aid flows remains essential to allow partner countries to manage public finances effectively and undertake realistic planning for development (OECD, 2011b). No studies seem to have analysed whether there is a substantial difference in volatility between bilateral and multilateral flows. However, the OECD, which usually makes such a distinction on predictability,[5] found that in 2010-13 deviations of actual aid disbursements from indicative plans[6] were larger for multilateral organisations than for DAC members (OECD, 2014b). There are also differences across multilateral organisations, with UN entities exhibiting less difference between forecasts and actual disbursements than multilateral development banks when only considering core funding (country programmable aid[7]).

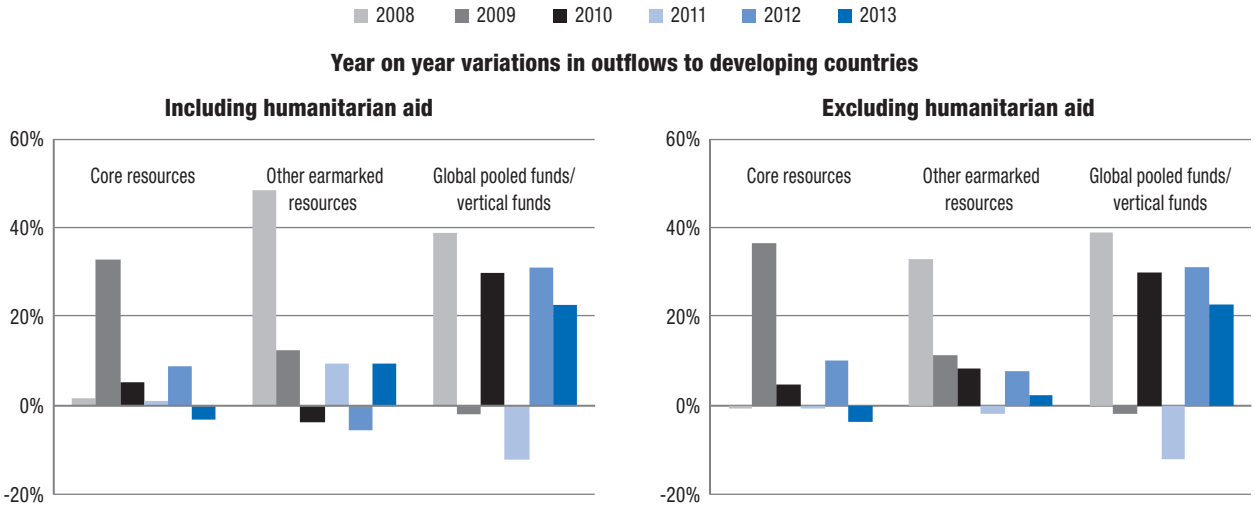
Earmarked funding – especially from vertical funds and global pooled funding mechanisms – tends to be more volatile than core resources

Examining flows to developing countries from core resources, global pooled funding mechanisms and vertical funds, and other earmarked resources, suggests that: i) flows from global funding mechanisms and vertical funds and other earmarked funding mechanisms tend to be more volatile than core outflows; and ii) among earmarked resources global and vertical fund resources are the most volatile[8] (Figure 4.3). These findings remain valid when excluding humanitarian flows, which account for much of the volatility of "other earmarked funding" but not that of global pooled funding mechanisms.

Disbursements from individual vertical funds and global pooled funding mechanisms show important variations from one year to another. This point is illustrated in Figure 4.4, which shows Gavi's annual flows to five of its top recipients: Ethiopia, Nigeria, Yemen, Pakistan and South Sudan. However, this volatility may be linked to the life cycle of the programmes and timing of the funding rounds; future research could investigate to what extent this volatility results in actual unpredictability for partner countries.

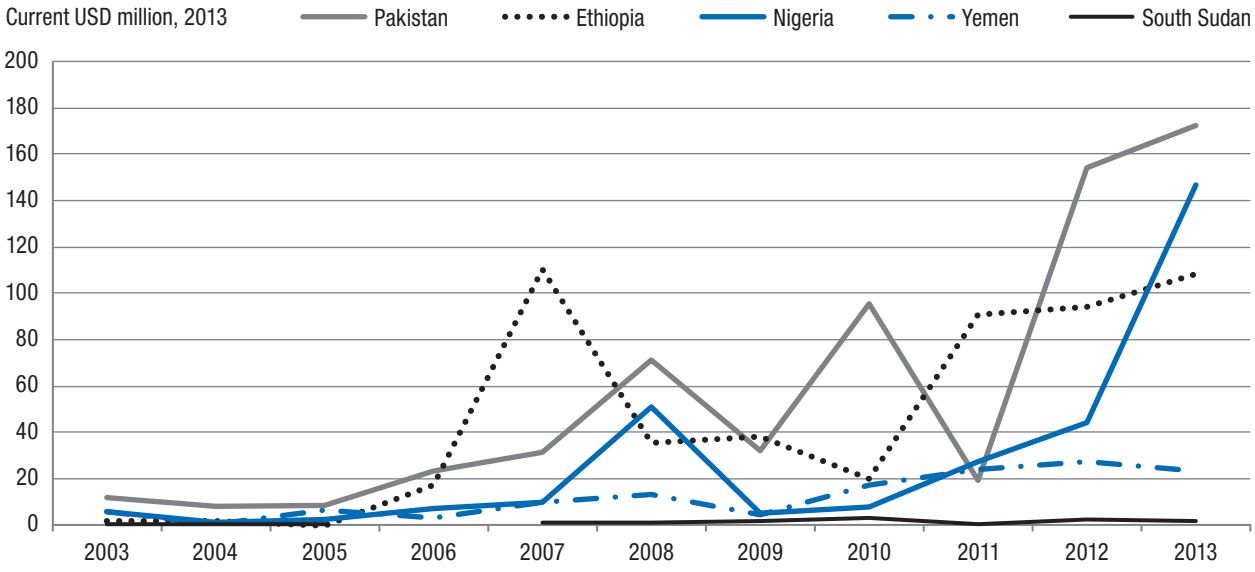
Least developed countries (LDCs) and lower middle-income countries (LMICs) generally receive more stable funding from all sources (especially from core funding). Vertical funds and global pooled funds and vertical funds tend to be more volatile in other low-income countries (other LICs) whereas other earmarked funding mechanisms tend to be more volatile in upper middle-income countries (UMICs) (Figure 4.A3.4 and Figure 4.A3.5).

Figure 4.3 ***Global pooled funding mechanisms are more volatile***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).
StatLink *http://dx.doi.org/10.1787/888933247212*

Figure 4.4 ***Gavi's funding to five of its top recipients***



Source: Authors' calculations based on Gavi total disbursements available on *http://www.gavi.org/results/disbursements*.
StatLink *http://dx.doi.org/10.1787/888933247224*

Volatility of funding in country-level multi-donor funds can be high

Statistical data do not distinguish among types of multi-donor earmarked funding mechanisms other than the vertical funds and global pooled funding mechanisms. Some conclusions on the volatility of country-specific MDTFs are found in the literature. In

particular, Scanteam (2010) suggests that individual donor funding to MDTFs can vary considerably from year to year, in part due to a limited number of funders: usually 80% of funding comes from 20% of the providers. This makes funding vulnerable to changes in providers' political priorities and budget constraints. MDTFs with a wider funding base are found to perform better in terms of predictability (Scanteam, 2007).

Effectiveness dimension 3: better co-ordination and reduced fragmentation

When development co-operation flows through too many institutional channels, it generates high transaction costs for recipient countries. The energies and attentions of senior government personnel are absorbed in establishing and maintaining relationships with a multiplicity of donor agencies and adjusting to their differing requirements (Acharya, 2006). In addition, overlaps and duplication of efforts waste scarce resources for development. Furthermore, Knack and Rahman (2007) show that lack of co-ordination lowers bureaucratic quality in recipient countries, while Kimura et al. (2012) suggest that donor proliferation in a country leads to lower growth. The Paris, Accra, and Busan commitments were designed to address the adverse impacts of donor proliferation.

However, donor co-ordination does not necessarily translate into better alignment with partner country needs (Bigsten, 2006; UNDP, 2011). It can undermine partner country ownership if donors use it to create a "cartel" through which they impose their own preferences and conditions (Menocal and Rogerson, 2006). As the architecture of development finance becomes increasingly complex, there is a need to re-think what effective co-ordination really means and what forms it can take.

Before undertaking their reform agendas, the UN and the World Bank Group used separate negotiation, implementation and monitoring processes for earmarked resources, to the detriment of the cohesiveness of these institutions. The question is has this internal fragmentation also burdened partner countries coupled with the emergence of additional global initiatives/vertical funds. If earmarked funding is used as a substitute for bilateral channels it would reduce fragmentation (see, for example, IEG, 2011) while it would probably increase fragmentation in case it substitutes core funding (Acharya et al., 2006; Knack and Rahman, 2007; Reinsberg, 2013).

Integration of earmarked funds into the processes and procedures of multilateral organisations is key to reduce fragmentation

A quantitative fragmentation analysis comparing global/vertical funds and other earmarked funding suggests that fragmentation within the multilateral channel is considerably reduced when earmarked funding is integrated into the processes and procedures of the recipient multilateral organisations. Further, global/vertical funds result in more fragmentation than all other earmarked funding. The analysis also suggests that the multilateral channel is less fragmented than bilateral donors. The analysis and methodology are presented in Annex 4.A2.

Country-specific MDTFs have the potential to promote strong co-ordination

In terms of co-ordination, country-specific MDTFs are meant to significantly reduce duplication and overlap by bringing all stakeholders to the table. In practice, they seem to promote good co-ordination among development partners, often beyond mere information-sharing. For example, Scanteam (2010) finds that in post-conflict or fragile countries these MDTFs are by far the most important co-ordination vehicle in place. However, the majority of donor funding is provided outside of them. For example, only 6% of reconstruction funds for Iraq were channelled through the International Reconstruction Fund Facility for Iraq and less than 7% of post-tsunami assistance for Aceh and Nias in Indonesia was channelled through the country level MDTF (MDTFO, 2013). In those cases, MDTFs act as a co-ordination hub – but only for a fraction of the assistance provided to the country.

In addition, better co-ordination and division of labour could be achieved between the UN and the World Bank Group who in general administrate the MDTFs. In the past, cases of successful coordination have been highlighted, as well as cases of competition. Discussions have recently begun to agree on a division of labour (UN, 2014) so as to: i) establish different funding windows and cluster similar implementing entities under the best suited funding window to avoid high transaction costs and operational delays; and ii) build on the comparative strengths of each organisation, combining the World Bank Group's focus on medium- and long-term economic growth with the UN's rapid operational start-up capacities and experience with urgent political, justice and security issues.

Vertical funds and global pooled funding mechanisms are commonly not well integrated in existing country-level coordination structures

Vertical funds often do not fully capitalise on existing coordination structures as these do not reflect the funds' "innovative" approaches or governance. Concerns have emerged that national systems and capacities could be weakened by disjointed and parallel structures and processes (Bennett et al., 2006). For example, in Tanzania development partners have questioned the value added of the Country Coordinating Mechanism of the Global Fund, whose membership overlaps with other co-ordination structures (see also Mogeni, 2007). A study focusing on Gavi, which is usually commended for its capacity to work within government decision-making processes rather than establishing parallel systems, noted that closer coordination with other global health initiatives is needed to reduce duplication of coordination mechanisms for separate global health initiatives (MOPAN, 2012).

Some challenges remain for the One UN Fund and other earmarked funding mechanisms

Regarding the One UN Fund, UN co-ordination has at times successfully moved from information sharing to joint programming. However, internal challenges impede more effective co-ordination (Box 4.3). As for other earmarked funding mechanisms, co-ordination seems to occur mainly through the established operational systems. In the case of the World Bank Group, these funds are managed rather independently by trust fund managers in the country or at headquarters, with different degrees of coordination with development partners and co-ordination structures at country level.

Box 4.3 *UN country-level co-ordination and the One UN Fund*

Governments report that Delivering as One, the overarching initiative of the One UN Fund, has led to better coordination among UN entities, including in relation to government processes. In some countries UN coordination in the context of Delivering as One moved beyond information-sharing to joint UN programming that is more transparent and better aligned to partner country priorities. This has been a gradual process, as Delivering as One transitioned in some pilot countries from a collection of individual agency programmes to a joint framework (the UN Development Assistance Framework, UNDAF) and then to joint programming (under the UN Development Assistance Plan, UNDAP). In Tanzania, where the UN adopted a UNDAP, interviewed stakeholders highlighted that the programming carried out in the framework of Delivering as One is transparent and inclusive, constructively involving representatives of the Government of Tanzania as well as other development partners.

In August 2014 the UN issued updated standard operating procedures for Delivering as One to support UN Country Teams in the implementation of the second generation of Delivering as One. However, several internal challenges remain that impede achieving smoother and more effective co-ordination. As a second generation of Delivering as One is being implemented in some 40 countries and is expected to be brought to scale globally, it will be important to address these challenges.

The case study of Tanzania and other sources highlight that **co-ordination within the Delivering as One initiative may have reached a level where the costs outweigh the benefits.** A great deal of time is spent in establishing programme management mechanisms and meetings, which reduces the time available for actual development work. Partly this is the result of an inclusive process in which a large number of resident and non-resident UN entities participate in joint programming, making co-ordination particularly lengthy and burdensome. However, it is also the result of co-ordination articulated around overly complex joint programming that is fragmented by an excessive number of outputs and outcomes.

Country-level co-ordination of individual UN entities cannot progress without further harmonisation at headquarters level, including planning cycles, and monitoring and reporting procedures. There is a wide variety of business models and procedures across UN entities, even within clusters that one would think of as homogeneous (e.g. all specialised agencies or all funds). Often individual UN entities have to develop country strategies that are linked to headquarters' planning cycles, making their contribution to the UNDAF or UNDAP more of an *ex post* exercise than a planning exercise. Even when the entities effectively contribute to joint planning, they may have to develop separate country programme documents covering only their activities so that their individual executive boards can approve these documents. In Tanzania it was also the government's perception that UN entities in the field have done much to improve co-ordination, but that constraints remain as a consequence of lack of harmonisation at headquarter level. Limited support for the implementation of Delivering as One also emerges from the Survey of Resident Coordinators, in which 58% of respondents marked this initiative as slightly effective or not at all effective.

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Box 4.3 **UN country-level co-ordination and the One UN Fund** (Continued)

Different UN entities have very different incentives to co-ordinate. There is, overall, a need to strike a better balance between donor demand for specific UN activities and the UN's universal mandate to cover issues beyond the changing preferences and demands of donors. Across the UN, small entities rely more on funding from the One UN Fund, partly because larger UN entities have a greater capacity to put together more comprehensive project proposals and have well-established donor networks. In Tanzania some donor and multilateral representatives expressed concern that the One UN Fund provides funding to UN entities for which there is no donor demand, and that UN entities have no incentive to leave a country. However, other partners highlighted that there are many reasons why donors may not be interested in funding a particular theme, including external factors such as emergencies elsewhere and donor budget constraints. Giving as a concrete example the refugee situation in Tanzania, government representatives highlighted that in some areas UN agencies have a comparative advantage and "if they weren't there we would not remember there are these important areas to be tackled".

Source: UN (2012), UN (2013b), UNDG (2014), UNEG (2011).

Effectiveness dimension 4: opportunities to include partners beyond the DAC

The OECD estimates that of the USD 175 billion in global concessional development finance extended in 2013, 13% was provided by countries beyond the DAC. Most non-DAC providers that have scaled up concessional finance in recent years have done so mainly through their bilateral channels. While this may suggest that "pooling" of resources is not a preferred option for these providers (Pietschmann, 2014), emerging evidence suggests that they increasingly engage with other development partners in many ways (Chapter 5), even though actual pooling of funds may still be limited at country level. Earmarking by non-DAC providers is limited across all mechanisms.

New players (e.g. private foundations) have also emerged as important providers, engaging with partner countries and other development partners in a variety of ways. Private foundations have been key financiers of global pooled funds. As the development agenda broadens, resources and experience from all providers will be of the utmost importance in achieving the Sustainable Development Goals.

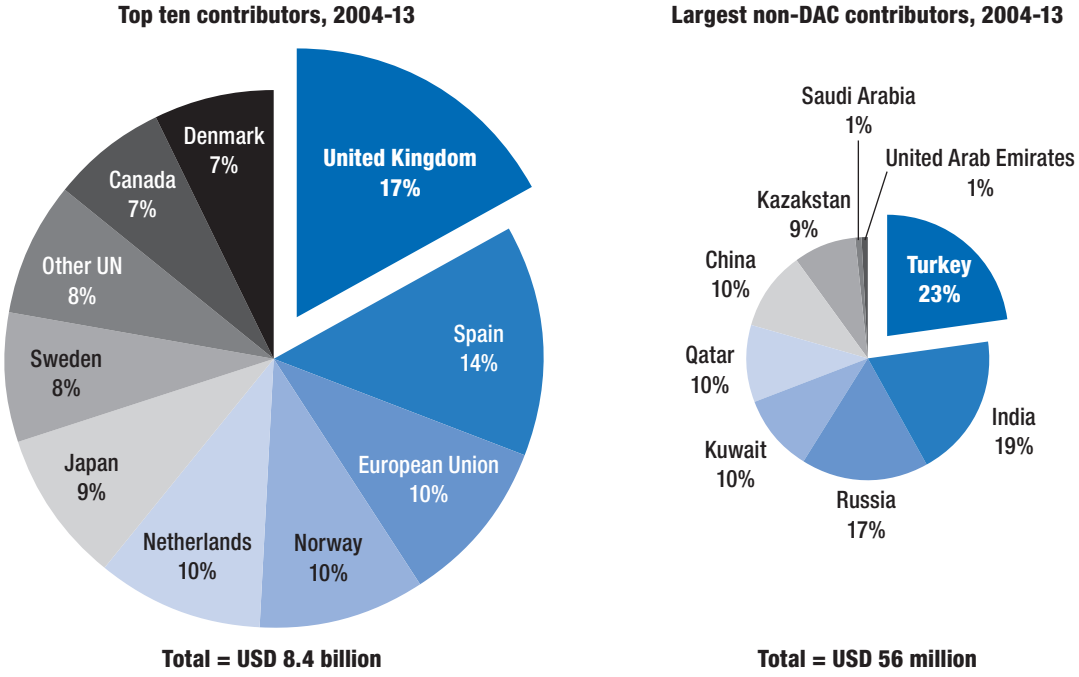
Non-DAC providers make little use of earmarked funding mechanisms

Providers beyond the DAC have so far extended for relatively small amounts to a small number of MDTFs. However, despite still being limited their pooled contributions are increasing, especially in support of peace and security and in fragile situations. For example,

India, Turkey and Qatar contributed to the UN Development Assistance Framework in Iraq: over the period 2007-14 their contributions amounted to USD 5.2 million, USD 9.3 million and USD 5.2 million, respectively. In addition, the UN Peacebuilding Fund successfully mobilised resources from all the main providers beyond the DAC for over USD 20 million in 2007-14[9]. Overall, more than half the 53 contributors that finance the UN Peacebuilding Fund are non-DAC providers. Yet the bulk of funding is still provided by DAC members. Looking across all the funds administered by the UN MDTF Office in 2004-13, the top ten donors were all DAC members. Large contributors outside of the DAC included Turkey, India and Russia, which provided USD 12.8 million, USD 10.7 million and USD 9.5 million, respectively (Figure 4.5).

However, providers, governments and administrators have increasingly recognised the need for more inclusive MDTF governing structures. The trend has been towards broadening the governing structures to include more stakeholders that have not historically participated in MDTFs (Scanteam, 2010). Engagement with other stakeholders has most often materialised in terms of policy dialogue or through the provision of expertise, as was the case with China in regard to the MDTF for Aceh and Nias, Indonesia. However, while policy-level engagement with a larger number of stakeholders is a positive development, the dependency of most country-specific MDTFs on a handful of donors makes the funds vulnerable to changes in political priorities and to volatility of funding. The strong predominance of a small group of donors may also discourage funding from other sources.

Figure 4.5 ***Relatively smaller contributions from non-DAC providers to the UN MPTF Office-administered funds***



Source: Authors' calculations based on the MPTF Gateway data.

StatLink http://dx.doi.org/10.1787/888933247237

Vertical funds and global pooled funding mechanisms have managed to be inclusive mainly of private foundations, businesses and communities of beneficiaries

A new partnership model – one that could include a wide array of providers, beneficiaries and private entities – is at the heart of the business model of most global pooled funding mechanisms. In the case of Gavi and the Global Fund a broad set of stakeholders have a formal role on their governing bodies and this inclusiveness were identified as key strengths. In some other global funds, inclusiveness has been formed through informal participation in policy dialogue bodies or through financial contributions (e.g. infoDev, the GEF and the Education For All Fast-Track Initiative), with no formal role in governance structures.

The Green Climate Fund, officially launched at the 2010 UN Climate Change Conference and first replenished in November 2014, is a new positive example of a fund with quasiuniversal membership, in which advanced economies and developing countries have an equal voice in the governing body. The Green Climate Fund does not, however, include non-state actors, such as the private sector and civil society.

Effectiveness dimension 5: ability to promote innovation

In general, innovation is cited as a key advantage of earmarked funding by donors and multilateral organisations alike (OECD, 2014a; World Bank, 2012). Innovation relates to organisational models (partnerships comprising a wide array of stakeholders including the private sector), financing modalities (e.g. the International Finance Facility for Immunisation and the advanced market commitments) and solutions to development challenges.

Country-specific MDTFs and vertical funds commonly have the most innovative structures and organisational models. Vertical funds' innovative structures and business models have also allowed to establish multi-stakeholders platforms and to allow rapid learning across countries (e.g. on malaria and HIV/AIDS). Innovative financing modalities have been used by both global funds and earmarked funding mechanisms. Innovative solutions to development challenges are documented for global funds, but not for other earmarked resources.

Global pooled funding mechanisms have been innovative in their business model, financing modalities and development solutions

Global funds generally present a high degree of innovation across all three of the abovementioned dimensions. Innovation is, however, typically higher in the initial phases, when these funds are established reflecting new approaches and thinking. For example, Gavi's distinctive business model, which is based on a pioneering and learning culture, opened the way for new approaches to immunisation and new funding strategies and mechanisms (such as the International Finance Facility for Immunisation and advanced market commitments). The advance marked commitments are also now being tested in the agricultural sector (IFAD, 2014). Global Fund's innovative multi-stakeholder platforms have allowed repid learning across countries on how to scale up. However, Gavi's innovative approach aimed at decreasing the international price of vaccines through more sustained and compact demand and subsidised supply has yet to result in the anticipated decrease (Dykstra S., 2015).

The GEF is another example of a catalyst for innovative and risk-sharing approaches, providing incentives to pilot new technologies and approaches (e.g. see GEF IEO, 2013). The GEF has been critical in allowing the World Bank Group to pursue innovative projects on renewable energy (IEG, 2009c). GEF has also triggered innovation in other implementing agencies. UNDP's Evaluation Office highlights that alongside contributing to "develop country-specific technical expertise in specialised areas" working with these funds "facilitated innovative work that would not easily be possible through the use of core funds" (UNDP Evaluation Office, 2012).

Innovative approaches to development challenges are not documented for other earmarked funding mechanisms

The UN Fund and the UN Multi-Partner Trust Fund Office (MPTFO) embody a new model for enhanced co-ordination and effectiveness. In particular, the MPTFO provides streamlined administration services for UN managed funds. However, in terms of financing modalities and development solutions, innovation has not been documented.

On the other hand, the other earmarked funding mechanisms have not demonstrated to be innovative in their organisational models and solutions to development challenges. For example, of the 27 most recent independent evaluations of World Bank Country Assistance Strategies[10] only one makes explicit reference to the use of trust fund resources to pilot new programmes (IEG, 2014a) and show that activities could have been funded through IDA or IBRD financing if available. Trust fund financing was often used to top up IDA financing (e.g. scaling up of projects in India and Nigeria), to co-finance projects with IDA (e.g. in Malawi and Moldova) or even to replace IDA financing when for some reason this financing did not come through (e.g. in Gambia and Kyrgyzstan).

Towards more effective use of existing multilateral funding mechanisms

In conclusion, the analysis in this chapter confirms that earmarked funding mechanisms are effective to different degrees, mainly depending on their arrangements and business models. However, the recipient country context (e.g. income level and situations of fragility) impacts on the effectiveness of these mechanisms. Changes to donor behaviours and design features could improve the overall effectiveness of such mechanisms. Areas for improvement are illustrated, by funding mechanism, in Figure 4.6.

Overall, meeting the Sustainable Development Goals hinges also on using the most appropriate multilateral channels and modalities for providing development finance. To this end, bilateral providers should consider:

- Using the most suitable funding modality of earmarked contributions, based on evidence of the comparative strengths and weaknesses of various multilateral mechanisms.
- Fostering greater effectiveness by helping address the key challenges these mechanisms face (Figure 4.6) and learning from the lessons of the past when establishing new funding mechanisms.

Figure 4.6 *Key challenges faced by multilateral funding mechanisms*

COUNTRY-SPECIFIC MULTI-DONOR TRUST FUNDS	• Strengthened national capacities and hand over to national authorities of the management of the fund • Improved co-ordination with development partners not contributing to the fund • Improved co-ordination/division of labour among the institutions managing the fund • Avoiding earmarking of funds ("preferencing") within the fund
OTHER MULTI-DONOR POOLED FUNDS – *e.g.* ONE UN FUND	• Harmonised processes and procedure across UN entities at Head Quarters level that could foster further co-ordination in the field • Better joint resource mobilisation and stronger incentives for individual UN entities to co-ordinate • More effective and leaner co-ordination
GLOBAL/VERTICAL FUNDS	• Right balance between partner country ownership and the Fund's need for accountability • Use of existing co-ordination structures at country level
OTHER EARMARKED FUNDING MECHANISMS	• Greater operational and strategic integration of these funds into the standard procedures of implementing agencies • Greater predictability of funding

Source: Authors' elaboration. StatLink *http://dx.doi.org/10.1787/888933247241*

Box 4.4 *"In my view…" by Minister Ahmed Shide*

Ahmed Shide is the State Minister of Ministry of Finance and Economic Development of Ethiopia.

Country-level pooled funding has been an effective form of aid in Ethiopia

Ethiopia is a country of 87 million inhabitants whose economy has grown at around 11% for the past decade. The national plan has prioritised key sectors such as industry and agriculture as drivers of sustained economic growth and job creation and reaffirmed our commitment to human development. Ethiopia currently receives about USD 3 billion in development assistance annually. Since 2005, large multi-donor and multi-sector programs have been put in place to reduce donor fragmentation and collectively support the Government's vision in harmonised and effective manner to meet all the MDGs and become a middle-income country by 2025.

A few of the largest multi-donor programmes (pooled funds) currently in place include the Promotion of Basic Services Program (PBS); the Productive Safety Net Program (PSNP); the General Education Quality Improvement Program (GEQIP); and Water Supply, Sanitation and Hygiene (WASH) program. Together contributions from development partners to these four large programmes account for about one-quarter of official development assistance per year.

…

Box 4.4 *"In my view..." by Minister Ahmed Shide* (Continued)

There are a few reasons why pooled funding is the Government of Ethiopia's preferred aid modality.

First, these four programmes support the ambitions of our own Growth and Transformation Plan. Whether it is enhancing the quality and reach of basic services (PBS, GEQIP); increasing access and quality of water supply, sanitation and hygiene services (WASH); or building the resilience of food insecure households (PSNP– these are all objectives that are built into our national development plan, and that will continue to feature prominently in our next plan. And, because these are our own ambitions, our own resources complement all of these programmes. For example, our own treasury sources directly fund 65-70% of the largest of these programmes (PBS). That both Government and our development partners hold both a national and a financial interest in the success of a programme that aligns to our objectives greatly contributes to the success of these programmes.

Second, the institutional and implementation structures in place for these programmes already existed at federal, regional and woreda levels. In fact, by way of implementation, these programmes serve to strengthen existing structures. High-level officials from government ministries all the way down to regional bureaus and woreda offices are represented in national steering committees, co-ordination bodies, or joint oversight committees that serve to direct and manage implementation. Furthermore, pooled funds generally include dedicated resources for capacity development and systems strengthening while simultaneously using the financial and procurement structures of Government, as well as our Monitoring and Evaluation systems. Semi-annual or annual joint review mechanisms are in place and involve all stakeholders – including development partners – to review progress to-date and adjust the parameters of programmes. Thus, existing institutions are used and function better as a result.

Third, integrated support through these programmes are fully aligned with government policy and strategy while simultaneously allowing Ethiopia to preserve its policy space. This is extremely important given our desire to maintain a predictable flow of both domestic and external resources so as to ensure the continuation of these multi-year programmes and continue to build on our strong macro-economic stability. Indeed pooled funding has the advantage of reducing fragmentation by bringing together larger sums of money, minimising duplication and de facto rendering these programmes directly accountable to the Government. These pooled-funding programmes are supported by a total of eleven bilateral agencies, and five multilateral. Dealing with this many partners would otherwise be time-consuming at all levels for all actors involved. From a development effectiveness standpoint, pooled funding ensures that the aid will be on-budget (subject to parliamentary scrutiny) and use country systems, such as national budget execution, financial reporting, national auditing, national procurement systems, to a greater extent than might otherwise be the case. In short, pooled funding provisions provide a focused space for discussions and negotiations and minimise our administrative burden. We see this as a means by which we all achieve economies of scale and work towards the country's development, using and strengthening existing systems, while respecting our country's chosen path to development.

Annex 4.A1 • Case study on Tanzania

To carry out the case study of Tanzania the OECD/DAC Secretariat conducted a mission to Dar Es Salam in April 2014. Semi-structured interviews were conducted with a wide range of officials, including from the following institutions: Ministry of Finance of Tanzania, African Development Bank the Aid Effectiveness Development Partners Group Secretariat, Danish International Development Agency, Department for International Development of the United Kingdom, Embassy of the Federal Republic of Germany, Food and Agriculture Organisation, French Development Co-operation, German Institute for International Co-operation, International Fund for Agricultural Development, UN/AIDs, UNDP, UNFPA, UNICEF and UN Resident Coordinator, USAID, World Bank Group, World Food Programme and the World Health Organisation.

Context: A positive outlook clouded by serious outstanding development challenges

In the past decade economic growth in Tanzania has been sustained, but poverty remains widespread. Unlike many of its neighbouring countries, Tanzania has a stable political and economic context and lacks significant social tensions, an ideal ground on which to show that development co-operation can work. In 2013 Tanzania was the seventh largest recipient of net ODA worldwide, receiving disbursements for a total of USD 3.4 billion, or 11% of the country's gross national income.

With the top five providers accounting for 61% of total net ODA and the top ten accounting for 81% of total net ODA in 2012-13, Tanzania's development co-operation landscape would seem fairly concentrated. However, as more than 40 providers are active in Tanzania, fragmentation is actually high with about 33% of total ODA split across 88% of all providers (Figure 4.A1.1).

A strong new political impetus, but unclear leadership and changing priorities undermine development partners' ability to align

In February 2013 the Government of Tanzania announced the Big Results Now initiative, conceived to fast-track progress in six key areas identified in the Tanzania National Development Vision 2025: energy and natural gas, agriculture, water, education, transport, and mobilisation of resources. The Big Results Now initiative is an example of South-South co-operation. It is in fact inspired by the Malaysian development model and was developed with the support of Malaysian policy experts flown to Tanzania to coach 300 Tanzanian experts. Although the initiative has strong ownership by the government and gained strong momentum, at the time of the authors' mission to the country (April 2014) the initiative had not yet been reflected in the government's budget allocations. In addition, some development partners voiced their concerns about what they saw as a diluted focus on poverty reduction in the initiative's prioritisation.

The relation between the Presidency's Big Results Now initiative and the already existing National Strategy for Growth and Poverty Reduction for 2011-15 (commonly known by its Swahili acronym MKUKUTA II), prepared by the Ministry of Finance, remains unclear to most development partners. Overall, development partners lamented a lack of clear leadership and, to different extents, difficulty in adjusting to changing priorities ("… donors need long-term or

medium-term priorities as it takes time to adjust," said one donor representative during the interviews. Another said that "we are more flexible to adjust than others and therefore it was easier for us to align").

Development partners' co-ordination: A heavy structure could reduce the net benefits of coordination

Tanzania is a priority country for many providers, and many have leading aspirations in this or that sector. With a huge number of actors present, Tanzania has long recognised the need for better coordination of development partners. In 2001 it put in place probably one of the most articulated development co-ordination structures in Africa. Today both the government and development partners agree that co-ordination has come a long way since the early days. However, the elaborate co-ordination structure, which counts three main groups (Joint Coordination Group, Development Cooperation Forum and Development Partners Group) and over 40 working groups, places a heavy transactional burden on all partners including the government. Development partners expressed concerns along three main lines:

- Much time is spent in co-ordination/meetings rather than on substance, project and programmes.
- The structure has not enabled development partners (especially smaller ones) to deepen the policy content of dialogue with the government.
- Co-ordination allows sharing of information and (to a certain extent) avoiding duplication, but it has not always been a means to align better to the government's priorities.

While some working groups are reported to work better than others, overall parallel systems are still in place, donors are largely misaligned with different fiscal years and unsynchronised reporting requests, and even within sector programmes and pooled funds donors still approach the government individually.

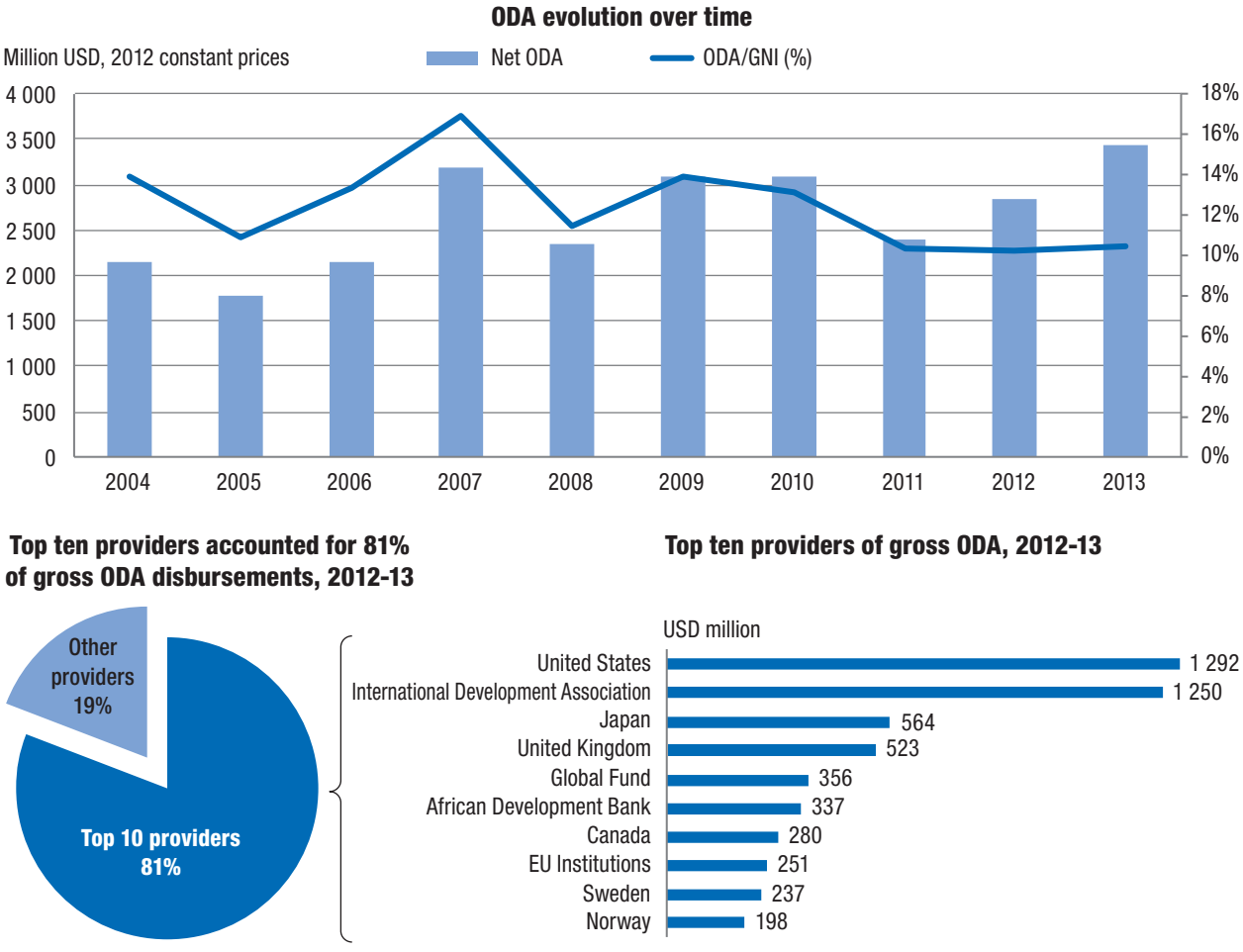
Main transformations: Donors are moving away from the application of the Paris Declaration principles, but there is no clear substitute for engaging effectively in the country

The drastic reduction in budget support and stark revisions in ways donors use it are among the strongest signals of a changing aid environment in the country. During the interviews several providers indicated policy dialogue occurring with the government around budget support as one of the most meaningful instruments for engaging with the government. The recent evaluation of budget support was fairly positive (ITAD, 2013). Yet, despite still accounting for about 20% of the government's budget, budget support was almost halved in the past few years, reaching slightly over USD 600 million in FY 2010/11 (Ministry of Finance of Tanzania, 2013). In addition, the largest provider of budget support, the United Kingdom,[11] now no longer uses this modality, moving to performance-based sector-budget support. The World Bank (International Development Association), the joint-second largest provider of budget support with the European Commission, is revising its approach to general budget support with a view to enhancing results orientation, but is moving away from a common development partners framework. Germany, which accounted for 3% of general budget support in FY 2010/11, is also having internal discussions as it considers discontinuing general budget support. Interviews with development partners suggest that moving away

from general budget support is linked more to headquarters' processes and dynamics than to the performance and accountability demonstrated by the Government of Tanzania. One development partner said that "there is no particular reason connected to Tanzania's performance to withdraw from general budget support". In addition, during the interviews government representatives highlighted the risks of reducing general budget support and substituting it with sector budget support. One government official stated that "the problem of sector budget support is that some sectors receive a lot and others don't. If you put so much money in agriculture but do not invest in education and infrastructure, even your investment in agriculture has a lower return. Therefore there is a need for balance between general budget support and sector budget support."

In general, there is a return to project aid and experimentation in order to integrate results-based management in new ways. In parallel with a move away from general budget support, pooled and basket funding are also declining. Germany, for example, has halted its contributions to the health basket fund after ten years, arguing principally that the government has not made it a priority and that/thus the sector remains underfunded.

Figure 4.A1.1 ***Key ODA figures for Tanzania***



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink http://dx.doi.org/10.1787/888933247253

Annex 4.A2 • Fragmentation analysis and methodology

The two broad categories of earmarked funding mechanisms considered for the fragmentation analysis are:

- global pooled funding mechanisms/vertical funds (e.g. Gavi, the Global Fund, the GEF, the UN Peacebuilding Fund)
- other earmarked funds provided to multilateral organisations (corresponding to earmarked funding recorded as bilateral ODA in OECD-DAC statistics).

Relations are computed for each provider-recipient country pair using two alternative metrics: country-programmable aid (CPA) and a revised version of CPA that includes humanitarian assistance (CPA+). A relation is considered significant when the provider either provides to the recipient country a higher CPA percentage of its global CPA share or is among the larger donors that together account for at least 90% of a recipient's aid (i.e. is among the top 90% of the largest donors to this recipient). In line with OECD (2013), the concentration ratios are calculated as the ratio between significant financial relations and all financial relations.

> Country programmable aid (CPA) is the portion of ODA that donors programme for individual countries or regions, and over which partner countries could in principle have a significant say. CPA is defined through exclusions, by subtracting from total gross bilateral ODA activities that are inherently unpredictable (e.g. humanitarian aid and debt relief), entail no cross-border flows (e.g. administrative costs, imputed student costs) or do not form part of co-operation agreements between governments (e.g. food aid, aid from local governments, core funding to NGOs). Compared to ODA, CPA is much closer to capturing the flows that reach partner countries and has proven to be a good proxy for aid recorded at country level.

In accordance with OECD/DAC (OECD/DAC, 2013), earmarked funding – which is recorded as bilateral ODA in OECD statistics – is reallocated to the existing multilateral organisation that receives the funding. However, since by doing so core and non-core resources to the same organisation are basically treated the same, this case is called here "integration hypothesis". In this case the earmarked funds to a multilateral organisation are assumed to be well-integrated in the processes and procedures of the existing multilateral organisations – basically being equated to core resources. A second hypothesis is also examined, where earmarked funds to a multilateral organisation are regarded as not integrated in the processes and procedures of the existing multilateral, and are therefore treated as a separate entity ("no integration hypothesis"). This distinction is important because if earmarked funding is not integrated in the processes of a multilateral organisation activities funded through core and non-core funding will go on parallel tracks creating a greater administrative burden for partner countries.

This quantitative analysis of fragmentation suggests that (Table 4.A2.1):

- **Integration of earmarked funding into the processes and procedures of the recipient multilateral organisations is key to reduce fragmentation.** When it is assumed that such integration actually exists ("*integration hypothesis*") the concentration ratio of the multilateral channel as a whole rises to 66%, up from 57% under the assumption of

earmarked funds being managed through parallel processes and procedures. In addition, in the case of integration, global/vertical funds result in more fragmentation than all other earmarked funding.

- **Multilateral organisations are always found to be less fragmenting than bilateral donors**, although they are largely more concentrated under the "integration hypothesis". The greater fragmentation of other earmarked funding under the "no integration hypothesis" lowers the concentration ratio of the multilateral organisations as a group to 57% (down from 66% in the "integration hypothesis").

These findings are not greatly affected by the two metrics employed, CPA and CPA+, in other words, whether humanitarian assistance is considered or not.

Large variations exist within the two categories of earmarking mechanisms. In the global/vertical funds category, concentration ratios range from a low of 46% for GAVI to 95% for the Peacebuilding Fund. Given that the sample for this category is fairly small, such variations suggest that expanding the database to include more such trust funds could challenge the results presented here. In the other category the spread across organisations is even wider. However, there are also large variations for bilateral DAC donors, ranging from 33% for Finland to 100% for Iceland. (The figures in this paragraph refer to the CPA and "no integration" case.)

Table 4.A2.1 ***Fragmentation of different types of earmarked funding***

Hypothesis 1: INTEGRATION						
	No. of relations		No. of significant relations		Concentration Ratio	
	CPA	CPA +	CPA	CPA +	CPA	CPA +
Global/vertical funds	309	309	185	181	60%	59%
Other earmarked funding mechanisms	1 550	1 728	1 092	1 169	70%	68%
Total multilaterals	1 859	2 037	1 277	1 350	69%	66%
DAC countries	1 531	1 649	861	905	56%	55%

Hypothesis 2: NO INTEGRATION						
	No. of relations		No. of significant relations		Concentration Ratio	
	CPA	CPA +	CPA	CPA +	CPA	CPA +
Global/vertical funds	309	309	186	182	60%	59%
Other earmarked funding mechanisms	765	948	434	518	57%	55%
Total multilaterals	2 151	2 411	1 297	1 381	60%	57%
DAC countries	1 531	1 649	873	918	57%	56%

Note: Country programmable aid (CPA) is the portion of ODA that donors programme for individual countries or regions, and over which partner countries could in principle have a significant say. See *www.oecd.org/development/effectiveness/countryprogrammableaidcpafrequentlyaskedquestions.htm*. CPA+ is CPA that also includes humanitarian aid.

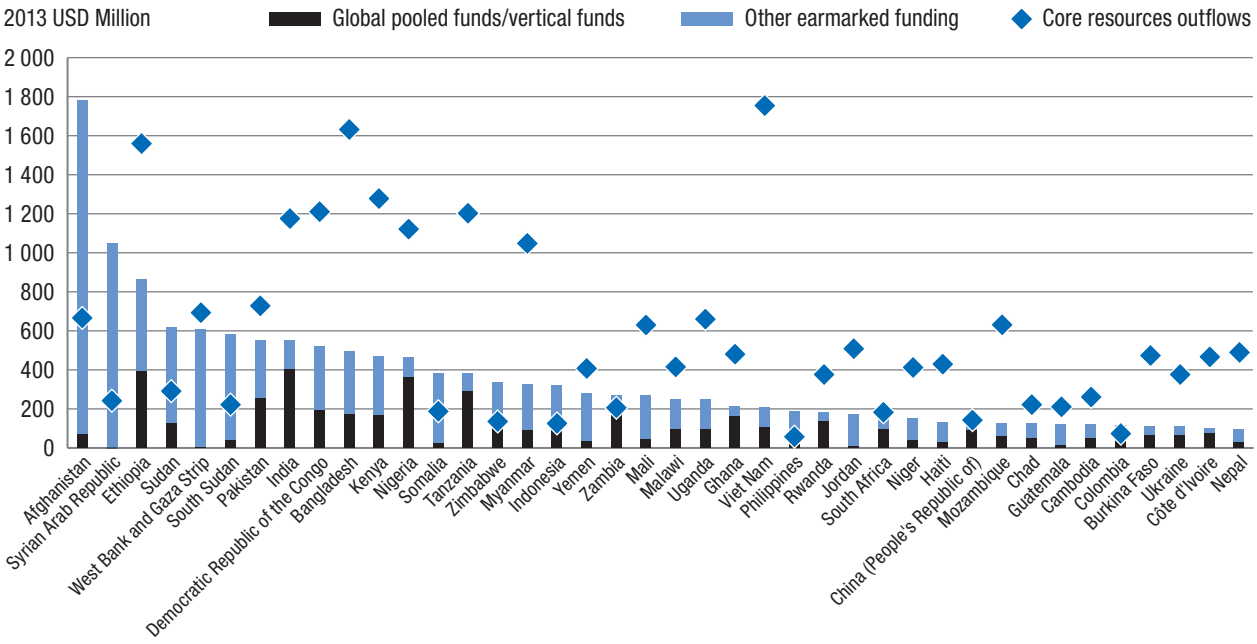
Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015). StatLink *http://dx.doi.org/10.1787/888933247905*

The number of total relations for "other earmarked funding" is different under the two hypotheses. For each multilateral organisation, under the "integration" hypothesis all transactions financed by either earmarked funding or core resources are added together and attributed to "other earmarked resources". Therefore, if an organisation has with one particular partner country some transactions financed through earmarked funding and some through core, these would count as a single aid-relation. Conversely, they would count as two or more separate aid-relations under the "no integration" hypothesis and only those financed through earmarked funding would be attributed to "other earmarked funding" (the rest would fall into the group of other multilateral organisations that appears in "total multilateral organisations").

Annex 4.A3 • Additional statistics

Figure 4.A3.1 ***Nine of top ten recipients of earmarked funding and global pooled funds are fragile states***

Composition of total multilateral concessional financing to the top 40 recipients of earmarked funding (in descending order)

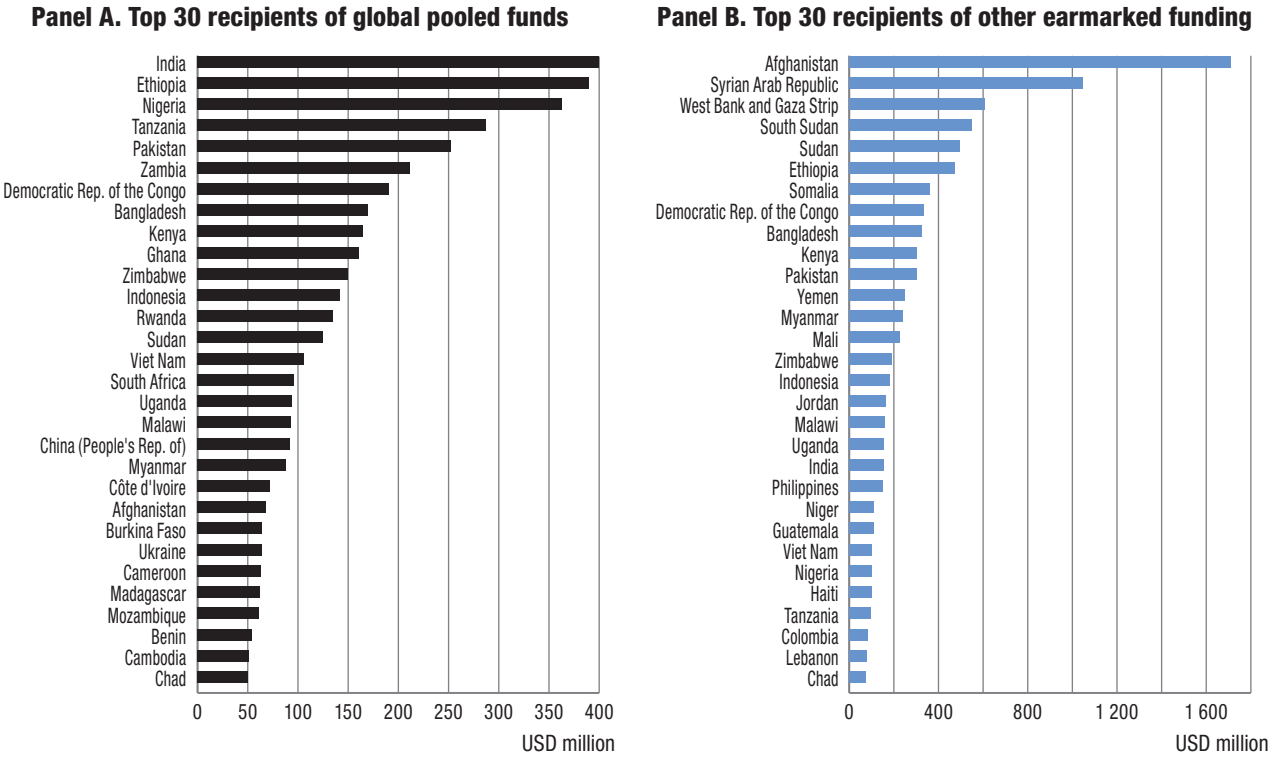


Note: The list of fragile states used to classify countries is the one in Figure 0.1 in *States of Fragility 2015: Meeting Post-2015 Ambitions* (OECD, 2015).

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247266*

Figure 4.A3.2 ***Global pooled funding mechanisms are less focused on fragile states than other earmarked funding, 2013***

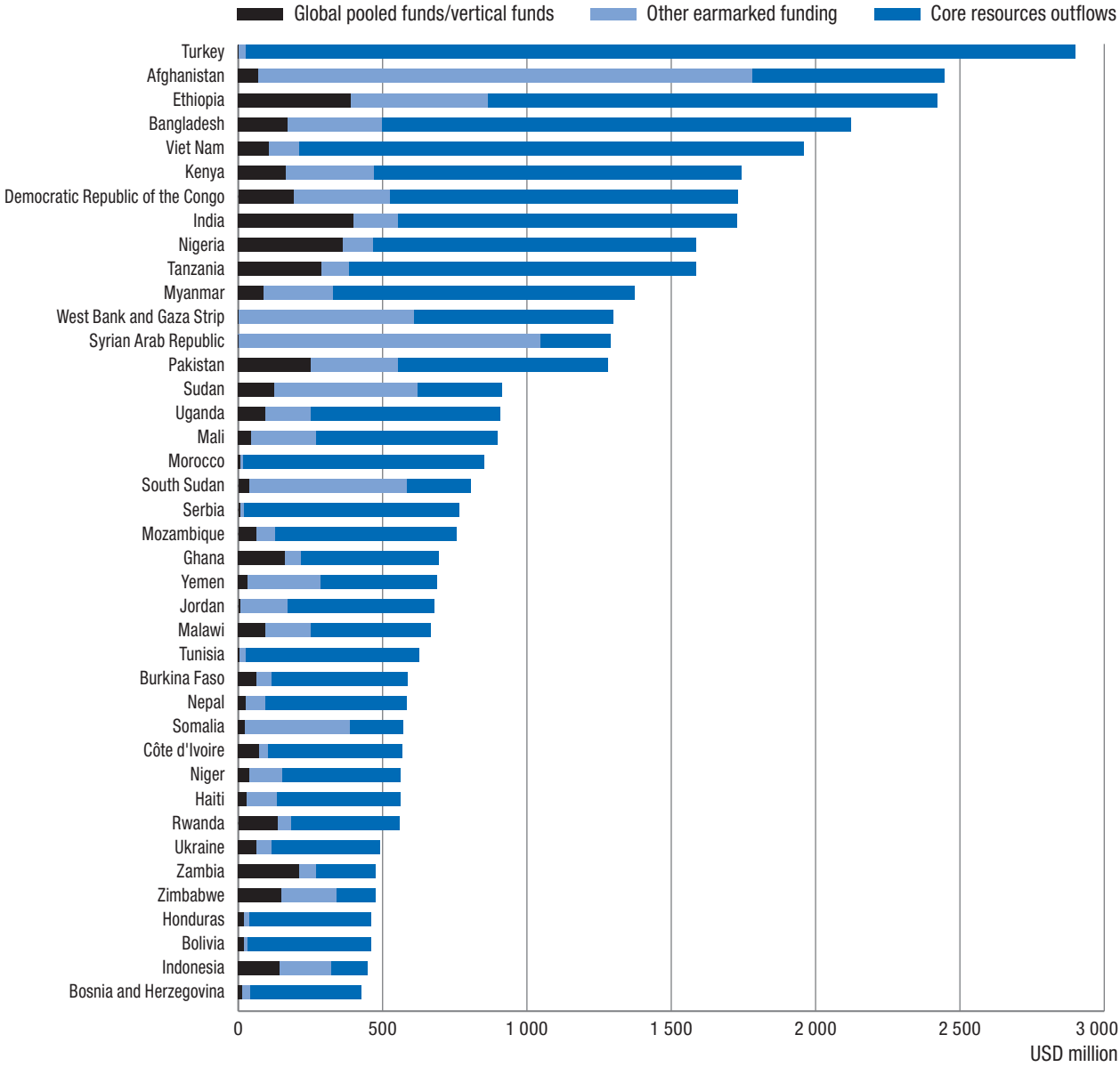


Note: The list of fragile states used to classify countries is the one in Figure 0.1 in *States of Fragility 2015: Meeting Post-2015 Ambitions* (OECD, 2015).
Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247270*

Figure 4.A3.3 ***Composition of total multilateral concessional financing to developing countries, 2013***

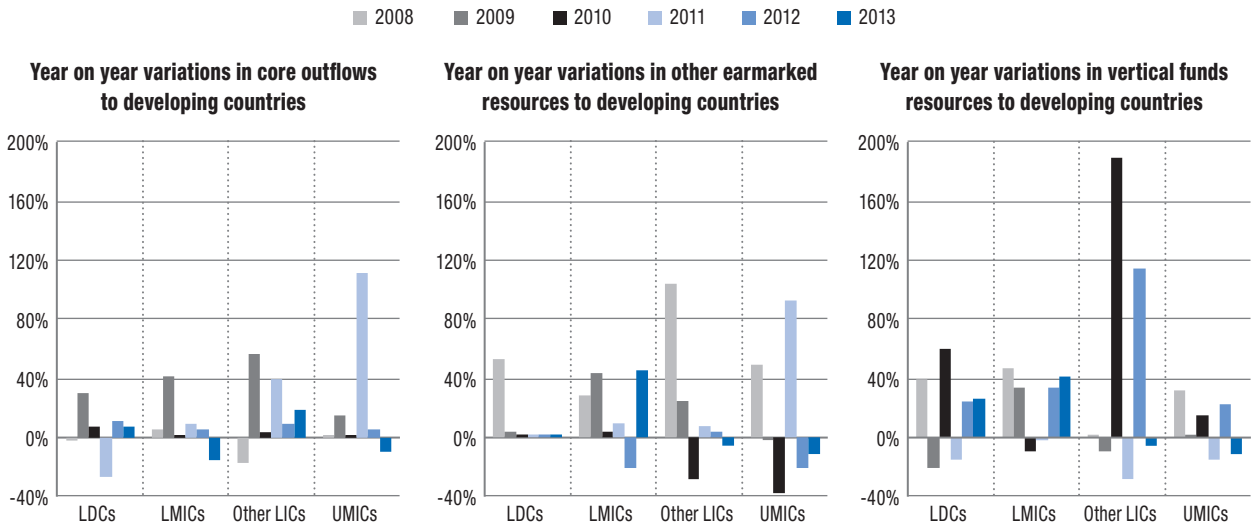
Top 40 recipients of multilateral funding in descending order



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247287*

Figure 4.A3.4 *Least developed countries and lower middle-income countries generally receive more stable funding from all sources of multilateral concessional finance*

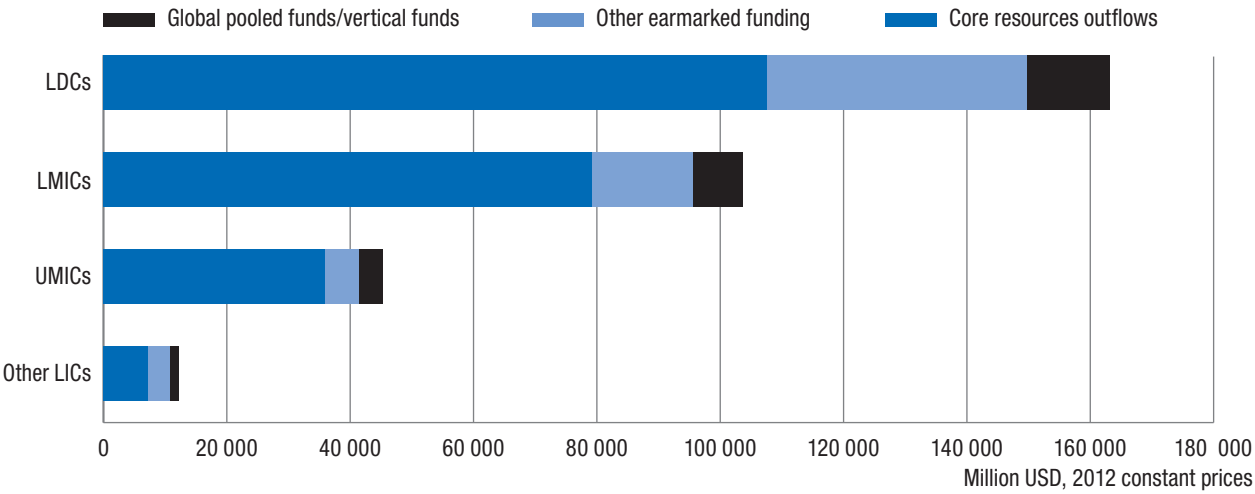


Note: Least developed countries (LDCs); Lower middle-income countries (LMICs); Low-income countries (LIC); Upper middle-income countries (UMICs).

Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247297*

Figure 4.A3.5 *Multilateral concessional financing by type and income group, 2007-13*



Source: Authors' calculations based on OECD/DAC Creditor Reporting System (CRS) data (2015).

StatLink *http://dx.doi.org/10.1787/888933247307*

Notes

1. to explore the spectrum of the mechanisms that donors can use to earmark resources – whether at the global or country levels – in this chapter, unlike the rest of this report and the definitions of OECD/DAC statistics, some large vertical funds or global pooled funding mechanisms are considered as earmarked funding mechanisms.
2. While there is a growing literature on the implications of specific types of earmarked funding (such as global health funds/initiatives – see, for example, Kapilashrami et al., 2013) there is no comprehensive comparative analysis of the implications of different types of funding mechanisms that donors can use to earmark resources for specific themes, sectors, countries, or regions.
3. The UN-REDD Programme is the United Nations collaborative initiative on Reducing Emissions from Deforestation and forest Degradation (REDD) in developing countries. "REDD+" goes beyond deforestation and forest degradation, and includes the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks (*www.un-redd.org/aboutredd*).
4. The global pooled funding mechanisms considered in the data are Gavi, the Global Fund and the Global Environment Facility (GEF).
5. Volatility and predictability are interlinked but distinct concepts. While stable flows are inherently easier to predict, greater volatility does not necessarily lead to greater unpredictability when information on future flows is communicated in due time.
6. Indicative plans as reported to the OECD/DAC Forward Spending Survey.
7. Country programmable aid (CPA) is the portion of ODA that donors programme for individual countries or regions, and over which partner countries could in principle have a significant say. CPA is defined through exclusions, by subtracting from total gross bilateral ODA activities that are inherently unpredictable (e.g. humanitarian aid and debt relief), entail no cross-border flows (e.g. administrative costs, imputed student costs) or do not form part of co-operation agreements between governments (e.g. food aid, aid from local governments, core funding to NGOs). Compared to ODA, CPA is much closer to capturing the flows that reach partner countries and has proven to be a good proxy for aid recorded at country level.
8. However, this could be partly due to the vertical funds sample including only a limited number of funds as well as to the fact that the higher the number of funds or organisations in the sample, the more likely it will be that smoother aggregate flows will be observed, as variations across organisations can be netted out.
9. The Russian Federation (hereafter "Russia") (USD 8 million), the People's Republic of China (hereafter "China") (USD 7 million), India (USD 4 million), Turkey (USD 1.7 million), Chile (USD 668 699), Saudi Arabia (USD 600 000), Brazil (USD 590 000) and the United Arab Emirates (UAE) (USD 500 000)
10. These are the independent evaluations of the country assistance strategies of ODA-eligible countries carried out between January 2013 and April 2014.

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Chapter 5

Leveraging knowledge and resources from providers beyond the DAC to enhance post-2015 partnerships

Several countries beyond the DAC are becoming increasingly important players in promoting development worldwide. This chapter focuses on seven of them (Brazil, China, India, Saudi Arabia, South Africa, Turkey and the United Arab Emirates), which provide the bulk (82%) of concessional development finance beyond the DAC and the extent to which they are engaging in multilateral development co-operation. The chapter reveals the heterogeneity of these countries and sheds light on the volume and modalities of their contributions to multilateral organisations. Recent developments are also examined, including the emergence of new multilateral institutions supported by the BRICS countries and China's leadership role with regard to new multilateral infrastructure funds in Asia and Eurasia. The chapter suggests ways to improve the multilateral system and gear it to deliver effectively in a post-2015 world.

The chapter contains an "in my view" contribution by Martín Rivero Illa, Coordinator of Social Cohesion and South-South Cooperation at the Iberoamerican General Secretariat and Former Executive Director at the Uruguayan Agency for International Cooperation.

Summary of main findings and recommendations

As estimated by the OECD, 13% of global concessional development finance[1] in 2013 was provided by countries that are not members of the OECD Development Assistance Committee (DAC). Some of these countries have a long track record of transferring resources and expertise to other nations to promote welfare and shared prosperity. Several have recently expanded their development co-operation, alongside their economic growth. To implement the Sustainable Development Goals, multilateral organisations will need to foster global partnerships that leverage knowledge and resources beyond the DAC, including from the private sector and non-DAC sovereign states.

Seven large non-DAC providers– Brazil, the People's Republic of China (hereafter "China"), India, Saudi Arabia, South Africa, Turkey and the United Arab Emirates (also referred to as "focus countries" in this document) – collectively provided USD 5.2 billion to and through multilateral organisations for development co-operation purposes during 2009-13. For most of the focus countries, the use of the multilateral channel represents only a small share of their concessional development finance (less than 7% in the case of China, India, Turkey, Saudi Arabia and the United Arab Emirates; 25% or more in the case of Brazil and South Africa). However, despite some fluctuations, funding to multilateral organisations from these countries is increasing (from USD 794 million in 2009 to USD 1.2 billion in 2013). It has become an important part of international efforts to address humanitarian and developmental needs in specific contexts (e.g. the Arab Spring and the Ebola crisis).

Individual focus countries increased multilateral funding to different extents in 2009-13. India, South Africa and Turkey more than tripled their multilateral spending. Brazil more than doubled its multilateral spending, and Saudi Arabia and the United Arab Emirates almost doubled theirs. China's multilateral funding has been large but volatile: it peaked in 2012 at USD 472 million and stood at USD 236 million in 2013.

The countries have also prioritised different cluster of multilateral organisations. While China has focused largely on regional banks (66% of its multilateral funding), especially the Inter-American Development Bank (IaDB) and the African Development Bank (AfDB), all the other focus countries have instead engaged mainly through the UN system and the World Bank Group. Saudi Arabia and the United Arab Emirates have tapped into the UN system mainly to address humanitarian needs. Brazil, China, India and Turkey have increased their support to the UN system to contribute to humanitarian responses, to foster South-South co-operation and to improve their own institutional and implementation capacities. Engagement with the World Bank Group – mainly through the International Development Association (IDA) – varies across these countries: it has been fairly strong in the case of Brazil, Saudi Arabia and Turkey (which allocated between 41% and 38% of their multilateral funding to the World Bank Group in 2009-13) and less so in the case of China (12%), India (3%), South Africa (15%) and the United Arab Emirates (0.3%).

Some obstacles seem to prevent greater engagement of these countries with traditional multilateral organisations. They range from organisational to economic and political obstacles. However, in most countries, there are clear signs of increased (and likely ongoing) engagement in multilateralism as part of an explicit ambition to play a greater role in development

co-operation (Turkey, the United Arab Emirates) and in international responses (Brazil, China), through both "traditional" and new multilateral institutions (e.g. the BRICS countries' New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB)).

Overall, the multilateral system has grown and become more diversified over time, mainly along geopolitical lines. The Arab and the Latin American subsystems have played important roles in mobilising and allocating finance and expertise to many countries, complementing the activities of the Bretton Woods institutions. Going forward, it seems likely that regional and sub-regional multilateral systems, largely financed by developing countries, will continue to evolve and grow and an additional system focused on infrastructure finance will take root in Asia. The world seems to be headed towards a more complex constellation of multilateral organisations. Substantial benefits are in the offing, with more resources being mobilised; more options and opportunities for developing countries to access finance; a more diverse array of financing modalities and instruments; and a greater voice and more influence for developing countries on the nature and direction of global development finance flows. There are, however, risks of duplication of efforts, increased transaction costs for client countries, inadequate safeguards to address harmful externalities, and excessive competition. Therefore, to improve the global multilateral system and gear it to effectively support the global partnerships needed to deliver the post-2015 development agenda, the international community should consider the following recommendations:

- **Accelerate reforms of the governance arrangements of multilateral organisations.** This would enhance these institutions' legitimacy and dissipate the prospect of disenfranchisement and disengagement by under-represented countries.
- **Enhance transparency and information exchange**, as well as the scope for inter- and intra-systemic co-ordination and more horizontal co-operation across existing and emerging multilateral institutions. The international multilateral system today is a complex web of global, regional and sub-regional institutions. There is a need to establish and reinvigorate co-operation frameworks to limit funding gaps and "aid orphans", identify complementarities and synergies, and enhance comparative advantages and the division of labour across the system.
- **Encourage reflection, analysis and discourse to facilitate more horizontal co-operation across existing and emerging multilateral development finance actors.** No strategic vision seems to be taking shape to guide international actors in dealing with the larger picture of multilateralism. Reflection and analysis on how to enhance co-operation across multilateral organisations will be needed to improve coherence and systemic effectiveness.

Countries beyond the DAC support developing countries with finance and technical skills

For decades, countries beyond the DAC have transferred resources and expertise to other nations to help improve their welfare and promote shared prosperity. This has taken place through different traditions and modalities. These long-standing co-operation efforts have become more prominent in recent years, alongside the economic growth of some of these countries. Today, non-DAC providers are an important and growing source of finance and expertise, supporting the development and humanitarian needs of countries throughout the world.

Additional sources of finance and knowledge are welcome, but effective partnerships are required to avoid duplication of efforts and maximise developmental impact. In an increasingly interconnected world there is a growing need for global responses and policy co-ordination. Implementing the broad and universal post-2015 development agenda also calls for inclusive partnerships to meet the challenges ahead. Multilateral organisations have a key role to play as politically neutral conveners of stakeholders, and as sources of expertise and knowledge. Much can be achieved by global partnerships that leverage knowledge and resources, including from the private sector and sovereign states beyond the DAC.

A heterogeneous group of countries, some with a long-standing tradition of supporting other nations

Like the DAC, providers beyond the DAC are a heterogeneous group. Non-DAC providers range from lower middle-income to upper middle-income to high-income. They are located in different geographic areas: Eastern Europe – primarily EU members that are not members of the DAC – the Middle East, Latin America and Southeast Asia. They include the BRICS countries, other emerging economies (e.g. Indonesia and Turkey) as well as Arab countries (e.g. Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates). Their development co-operation is rooted in different traditions, including South-South co-operation and solidarity based on cultural and religious ties. Overall it is not possible to classify these providers in mutually exclusive groups given the significant overlap among them in terms of the aims and features of their development co-operation. A few distinguishing features stand out:

- **South-South co-operation** is provided by developing countries, middle-income countries and emerging economies that share expertise and financial support. South-South providers include Brazil, China, India, Indonesia, Malaysia, South Africa, Thailand and Uruguay. Operations are guided by the principles of respect for national sovereignty; non-interference in domestic affairs; solidarity and equality among partners; alignment with national priorities; and mutual benefits (Tortora, 2011). Traditionally these providers have focused on sharing their development experience through technical assistance, which constituted the bulk of their operations. The wealthiest countries are also increasingly providing packages of support that bundle concessional and non-concessional finance and technical assistance with trade and investment incentives, often directed at neighbouring countries or regions. South-South development co-operation is generally characterised by fewer requirements (e.g. safeguards and standards), a predominance of project operations, and the provision of goods and services generally being tied to provider country sources.

Many of these providers are building their development co-operation systems, including enhancing internal co-ordination. Seven Latin American South-South providers do, however, have a co-ordination agency.

- **Arab donors** constitute a long-standing, well-established and generous community of like-minded countries mainly providing assistance to states and communities with which they share religious, cultural, linguistic and regional ties. Arab donors include Kuwait, Qatar, Saudi Arabia and the United Arab Emirates. Their assistance is provided in an effort to help reduce poverty, improve social and economic conditions, and strengthen commercial linkages and regional integration across Arab states. They share common standards and procedures, as well as sectoral priorities (infrastructure, agriculture, private sector). They provide assistance through competitive bidding, with few conditionalities (including tying provisions) attached. Arab donors have established their own multilateral development institutions basically mirroring the functions and remit of the global multilateral institutions (Box 5.2). Following the Arab Spring these donors have intensified their humanitarian support, both bilaterally and multilaterally.

Providers stepped up concessional finance to support development worldwide

For 27 providers beyond the DAC, the OECD/DAC publishes figures for financial flows that qualify as official development assistance (ODA).[2] These 27 countries provide the bulk of concessional development finance beyond the DAC. Figures are based on official reporting to the OECD/DAC for 18 countries[3] and OECD/DAC estimates for the other nine.[4] In 2013 these 27 countries provided approximately USD 23.5 billion compared to the USD 151.4 billion provided by DAC members in the same year; thus accounting for 13% of global concessional finance in 2013 (Figure 5.1).

Concessional finance disbursed by non-DAC providers has fluctuated significantly in recent years, but is on an overall upward trend. It almost doubled in 2013, with an 86% nominal increase compared to 2012. China has been increasing its financing to developing countries for many years; while other countries, such as Turkey, Saudi Arabia and United Arab Emirates, have increased their development co-operation more recently, in part to respond to the instability and humanitarian needs produced in the wake of the Arab Spring started in late 2010.

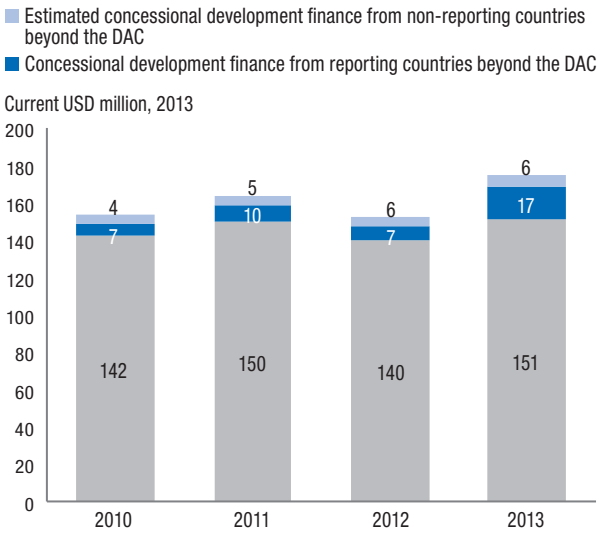
In 2010-13 the largest increases among non-DAC providers were recorded by the United Arab Emirates (with an almost ten-fold increase in concessional flows), Turkey (with a 242% increase) and Saudi Arabia (with a 67% increase). Saudi Arabia, the United Arab Emirates and Turkey account for 86% of all flows from the 18 reporting countries, having provided USD 5.8 billion, USD 5.5 billion and USD 3.3 billion, respectively, in 2013. Among non-reporting countries the largest financial providers are estimated to be China (USD 3.0 billion) and India (USD 1.3 billion).

Seven countries are estimated to be providing the bulk of concessional finance from non-DAC providers: Brazil, China, India, Saudi Arabia, South Africa, Turkey and the United Arab Emirates. They provided 82% of all flows from non-DAC providers in 2013 (Figure 5.2) (these countries are referred to as "focus countries" in the remainder of the chapter).

Figure 5.1 Non-DAC providers accounted for 13% of global gross concessional development finance in 2013

Gross disbursements

Panel A. Evolution of concessional development finance



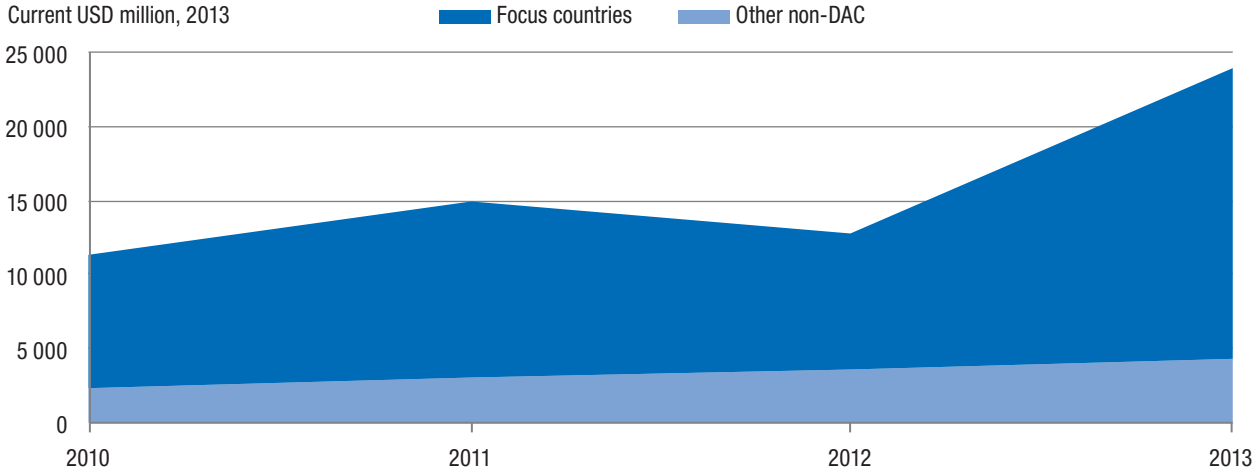
Panel B. Composition of concessional development finance in 2013



1. Note by Turkey: the information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
2. Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
3. Data on Kuwait only cover what reported by the Kuwait Fund For Arab Economic Development (KFAED).
4. Brazil and Mexico have not published data on their development co-operation for all the years included in this table. To complete the table, Brazil's development co-operation in 2011, 2012 and 2013 is estimated to be a the same level as in 2010 and Mexico's development co-operation in 2013 is estimated to be at the same level as in 2012.
5. Figures for India and South Africa are based on their fiscal years. For example, 2012 data correspond to fiscal year 2012/2013.

Source: Authors' calculations based on OECD/DAC estimates. StatLink *http://dx.doi.org/10.1787/888933247314*

Figure 5.2 The focus countries account for the bulk of concessional development finance beyond the DAC



Source: Authors' calculations based on OECD/DAC esimtates and official reporting to the OECD/DAC.
StatLink *http://dx.doi.org/10.1787/888933247322*

Main non-DAC providers partner with "traditional" multilateral organisations

This section examines the extent to which focus countries are increasing development co-operation through multilateral organisations and how this has evolved in recent years. The statistical data for such analysis is mainly based on data from annual reports of these multilateral organisations (Annex 5.A2). Focusing on these countries bears no pretence of providing an exhaustive picture of providers beyond the DAC. Instead, the aim is to provide a detailed analysis for a set of countries which – belonging to different traditions of development co-operation – can help shed some light on the diversity of non-DAC countries and the importance of their efforts. This section only considers contributions to those multilateral organisations that the DAC statistical system recognises as ODA-eligible[5] and so does not reflect the totality of these countries' multilateral contributions.

Brazil, China, India and South Africa are traditional South-South providers from the BRICS cluster, which have received wide recognition and considerable analysis over the past ten years as their long-standing co-operation endeavours have become more visible globally in the context of their strong economic growth. Saudi Arabia and the United Arab Emirates are long-standing funders of the Islamic multilateral institutions and have increased their support to other multilateral organisations to respond to humanitarian needs. Turkey and the United Arab Emirates are also driven by an ambition to become more important global actors.

Two patterns across focus countries: some are strongly engaged with multilateral systems and others have a higher preference for bilateral programming

There are considerable differences among the focus countries in terms of their support for multilateral organisations. Among the BRICS considered here there are two patterns: Brazil and South Africa are investing strongly in the multilateral system, while China and India provide a much smaller share of their total development co-operation to multilateral institutions. Sau di Arabia, Turkey and the United Arab Emirates are also focused on bilateral funding arrangements, with only a small share of total aid being allocated to multilateral organisations. In 2013 core contributions[6] to multilateral organisations as a share of gross concessional finance were estimated to be less than 7% in the case of China, India, Saudi Arabia, Turkey and the United Arab Emirates[7] while they were 25% in the case of Brazil[8] and 45% in that of South Africa. For reference, the average for DAC members is 28%.

South Africa has been a strong supporter of African continental and regional structures. These are perceived to be appropriate vehicles for delivering development co-operation, in line with South Africa's cross-border security and governance priorities. Its multilateral assistance, which rose steadily from 34% to 45% of total concessional finance in 2010-13, includes large contributions to the African Development Bank (AfDB), the African Union (AU) and the Southern African Development Community (SADC), which together accounted for 52% of all of South Africa's allocations in 2009-13.

Although China and India allocate substantial resources to the multilateral system, they provide the bulk of their development co-operation though bilateral programmes, similar to some large DAC members such as Japan and the United States. Estimates of China's multilateral share of concessional finance show fluctuations between 7-11% in 2009-13, averaging 9%. India provided 5-6% of its total estimated concessional finance for development to the multilateral system between 2010 and 2013. The large bilateral portion of concessional finance reflects important trade and investment linkages, the magnitude of the financial resources on tap, China and India's "large country" perspectives and aspirations, and their foreign policy priorities. China's approach includes delivering aid-trade-investment packages in a similar vein to the Japanese development co-operation practices in China and Southeast Asia in the 1980s and 1990s (Nissanke and Shimomura, 2013). However, as discussed in greater detail later, both China and India are progressively investing more multilaterally.

For Saudi Arabia, Turkey and the United Arab Emirates, funding to multilateral organisations also represents a low share of their total development finance. Although multilateral aid averaged only 5% of Turkey's total aid in 2009-13, it has generally kept pace with large increases in total gross ODA (from USD 707 million to USD 3.3 billion). For United Arab Emirates, it averaged 7% in 2012. For Saudi Arabia, total funding to multilateral institutions has fluctuated over time also due to fluctuations in overall concession finance, e.g. the share of multilateral funding fell from 25% in 2012 to 5% in 2013. These figures should be considered carefully given the absence of data regarding contributions to various Arab multilateral institutions (some of which are currently not reflected in DAC statistics).

All seven focus countries also make use of earmarked funding, although to a limited extent and for different reasons. Taking into account earmarked resources, the patterns described above do not change significantly (see the section below on the use of earmarked funding).

All countries have increased funding to multilateral organisations and China is no longer the hugely predominant provider among the focus countries

The focus countries provided together USD 5.2 billion in core and non-core resources to ODA-eligible multilateral organisations in 2009-13. This figure is smaller than financial support from DAC members, which totalled USD 59 billion in 2013 alone. Despite some fluctuations, the focus countries' contributions are on the rise. In 2013 they provided considerably larger amounts of core and non-core resources to ODA-eligible multilateral organisations than in 2009: USD 1.2 billion, up from USD 794 million.

Of the seven focus countries China was the largest multilateral provider in 2009-13, providing core and non-core resources totalling USD 1.7 billion. It was followed by Brazil (USD 1 billion), Saudi Arabia[9] (USD 1.2 billion), Turkey (USD 407 million), South Africa (USD 395 million), the United Arab Emirates (USD 329 million) and India (USD 224 million). The average share of core funding in total multilateral funding is fairly high at 71%. It ranges from 52% (the United Arab Emirates) to 94% (Turkey),[10] demonstrating that funding to multilateral organisations was mainly provided as core resources (Table 5.1).

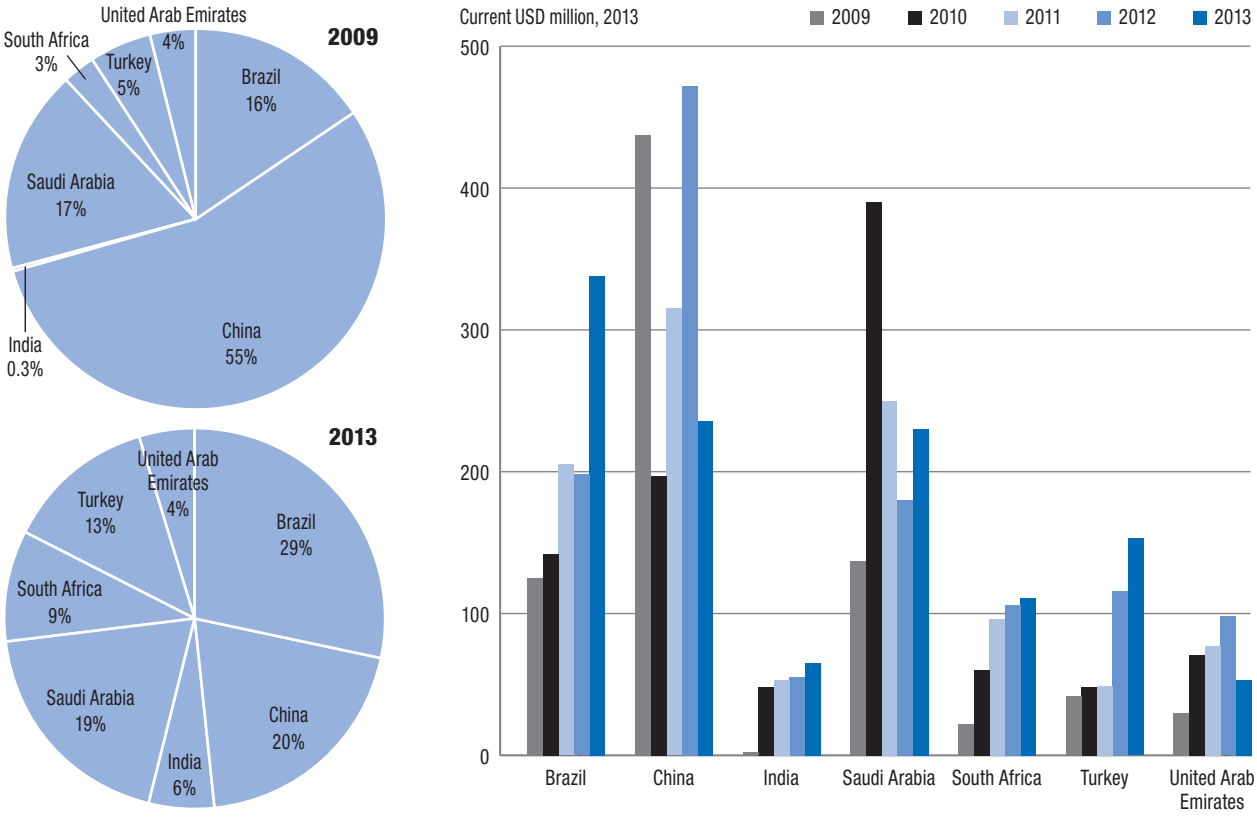
Table 5.1 **Total funding to multilateral organisations from focus countries in 2009-13**

	Total funding in USD million	Core resources in USD million	% of core resources
Brazil	1 007.6	663.4	66%
China	1 657.1	1 214.4	73%
India	224.1	202.0	90%
Saudi Arabia	1 187.2	721.3	61%
South Africa	395.3	335.8	85%
Turkey	407.4	382.4	94%
United Arab Emirates	329.3	170.1	52%
Grand Total	5 208.0	3 689.3	71%

Source: Authors' calculations based on OECD/DAC estimates and official reporting to the OECD/DAC.

StatLink http://dx.doi.org/10.1787/888933247917

Figure 5.3 **All focus countries have increased their funding to multilateral organisations and China is no longer the predominant provider**



Source: Authors' calculations based on OECD/DAC estimates.

StatLink http://dx.doi.org/10.1787/888933247334

However, the "balance" among these countries is shifting and China is no longer the hugely predominant provider in the group.[11] In 2013, the largest volumes came from Brazil. As shown in Figure 5.3, finance provided by the other countries grew progressively in 2009-13. The largest increases were recorded by India, Turkey and South Africa, each of which more than tripled its multilateral spending. Brazil more than doubled its support for multilateral organisations, while Saudi Arabia and the United Arab Emirates increased this support by 68% and 79%, respectively. In 2013 China accounted for only 20% of total funding to multilateral organisations from focus countries (down from 55% in 2009) and Brazil accounted for 29%.

Box 5.1 *Turkey's foreign policy reorientation and ambition to become a more substantial player in its region and beyond*

Turkey's development co-operation has grown significantly in the past few years, spurred on by its unprecedented economic performance[12] as well as the reorientation of its foreign policy. Following the rise to power of the Justice and Development Party, the focus of foreign policy moved from the West to the region, reflecting aspiration for a leadership role in the region and beyond (Hausmann, 2014).

At the same time, Turkey has engaged more strongly in international fora and organisations due to its desire to be part of a responsive new international order (Haşimi, 2014). This is why, in addition to increasing its financial contributions to multilateral organisations, Turkey has used its convening power to support specific topics multilaterally and has taken steps to become a normative power in the region and globally. It has been a crucial provider of humanitarian assistance during the crises in Myanmar, Somalia and Syria, mainly bilaterally but also through large contributions to the World Food Programme (WFP), the UN Refugee Agency (UNHCR), the UN Office for the Coordination of Humanitarian Affairs (UNOCHA) and the Central Emergency Response Fund (CERF). Turkey took a position in support of enhancing the focus of development co-operation on least developed countries when it hosted the United Nations Conference on the Least Developed Countries in Istanbul in 2011 (and committing to provide USD 200 million a year to these countries bilaterally). Since 2011 it has hosted UNDP's policy hub on private sector and development (UNDP International Center for Private Sector in Development). Turkey will host the first UN World Humanitarian Summit in Istanbul in 2016.

In recent years Turkey has affirmed the importance it gives to enforcing international law and justice through the UN system. It held its first non-permanent membership seat on the Security Council between 2009 and 2010 and applied in 2013 for non-permanent membership in 2015-16. At the same time, Turkey has called for better representation of states at the UN and criticised the Security Council's representative capacity, which is restricted by the veto power of any single permanent member (Parlar Dal, 2013).

Specialised UN agencies and other UN entities receive the greatest funding as a group, but IDA is the largest individual recipient

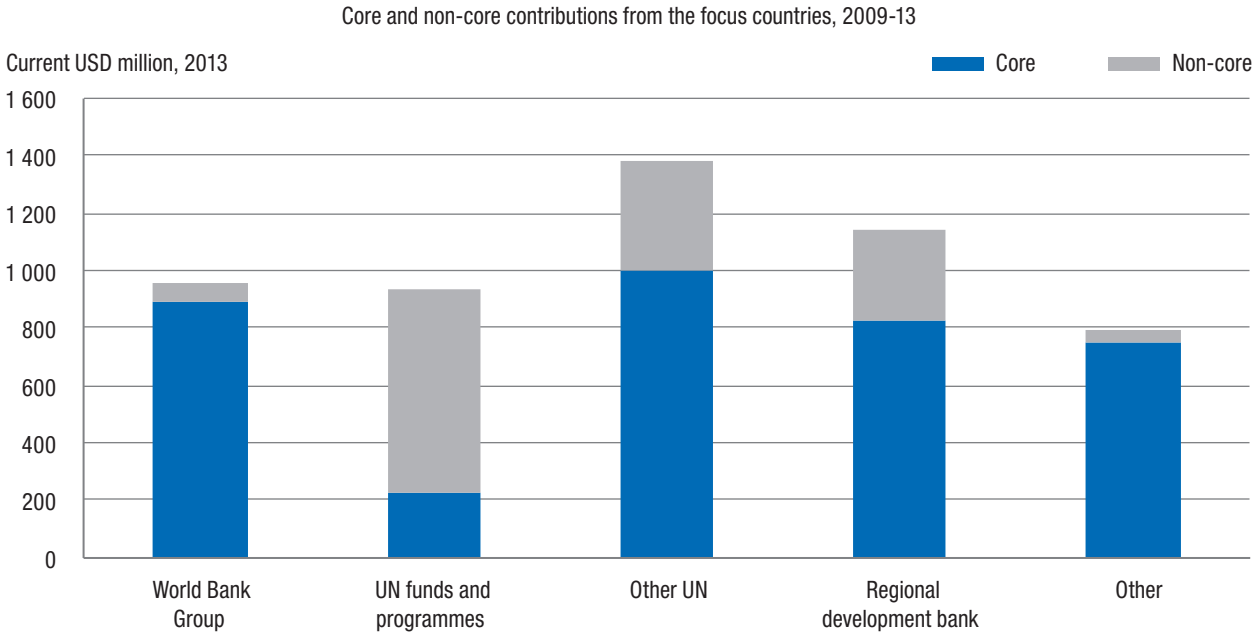
Across the clusters of ODA-eligible multilateral organisations generally considered in this report, funding from the focus countries in 2009-13 was distributed differently than funding from DAC members. Key differences include:

- Almost half of all multilateral funding (core + non-core) from the focus countries was concentrated on the UN system (44%, or USD 2.3 billion), especially UN specialised agencies and other UN entities ("Other UN"[13] in Figure 5.4), which received the largest share of 2009-13 funding (26%, or USD 1.4 billion). DAC members' funding is instead mainly concentrated on the EU, the World Bank Group, and UN funds and programmes, each of which receives around 20% of total DAC funding (Chapter 1).
- Regional banks are the second largest recipient cluster of funding (22% of all funding, or USD 1.1 billion). This figure is largely impacted by China's financing to regional development banks (66% of all of its multilateral funding in 2009-13), especially IaDB and AfDB (USD 531.20 million and USD 209.86 million, respectively).
- The World Bank Group received 18% of all multilateral funding from the focus countries in 2009-13 (USD 953 million), mainly because of contributions to its concessional lending arm, the International Development Association (IDA). Unlike DAC members, focus countries' contributions to trust funds are minimal[14] (only 4% of all funding to the World Bank Group,[15] or USD 66 million).
- Almost three-quarters of non-core funding from the focus countries is directed to UN organisations (72%, or USD 1.09 billion), especially UN funds and programmes[16] (USD 713 million). The majority of the funding from focus countries to UN funds and programmes is earmarked (76%), similar to DAC members.

Looking at individual organisations, the following findings for 2009-13 stand out:

- IDA is the largest individual recipient, mainly due to contributions by Brazil, China and Saudi Arabia (USD 319 million, USD 191 million, and USD 163 million, respectively) (Figure 5.5).
- Among the regional development banks, IaDB is the largest recipient and the second largest individual recipient overall, mainly because of China's contributions. AfDB is next among regional banks, having received funding from five of the focus countries, while the Asian Development Bank (AsDB) received much smaller funding over the same period, and only from China and India.
- Among UN entities, the largest recipients of funding from the focus countries were those with a humanitarian mandate. The World Food Programme (WFP) was the largest UN recipient (USD 373 million) on the strength of large contributions especially by Saudi Arabia and Brazil. It was followed by the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which received funding from all the focus countries except South Africa, mainly Saudi Arabia and the United Arab Emirates. The only top UN recipient with no humanitarian mandate was the Food and Agriculture Organization (FAO). It was the third largest UN recipient and seventh largest recipient overall. FAO received funding from all the focus countries, mainly China, Brazil and Saudi Arabia.

Figure 5.4 ***United Nations specialised agencies and other United Nations entities receive the bulk of funding from the focus countries***



Source: Authors' calculations based on OECD/DAC estimates.

StatLink *http://dx.doi.org/10.1787/888933247340*

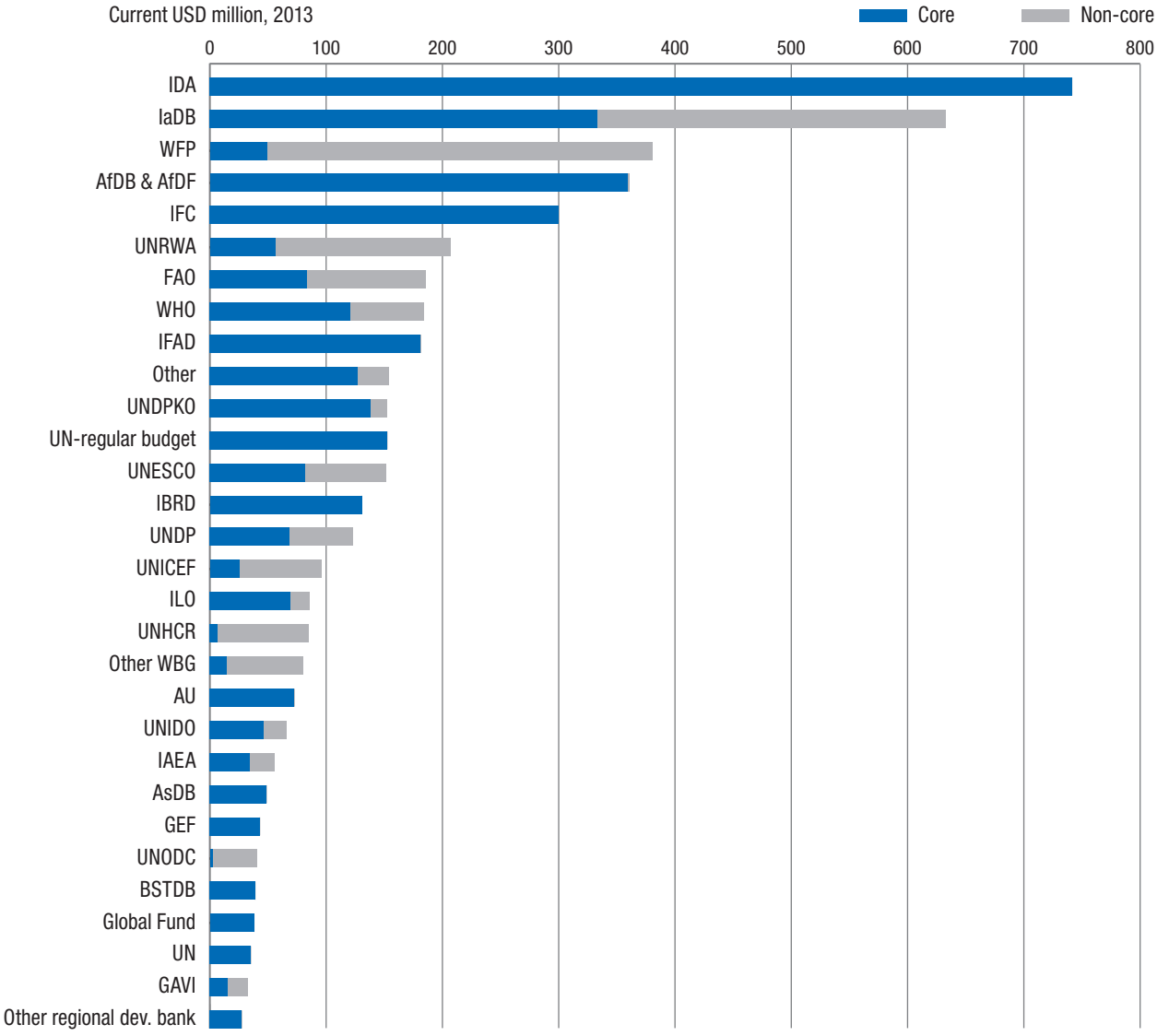
The focus countries engage with the UN mainly to address humanitarian needs and expand their development co-operation on shared priorities

Contributing to address humanitarian needs has been a priority for all the focus countries, and investing multilaterally has been for many a complement to their bilateral engagement in this area (e.g. Turkey's engagement in Somalia, Brazil's in Haiti). The focus countries have increasingly supported co-ordinated international response mechanisms and have channelled a significant volume of resources through international institutions. For example, in 2009-13 UNHCR, UNRWA and WFP together received USD 673 million, or 29% of all funding to UN entities from the focus countries. China, which has long acted almost exclusively through bilateral channels, has been playing a more important role as part of the international humanitarian community, especially in response to the Ebola crisis. It has provided considerable support to efforts to combat the Ebola epidemic through co-ordinated international response mechanisms: in October 2014 it pledged USD 6 million to WFP and USD 2 million each to WHO and the African Union. In December 2014 it contributed an additional USD 6 million to the UN Ebola Response Multi-Partner Trust Fund.[17] Being largely linked to humanitarian needs, funding to UN entities has been fairly volatile year on year.

Brazil, China, India, South Africa and Turkey have also engaged with the UN system to foster South-South co-operation and improve their own institutional and implementation capacities (see also Box 5.4). For example, all these countries have strategic partnership agreements with UNDP which have helped expand South-South co-operation in support of mutually agreed development priorities. They have also partnered with the UN and DAC donors in triangular co-operation projects, combining the strengths of different development actors. Brazil and India have substantially increased their funding to the UN regular budget and are among the largest developing country contributors to the UN regular budget. India has also increased core funding to several specialised UN agencies.

Figure 5.5 ***The International Development Association is the focus countries' largest individual recipient, followed by the regional banks and some United Nations specialised agencies***

Core and non-core contributions in 2009-13, top 30 recipient multilateral organisations



Source: Authors' calculations based on OECD/DAC estimates. StatLink *http://dx.doi.org/10.1787/888933247357*

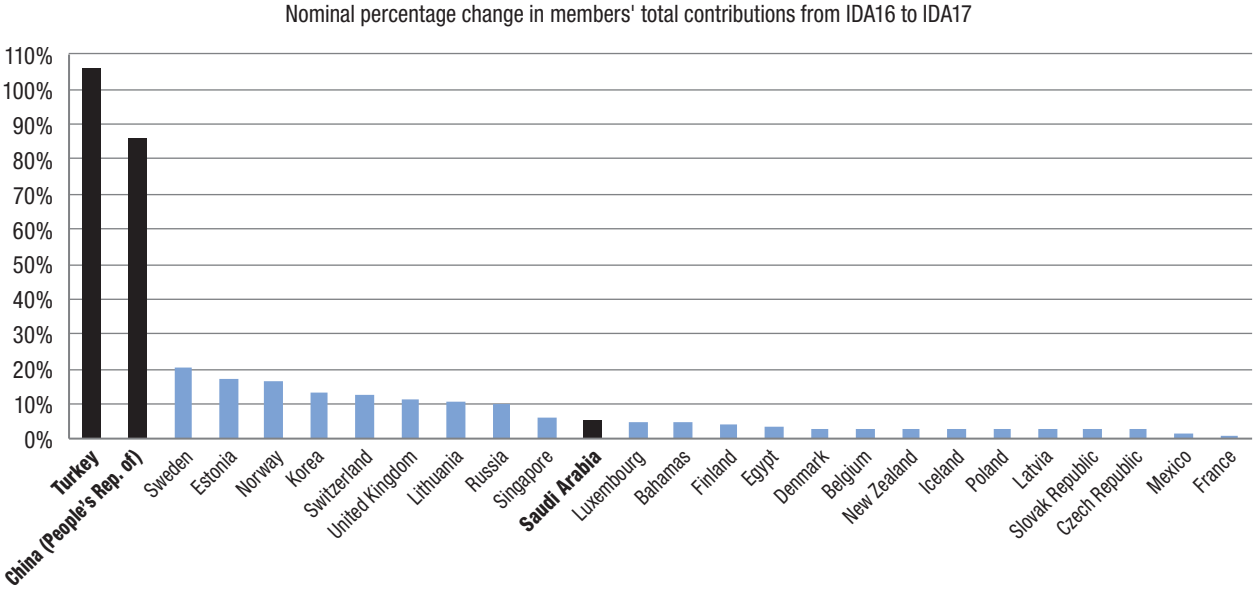
Interviews conducted with UN entities[18] suggest that engaging with non-DAC providers is a priority for these organisations. Engaging is reported to be difficult due to the countries' lack of structured programming and budgeting cycles. In general the UN entities do not expect large funding increases in the medium term. These partnerships are, however, perceived as critical, both to help the countries become stronger players in the development co-operation landscape and to leverage their experience as well as establish a more diversified – thus less vulnerable – funding base..

Engagement with the World Bank Group takes place mainly through the International Development Association

The World Bank Group received a considerable share of the focus countries' multilateral funding in 2009-13 (USD 953 million, or 18% of the total). Funding to the World Bank Group was in 2013 almost three times larger than in 2009 although funding from individual focus countries fluctuated in this period. Brazil, Saudi Arabia and Turkey allocated the largest shares to the World Bank Group: between 41% and 38% of all of their multilateral funding in 2009-13. Other focus countries allocated between 15% and 0.3% of their funding to the World Bank Group.

IDA received most of the funding (USD 741 million) within the World Bank Group. All the focus countries except for the United Arab Emirates provided financing to IDA. In 2009-13 Brazil more than doubled its contributions to IDA, reaching USD 178 million. While the 17th replenishment of IDA (IDA17) led to aggregate pledges close to those of the previous replenishment cycle in real terms (Chapter 1), China and Turkey recorded the largest nominal increases (Figure 5.6). Saudi Arabia also increased its contributions by 6%. On the other hand, South Africa decreased its contributions by 14% and the United Arab Emirates did not contribute to either replenishment cycle (Table 5.2).

Figure 5.6 ***Turkey and China recorded the largest nominal increases in IDA17 replenishment***



Source: Authors based on statistics from Table 1 in Annex 5 of IDA 16th and IDA 17th replenishment reports (World Bank (2011) and World Bank (2014) respectively). StatLink http://dx.doi.org/10.1787/888933247366

Table 5.2 *Brazil, China and Saudi Arabia were among the top 25 contributors to IDA17*

Ranking in IDA17	Country	Contribution in SDR million		% change	Ranking in IDA16
		IDA17	IDA16		
1	United Kingdom	3 000.79	2 696.08	11%	2
2	United States	2 568.64	2 712.79	-5%	1
3	Japan	2 310.10	2 442.02	-5%	3
4	Germany	1 396.47	1 448.04	-4%	4
5	France	1 134.16	1 128.42	1%	5
6	Canada	903.98	908.90	-1%	6
7	Sweden	797.85	663.56	20%	9
8	Netherlands	649.28	671.43	-3%	8
9	Switzerland	530.89	471.68	13%	11
10	Italy	495.04	529.02	-6%	10
11	Australia	410.81	459.86	-11%	12
12	Belgium	361.41	351.10	3%	13
13	Norway	349.37	300.42	16%	15
14	Austria	344.15	348.44	-1%	14
15	Korea	253.90	224.61	13%	17
16	Spain	253.31	689.34	-63%	7
17	Denmark	252.24	244.98	3%	16
18	Finland	227.53	218.43	4%	18
19	China	199.05	107.02	86%	20
20	Russia	127.00	115.50	10%	19
21	Ireland	78.16	-		-
22	Saudi Arabia	77.58	73.58	5%	21
23	Mexico	67.01	66.14	1%	23
24	Brazil	66.35	66.56	0%	22
25	Luxembourg	43.77	41.76	5%	26
26	Kuwait	37.46	51.78	-28%	24
27	Singapore	34.50	32.62	6%	27
28	New Zealand	27.93	27.14	3%	28
29	Turkey	26.95	13.07	106%	34
30	South Africa	19.89	23.14	-14%	29
31	Malaysia	17.91			-
32	Hungary	13.50	13.48	0%	33
33	Czech Republic	12.46	12.15	3%	36
34	Indonesia	12.08	0.00		-
35	Portugal	8.68	19.62	-56%	31
36	Poland	6.92	6.74	3%	39
37	Iceland	6.92	6.74	3%	40
38	Argentina	4.64	45.00	-90%	25
39	Estonia	3.34	2.85	17%	43
40	Thailand	3.28			-
41	Slovenia	3.04	5.97	-49%	41
42	Bahamas	2.70	2.58	5%	44
43	Slovak Republic	2.31	2.25	3%	45
44	Latvia	2.31	2.25	3%	46
45	Lithuania	2.27	2.05	11%	47
46	Egypt	1.61	1.56	3%	49

Table 5.2 ***Brazil, China and Saudi Arabia were among the top 25 contributors to IDA17*** *(Continued)*

Ranking in IDA17	Country	Contribution in SDR million		% change	Ranking in IDA16
		IDA17	IDA16		
47	Philippines	0.00	7.52	-	38
48	Peru	0.00	10.32	-	37
49	Kazakhstan	0.00	2.00	-	48
50	Israel	0.00	16.46	-	32
51	Iran, Islamic Republic	0.00	12.25	-	35
52	Cyprus	0.00	4.49	-	42
53	Chile	0.00	22.96	-	30
54	Barbados	0.00	0.45	-	50

Note by Turkey: the information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Authors based on statistics from Table 1 in Annex 5 of IDA 16th and IDA 17th replenishment reports (World Bank (2011) and World Bank (2014) respectively). StatLink *http://dx.doi.org/10.1787/888933247921*

The International Bank for Reconstruction and Development (IBRD) accounted for Turkey's large share of multilateral funding to the World Bank Group in 2009-13. Turkey's funding to IBRD has grown strongly especially since 2012, most likely to increase liquidity for middle-income countries affected by the Arab Spring.

Most of the focus countries have also contributed steadily to some large Financial Intermediary Funds (FIFs),[19] for which the World Bank acts as a trustee, but use of trust funds is in general minimal. Contributions to FIFs in 2009-13 included: the Global Environment Facility (GEF) (USD 43 million), the Global Fund (USD 58 million), Gavi (USD 33 million by the United Arab Emirates) and CGIAR (USD 15 million). Saudi Arabia's large share to the World Bank Group is mostly accounted for by a one-off USD 300 million contribution to an International Finance Corporation (IFC) trust fund. The trust funds to which the focus countries contributed are mainly multi-donor.

Non-DAC providers also invest in other multilateral systems

The statistics presented so far may underestimate the actual support to multilateral institutions provided by many of the focus countries and other non-DAC providers of development co-operation. They reflect the concepts and definitions of the OECD/DAC statistical system, which currently recognises some 200 ODA-eligible multilateral institutions. Although the OECD/DAC list of ODA-eligible multilateral institutions is updated regularly and more institutions are added, potentially numerous Southern multilateral institutions are currently not found there. The text below provides highlights of the systems of multilateral organisations to which non-DAC providers contribute. It also explores recent developments heralding new trends: the emergence of a new multilateral sub-system supported by the BRICS, and China's leadership role as a development financier, particularly vis-à-vis new multilateral infrastructure funds in Asia and Eurasia.

Box 5.2 *Islamic and Arab multilateral institutions*

The Arab multilateral system mirrors the larger global multilateral system. It includes a monetary fund for addressing balance of payments shortfalls and monetary stability; two multilateral development banks with a global reach providing credit and trade services to sovereign and private investors; and a series of sub-regional development banks sponsored by different constituencies that finance regional integration and economic growth across the Arab and Muslim world. In 2013 Arab leaders agreed at the Riyadh Summit to increase the capital of Arab multilateral institutions by at least 50% to ensure more effective support for the growing development needs of Arab states and Muslim communities. The key Arab multilateral development institutions are briefly described below:

- **The Arab Fund for Economic and Social Development** is the development finance institution of the Arab League. The first Arab multilateral fund established (in 1968), it is charged with strengthening Arab integration and co-operation by funding public and private investment projects to further economic and social development. The Arab Fund provides loans, grants and technical assistance to Arab League members. It also provides Secretariat services to the Arab Coordination Group.

- **The OPEC Fund for International Development (OFID)** was created in 1976 with a remit to reinforce financial co-operation between members of the Organisation of the Petroleum Exporting Countries (OPEC) and other developing countries and to promote socio-economic development through public and private sector loans, trade finance, and grant assistance for food aid, emergency assistance and HIV treatment. Least-developed countries are a key focus of OFID's operations: to date 134 countries worldwide have benefited from its financial assistance.

- **The Islamic Development Bank (IsDB)** is the largest Arab multilateral institution, established in 1973 by then-members of the Organisation of Islamic Cooperation with a remit to foster the economic development and social progress of member countries and Muslim communities in accordance with the principles of *Shari'ah* (Islamic law). Today the IsDB consists of five separate entities: a development bank, a research/training institute, and institutions providing investment insurance and export cover, private sector investment loans, and trade finance.

- **The Arab Bank for Economic Development in Africa (BADEA)** was created in 1974 by 18 member states of the Arab League to promote African development through joint Arab/African solidarity. The Bank provides mostly concessional loans, financed through capital subscriptions and accumulated reserves.

- **The Arab Monetary Fund (AMF)** was founded by Arab League states in 1976. It provides balance of payments support to member states, promotes enhanced Arab monetary co-operation, and supports training and technical assistance in monetary and financial market oversight and management.

Long-standing support for regional institutions

The world's multilateral development system originated more than 70 years ago with the creation of the World Bank and the International Monetary Fund (IMF) at the Bretton Woods conference. A decade later another tier of multilateral development banks was established, broadly reflecting global trends towards regionalism, the rise of new independent states following decolonisation, and emerging development finance needs. These regional institutions were characterised by more representative governance arrangements reflecting regional powers and borrowing governments, and an operational focus on project and sector investments rather than policy-based lending. Further expansion of the multilateral system took place in the 1970s and 1980s with the establishment of a large number of sub-regional development finance institutions. Another significant stage in the evolution of the multilateral aid system began in 1991 with the creation of the GEF and subsequently of several "special purpose funds" (Manning, 2014). Today the multilateral landscape is broad and complex, involving institutions with overlapping mandates and a multitude of processes and procedures, operational priorities, and institutional relationships and rivalries. Few multilateral institutions have a truly global membership and they co-exist with a number of more recent smaller multilateral organisations that have distinct (yet sometimes overlapping) constituencies.

Non-DAC providers of development co-operation have been important supporters – both politically and financially – of multilateral institutions that are specific to their regions. Leading examples in this regard include the Arab and the Latin American multilateral systems, both of which are well-established, present interesting contrasts in terms of the scope of their activities and inter-agency co-ordination, and have evolved over time to adapt to changing international circumstances. The main features of the long-standing and emerging constellations of multilateral organisations to which non-DAC providers contribute are sketched below.

The Islamic/Arab multilateral system: a structured set of institutions attracting large funds from members

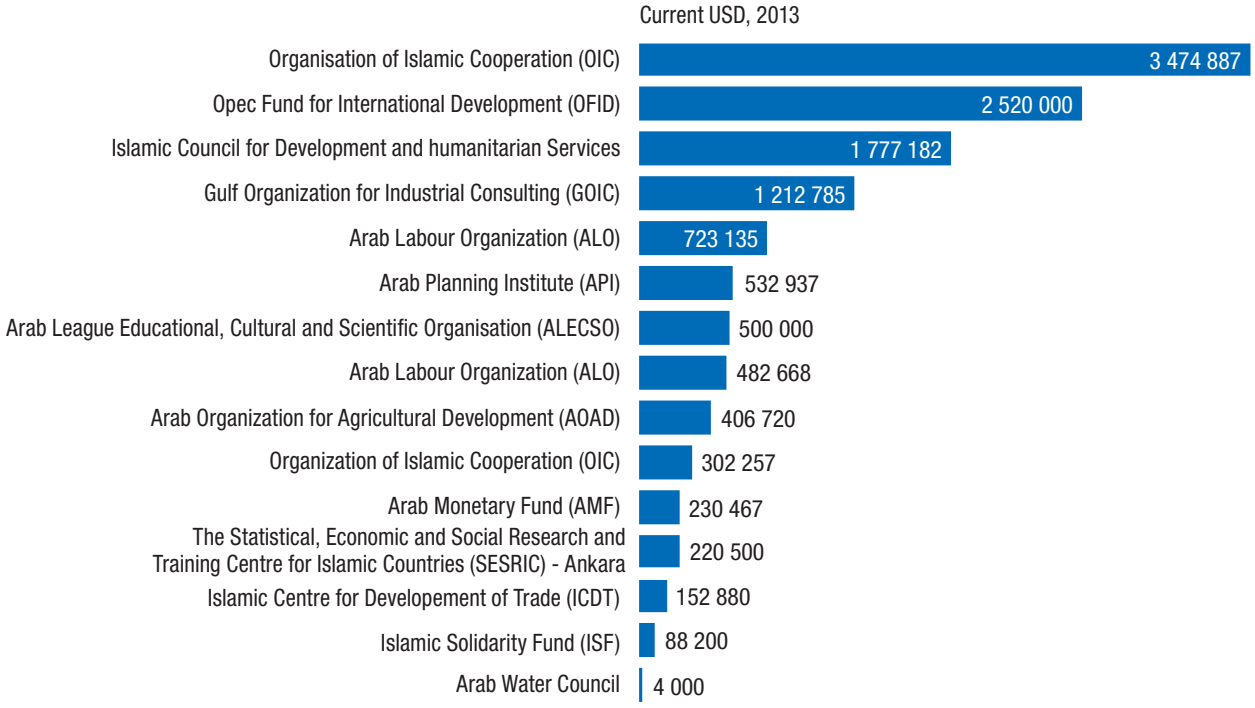
Arab and Islamic providers have invested largely in multilateralism. They established an ecosystem of multilateral institutions in the 1970s as a way of promoting development and economic linkages across Arab and Muslim communities. Over the past 40 years this multilateral system has provided financial support and expertise to a large number of developing countries and extended the reach of sovereign development funds from Kuwait, Qatar, Saudi Arabia and the United Arab Emirates.

The success of this system builds on the cultural and linguistic affinities of Arab countries and the close institutional linkages they actively promote. Arab donors co-ordinate their operations under the aegis of the Arab Co-ordination Group, established in 1975 as a mechanism to enhance aid effectiveness through co-financing, delegated co-operation arrangements, and common administrative and procurement procedures. The members of the Arab Coordination Group Institutions meet regularly with the DAC to discuss development issues, identify ways to better co-ordinate activities and learn from each other's experiences. Three institutions established by the Arab League provide services to members in their respective regions and in their interactions with Muslim communities in Africa (Box 5.2). These institutions finance their lending operations conservatively through paid-in capital and accumulated reserves. In addition, the OPEC Fund for International Development

(OFID) and the Islamic Development Bank (IsDB) are larger multilateral institutions with a global reach, which provide a mix of products and services. IsDB leverages its funding base by tapping international capital markets, and OFID is considering this financing option.

The United Arab Emirates contributed a total of USD 12.15 million in 2009-13 to some Arab and regional institutions that are currently not on the DAC list of ODA-eligible international institutions. For example, OFID is a large multilateral organisation promoting regional integration and economic growth around the globe (Box 5.2) to which the United Arab Emirates contributed USD 2.5 million in 2009-13. (Figure 5.7).

Figure 5.7 ***The United Arab Emirates provides funding to several multilateral organisations in addition to those currently on the DAC List of ODA-eligible international institutions, 2009-13***



Source: Authors' calculations based on statistical data provided by United Arab Emirates' Ministry of International Cooperation and Development. StatLink *http://dx.doi.org/10.1787/888933247373*

The Latin American multilateral system: a more diversified ensemble

The Latin American multilateral system is larger, more diversified and more geographically focused than the Islamic/Arab multilateral system. Most of its institutions were established more recently, in the 1970s and 1980s. The pillars of this system include one regional (IaDB) and three sub-regional development banks (the Caribbean Development Bank, the Central American Bank for Economic Integration and the Latin American Development Bank). It also includes a regional trade financing and clearance bank (the Latin American Export Bank), and a regional fund for

addressing balance of payments shortfalls (the Latin American Reserve Fund). Many of these multilateral institutions function at the sub-regional level and were established by different sets of countries that shared common development objectives and challenges shaped by regional priorities (e.g. economic integration, industrial specialisation, trade relations) and specific geographic contexts (e.g. island states, the Andean highlands, the Central American isthmus).

Two features distinguish the Latin American multilateral system: the breadth of activities covered (ranging from development banking to clearance arrangements for international trade to balance of payments support) and borrowing countries' high degree of ownership of these institutions (where they are majority shareholders and decision makers). These features have translated into high repayment performance and thus excellent financial standing on international capital markets. Together the different Latin American multilateral institutions have played an important redistributive role at the regional level, facilitated greater diversification of borrowing countries' financial options and strategies, and reinforced intra-regional trade agreements (Ocampo and Titelman, 2012).

On the development banking side, virtually all countries in the region have active lending and technical assistance operations with the World Bank, IaDB, and at least one of the sub-regional institutions. This somewhat crowded landscape has generated competition among actors, which in turn has encouraged institutional differentiation, a client focus, and customised products tailored to borrowing countries' needs and priorities. Although this regional system is steadily being consolidated and has proven its utility (as attested by recent capital increases for several institutions), weak co-ordination across multilateral organisations has created widespread problems (e.g. poor collaboration, insufficient information exchange, duplication, and silo approaches) that mirror those found elsewhere in the multilateral system.

New trends: the emerging BRICS multilateral system and China's role as a development financier

The rapid growth and economic transformation of the BRICS emerging economies, as well as China's considerable exchange reserves, have stimulated recent decisions and initiatives that are shifting the long-standing configuration and dynamics of the international multilateral system. These developments are still unfolding, but they augur changes that will have implications for the functioning and management of the larger multilateral system.

In July 2014 the BRICS countries announced their commitment to establish a new multilateral development bank, the New Development Bank (NDB) (Box 5.3), as well as a common reserve of currency swaps, the USD 100 billion Contingent Reserve Arrangement. These two initiatives are a response to the perceived deficiencies of the prevailing multilateral system for these countries: the slow pace of governance reform of the Bretton Woods institutions, the conditionalities attached to lending from these institutions, limits on World Bank lending to middle-income countries, and concerns about these countries' liquidity options in a post-crisis global context. They are also a bid to promote Southern solidarity and an alternative approach to development finance, drawing on the BRICS countries' own development experience and features of South-South co-operation including a focus on infrastructure bottlenecks, productive capacity, and trade and investment linkages.

Box 5.3 *The BRICS countries' New Development Bank*

The decision by the BRICS countries to establish a new multilateral development bank, announced at their annual summit in Fortaleza, Brazil, in July 2014, was reached after two years of reflection, discussions and negotiations. It was an important advance with respect to their intention to function as a unified geopolitical collective and create alternative options for international collaboration and development.

The New Development Bank (NDB) has a remit to operate globally in financing infrastructure and sustainable development. Key leadership, governance and ownership features are resolutely balanced, democratic and equal across the five founding members: executive positions rotate, equal capital contributions translate to equal shareholding rights, no veto powers exist, major decisions will call for a four out of five majority, and as a group the founding members will retain a 55% voting majority regardless of future NDB expansion through additional shareholders. While the NDB's USD 50 billion subscribed capital base is modest in relation to that of the World Bank and the Asian Development Bank (USD 237 billion and USD 162 billion, respectively), special funds can be set up by different founding shareholders that could potentially greatly expand the NDB's financing capacity. The full scope of financing that could potentially be mobilised by the NDB could conceivably be quite large if the substantial resources of China's state-owned banking system and Brazil's development bank are mustered through co-financing operations.

The NDB will mobilise additional resources, create new financing options for developing countries, and increase competition across the non-concessional funding windows of other multilateral development banks – which bodes well for enhancing systemic efficiency and innovation. It will also be positioned to facilitate dissemination of South-South development good practice and alternative development models more broadly across the international community. At the same time, it faces daunting challenges in setting up operations (e.g. systems, procedures, rules and regulations), reaching agreement across all founding members on key decisions (e.g. institutional oversight arrangements, loan policies and terms, project appraisal criteria, new clients, additional shareholders), and establishing prudential and regulatory standards to guard against politicised lending and to manage risks.

To enhance the effectiveness of the multilateral system, information on lending and performance will need to be transparent and readily accessible to all development actors. This will be essential to inform broader resource allocation decisions by different bilateral and multilateral actors and correctly assess the debt sustainability of borrowing countries. In addition, it will be important to feature in operations existing international good practice regarding environmental and labour safeguards and procurement standards. Co-ordination and collaboration between all development actors, bilateral and multilateral, will be essential to reduce overlaps and duplication for better development impact.

In parallel with efforts to establish the new BRICS multilateral institutions, China has emerged in the past five years as a major player investing in (and leveraging additional funds for) an array of bilateral and multilateral development finance funds and institutions. Regional equity investment funds for Africa (up to USD 5 billion) and Association of Southeast Asian Nations (ASEAN) members (up to USD 10 billion) have been established, as well as joint funds with a number of developing countries (including Kazakhstan, Mexico, Venezuela and Russia). Sizeable joint undertakings with the sovereign wealth funds of Qatar and the United Arab Emirates (up to USD 10 billion each) are also being discussed. More broadly, in January 2014 the Chinese leadership announced plans to invest up to USD 250 billion in Latin America over the next decade. These initiatives will enable China to capitalise on its vast foreign exchange reserves (which totalled approximately USD 3.9 trillion in 2014), strengthen trade and investment linkages with a large number of countries in different regions, encourage use of the yuan as a reserve currency, and position itself as a rising global power.

China also announced plans in 2014 to launch two major financial initiatives in Asia, the USD 100 billion multilateral Asia Infrastructure Investment Bank (AIIB) and the USD 40 billion Silk Road Fund (SRF). These institutions will focus on regional infrastructure connectivity as a way to upgrade industrial output and enhance the international competitiveness of regional supply chains. Governance arrangements and funding shares have yet to be worked out for these multilateral initiatives, but as a core funder (up to USD 50 billion for the AIIB and USD 40 billion for the SRF) China will play a leadership role. More than 22 Asian countries have expressed interest in participating in the AIIB, which is slated to become operational by the end of 2015. However, the AIIB is not likely to be an exclusively Asian institution: in March 2015 the United Kingdom announced its intention to become a prospective founding member, the first major Western country to seek to join the bank. Shortly thereafter, France, Germany and Italy also announced their interest. Other non-Asian countries are likely to do so in the future. Once these two funding initiatives are fully capitalised, they will be in a position to contribute financing Asia's very considerable infrastructure needs (projected at USD 775 billion per annum over the next ten years). While the vast majority of this finance will come from national budgets and, secondarily, from the private sector, international public finance will play an important catalytic role. Current lending from the World Bank and the Asian Development Bank (AsDB) (USD 16.8 billion and USD 13.3 billion, respectively, in 2013) falls considerably short of funding needs.

Factors limiting stronger engagement in the "traditional" multilateral system

As discussed in Chapter 2, sovereign states channel their assistance through the multilateral system for a variety of reasons, including the opportunities this presents for economies of scale and efficiency gains through the pooling of resources, as well as for extending their reach across many countries. Additional benefits include the legitimacy and political neutrality afforded by the multilateral system, its scope for aggregating and deploying a range of advisory services, technical assistance and knowledge resources, and (by virtue of its global presence) this system's unique capacity to deliver global public goods.

While all the focus countries demonstrate a growing engagement with multilateral organisations, some factors may still lend greater weight to bilateral programmes for several of them. Allocation decisions weigh the benefits of multilateralism (leverage, reach, neutrality and wide-ranging expertise) against the priorities, needs and functional constraints that provider countries face which might favour bilateral programmes. These factors fall into three major categories: organisational, economic and political, as described below.

- **Organisational: Many non-DAC providers are in the process of setting up and consolidating their development co-operation systems, including efforts to establish legal frameworks, integrated budget processes and management and control functions – all of which facilitate funding to multilateral organisations.** Like many DAC members, some non-DAC countries provide development co-operation through a large number of ministries and government bodies with differing degrees of centralised administrative control and oversight (Brazil, India, United Arab Emirates), while others have a strong executive power making allocation decisions (China, Turkey). For example, the Brazilian Development Cooperation Agency (ABC), which is part of the Ministry of Foreign Affairs, is one of many institutions that makes decisions and implements co-operation initiatives (IDS, 2014a). Brazil still lacks a co-operation law (currently under discussion) necessary to clarify the authority line, legitimise the use of public funds, and regulate the funding of co-operation projects (SAIIA, 2013). India's Development Partnership Administration, established in 2012 within the Ministry of External Affairs, is tasked to play a co-ordination role in the highly decentralised Indian foreign assistance but still lacks the means to effectively do so (Mullen, 2013). In most cases the political and administrative arrangements that favour multilateral funding processes are often not fully developed in non-DAC development co-operation provider countries (including relevant policy frameworks, structured budgeting cycles, due diligence procedures, etc).

- **Economic: The use of multilateral channels reduces the scope for fostering the mutual benefits of trade and investment opportunities.** Bilateral development co-operation stimulates and strengthens important economic linkages. Support that is contingent on the procurement of goods and services in provider countries, or that facilitates preferential access to markets or natural resources, is a feature of all development co-operation but particularly for South-South providers, as they often approach their development co-operation from a "win-win" or "mutual benefit" perspective (Rowlands, 2012; Bräutigam, 2011).

- **Political (No. 1): Limits on voice and representation in global multilateral institutions discourage more broad-based support.** At present there are clear limits to voice and representation in the existing governance arrangements of global multilateral organisations. Voting rights and quota shares continue to broadly reflect economic weights and the geopolitical balance of power that prevailed at the end of the Second World War, when some of these institutions were established. Today, however, rapid economic growth and burgeoning trade and investment flows have fundamentally shifted the economic position of a number of developing countries and rendered long-standing governance arrangements obsolete. For example, China's share of global gross domestic product (GDP) is projected to rise from 12% to 20% by 2020. Today the four major BRICS (Brazil, China, India and Russia) have approximately 40% of the global population

and account for 25% of global GDP, their combined voting rights at the IMF amount to 10.3%. While modest reforms are being progressively implemented at the World Bank, the 2010 IMF Quota and Governance Reform[20] has not yet been fully implemented. The imbalance in voice, influence and decision-making power between the developed countries and emerging economies frustrates reform of the global multilateral system and discourages more broad-based support.

- **Political (No. 2): Concerns regarding the policy prescriptions attached to lending by international financing institutions.** Support to the global multilateral system can create domestic challenges for provider countries, particularly when access to resources is conditional on policy reforms. Attaching conditionalities to access to resources is contrary to the South-South principle of non-interference. In addition, these policy prescriptions are perceived as emanating from Western economic and political orthodoxy (Box 5.4).
- **Political (No. 3): Ensuring domestic support may be a challenge** in the face of continuing domestic poverty and development challenges.

Box 5.4 *"In my view…": South-South co-operation and the multilateral aid system*

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The development co-operation landscape has changed radically in the last decades, bringing new actors, themes, instruments and approaches to the forefront and becoming an increasingly complex arena. This is an indication of how global power structures and development challenges are evolving. One of the most salient features of this new scenario is the rise of South-South co-operation (SSC).

Despite not being a new phenomenon, SSC has been increasing its presence in the global landscape. It has been the subject of almost 200 international events since 2000, 114 of which took place just between 2009 and 2013 (Lopez 2014). As an expression of solidarity among developing countries, SSC is based on the notion that development solutions can come from a variety of contexts and experiences. However, SSC is neither a homogeneous nor a static block. Although there is a need to learn more about its different arrangements, volumes and impact, we know that SSC today reflects the diversity of realities and capabilities of developing countries.

As an example, SSC among Latin American countries has been mounting for the last five years in the wake of sustained economic growth, meaningful social policies and increasing political integration. Latin American countries have been assuming a dual role in international co-operation, setting forth SSC strategies structured mostly around technical co-operation and knowledge exchange between public administrations. This trend mirrors both their new economic status and, at the same time, their pervasive need to overcome the highest levels of inequality in the world, as well as other structural gaps stemming from this inequality that hinder sustainable development.

…

Box 5.4 *"In my view…": South-South co-operation and the multilateral aid system (Continued)*

In my view there are at least four relevant areas where multilateral institutions can play a strategic role to step up Southern countries' efforts. Firstly, Latin America has seen enormous progress overall towards the achievement of the Millennium Development Goals. Because of its universal presence on the ground, the UN system is very well suited – together with other multilateral institutions – to play a key role in identifying best practices and knowledge of these countries and helping to strengthen their institutional capacities to co-operate with other partners in the South.

Secondly, the UN system has a long-standing history of supporting technical co-operation between developing countries at the normative and operational levels. Many Southern countries rely on programmes or agencies such as UNDP or FAO to assist in the management of their SSC or triangular funds. The Uruguay-Mexico SSC fund (as well as the triangular projects of other Latin American countries in Africa) are good examples. This constitutes a significant role since they bridge institutional and administrative obstacles to expand SSC in the region and worldwide. However, there is room for improvement by adjusting UN and other multilateral institutions' procedures, instruments (and costs!) to Southern countries' realities.

Thirdly, Latin American countries have built a regional database as well as a systematic report with quantitative and qualitative analysis of SSC taking place in the region (more than 700 projects and initiatives in 2013-14), supported by the Ibero-American General Secretariat (SEGIB, 2014). Moreover, through its Programme for the Strengthening of SSC, countries have developed their own capacity and methodology to report and evaluate SSC. This report is unique of its kind and constitutes an excellent tool to delve into the different modalities and evolution of SSC. It could eventually serve as a building block or model for other reporting exercises. In fact, as presented at the 2014 Development Cooperation Forum, the Core Group of Southern Partners – which encompasses the largest non-DAC providers of ODA – has envisaged the need and usefulness of having a Global Report on SSC. In my view, multilateral institutions can play an important role in catalysing Southern countries' efforts to produce such a report.

Finally, there is a key element that Southern countries take into account when setting up their own SSC strategies. Multilateral institutions do not have the same ontologies, values or policy frameworks, ranging from those that equate development with economic growth to more sophisticated and multi-dimensional understandings of this phenomenon. With this in mind, surely many Southern partners might be willing to adjust their contributions to multilateral aid if there is a serious review of their graduation thresholds, which should not be based on per capita income but on a multi-dimensional measurement of human sustainable development.

More importantly, the only true global partnership for sustainable development will come into effect if governance and upper positions of multilateral institutions are democratised to better reflect the views and needs of the South with respect to this challenge.

Challenges and prospects for global partnerships in the post-2015 era

Contributions to multilateral organisations from the seven focus countries are on the rise – a new trend or a phase?

Although some obstacles may be preventing greater engagement of the focus countries with multilateral organisations, there are clear signs that their support has increased. For many of these countries the question is whether development co-operation through multilateral organisations will continue to gain importance in the future or if this is a passing phase.

China's multilateral spending has traditionally represented a small share of its development co-operation, but in recent years it has increased significantly. This is in part motivated by the fact that the sharp increase of its development co-operation, has led to implementation challenges. China has therefore taken measures, including partnerships with multilateral organisations to enhance know-how and increase implementation capacity (Kitano, 2014). To some extent, reaching out to countries through multilateral organisations is also part of a broader effort by Beijing to recalibrate its relations, especially in Africa where China has been criticised for pursuing a neo-colonialist policy, for the poorer quality of some Chinese-built infrastructure, and for the use of migrant labour from China rather than local people (Blas, 2014). Recent increases in funding to existing multilateral organisations and the creation of a series of organisations (such as NDB and AIIB) suggest that China will play a greater role in the multilateral landscape, largely through new institutions and initiatives.

Turkey's development co-operation has grown significantly since 2010 and its multilateral allocations have kept pace. It has stepped up its contributions to support humanitarian assistance in the region and beyond, yet humanitarian assistance has not been the only driver of increased funding to multilateral organisations. Several organisations that do not have a humanitarian mandate also saw significant increases in contributions from Turkey. At the heart of Turkey's stronger international engagement there is also the desire to be part of a responsive new international order (Haşimi, 2014). This is why, besides stepping up financial contributions, Turkey has used its convening power to support specific topics multilaterally and has increased its engagement with the UN system, affirming its importance with respect to international law and justice (Box 5.1). Overall, Turkey's increased engagement with multilateral organisations seems to be destined to continue.21

In the case of the other three BRICS considered here (Brazil, India and South Africa) there are signs of increased willingness to work with multilateral organisations (especially UN entities) to increase knowledge, enhance South-South co-operation and support humanitarian responses. This is in addition to the lasting multilateral commitment these countries made by establishing the BRICS countries' NDB (Box 5.3). Although support to individual multilateral organisations is on an upper trend, it remains fairly unstable. More sustained multilateral engagement may take some time to manifest itself, as these countries need to resolve some of the institutional and organisational obstacles that hinder greater engagement. However, partly as a consequence of their growing economic power, they have started, and are likely to continue, to play a greater role in multilateral institutions, new and old.

For Saudi Arabia and the United Arab Emirates the prospects are less clear. They have long been high-income countries and have steadily increased their investments in multilateral organisations, especially Islamic institutions (Box 5.2). Their increased funding to multilateral organisations since 2009 has mainly been linked to greater spending on humanitarian assistance. The United Arab Emirates has shown a strong commitment to step up the quality and volume of its development co-operation[22] and is currently developing a development co-operation strategy. This could be an opportunity to develop a more strategic approach to its engagement with multilateral organisations, as part of a comprehensive plan for greater development efforts. However, the nature of its development co-operation, which is largely dependent on the generosity of disparate domestic donor organisations, may be a constraint. In the case of Saudi Arabia, no clear elements suggest a stronger and sustained engagement with multilateral organisations beyond Islamic institutions and for humanitarian purposes.

Partnerships through and across existing and emerging multilateral organisations

The international development system has become more diversified over time, mainly along geopolitical lines. The Arab and the Latin American subsystems have played important roles in mobilising and allocating finance and expertise to many countries, complementing the activities of the Bretton Woods institutions. Going forward, it seems likely that regional and sub-regional multilateral systems largely financed by developing countries, will continue to evolve and grow in the Arab/Muslim world and in Latin America and that an additional system focused on infrastructure finance will take root in Asia. Middle-income and emerging economies will also continue to become more prominent in non-regional international financing institutions. A new geopolitical axis in the multilateral system is taking shape with the establishment of the BRICS development institutions. The world seems headed towards a more complex constellation of multilateral zones, with the extension and consolidation of regional "Southern" multilateral systems, a new South-South multilateral system, and the emergence of large regional funds targeting infrastructure, industrial upgrading and possibly green technology.

Substantial benefits are in the offing. More resources will be mobilised, with more options and opportunities for developing countries to access finance, a more diverse array of financing modalities and instruments, and greater voice and more influence for developing countries with respect to the nature and direction of global development finance. The increased diversity of funding institutions will doubtless spur innovative methods to combine and package finance, including private capital, and new platforms for sharing development experience and alternative development models and approaches. Furthermore, the emergence of potentially competing sources of multilateral finance could stimulate a better focus on institution-specific comparative advantage and thereby improve the efficiency of the multilateral system as a whole.

But there are also systemic risks – duplication of efforts, increased transaction costs for developing countries, inadequate safeguards to address harmful externalities, and excessive competition. Over time, as the capital base of new and emerging multilateral institutions increases and lending operations expand, a more competitive market for non-concessional lending (the hard windows of the established development banks) may develop – and this could lead to changes in operational practices in existing multilateral organisations, including

expediting loan processing and reacting more nimbly to needs and demands This could pose threats to the financial and operational viability of these existing institutions and would need to be monitored closely.

There are also significant unknowns concerning how new multilateral institutions will function. To what extent will accumulated global development banking good practices, tools, standards and safeguards be integrated in their operations? And to what extent will information about operations be available? How will they interact with the rest of the international system? More importantly, it remains to be seen how they will compare against other multilateral lenders from a borrower perspective (e.g. speed of delivery, loan requirements, credit terms) and how their performance will compare with that of other multilateral institutions in terms of improving opportunities and outcomes for social and economic development.

Gearing the multilateral system to effectively support post-2015 global partnerships

Going forward, there is much that the international community can do to improve the workings of the global multilateral system and gear it to effectively support the global partnerships needed to deliver the post-2015 development agenda. In this regard, the following recommendations should be considered:

- **Accelerate reforms of the governance arrangements of multilateral organisations.** As global multilateral institutions, it is vital to ensure that voting and quota shares of International Financial Institutions are more representative of the current economic weights of shareholding countries. This will enhance legitimacy and dissipate the prospect of disenfranchisement and disengagement by under-represented countries. Progress with reform is all the more important in view of the growing trade, investment and economic weight some emerging economies will assume in the future.

- **Enhance transparency and information exchange, as well as the scope for co-ordination among new and old institutions.** The international multilateral system today is a complex web of global, regional and sub-regional institutions. It is often characterised by overlap, duplication, institutional rivalries and inefficiencies. In the absence of a central oversight body that could rationalise, streamline and ensure close co-ordination among multiple actors, there is a need to establish and reinvigorate co-operation frameworks to reduce volatility, limit funding gaps and "aid orphans", identify complementarities and synergies, and enhance comparative advantage and the division of labour across the system. There is also a need for enhanced transparency and information-sharing to address prudential, moral hazard and debt sustainability concerns.

- **Encourage reflection, analysis and discourse to facilitate more horizontal co-operation across existing and emerging multilateral organisations.** No strategic vision seems to be taking shape to guide international actors in dealing with the larger picture of multilateralism. Reflection and analysis on how to enhance co-operation across multilateral organisations will be needed to improve coherence and systemic effectiveness.

Annex 5.A1 • Patterns in funding to multilateral organisations by focus country

Brazil

Brazil's funding to multilateral organisations almost doubled between 2009 and 2013, reaching USD 338.13 million in 2013 (up from USD 124.61 million in 2009). Growth in multilateral funding was not steady: it increased considerably in 2011 (to USD 204.81 million, from USD 142.23 million in 2010), fell in 2012 but reached an all-time high in 2013.

Support is mainly concentrated on the UN and the World Bank Group (IDA). In 2009-13 Brazil's support to multilateral organisations was mainly focused on UN entities (which collectively received 48% of its total funding to multilateral organisations in 2009-13), with the UN specialised agencies and other UN entities receiving slightly more than UN funds and programmes (USD 268 million and USD 219 million, respectively). Its contribution to the UN was among the 11th largest contributor to the UN ahead most DAC members (Figure 5.A1.2). The World Bank Group received another large chunk of funding (38%), while other clusters received much smaller shares: regional banks (12%) and other (1%).

Brazil's increased funding to the UN derives from its efforts both to contribute to humanitarian responses and to form lasting strategic partnerships. Within the UN, in 2009-13 the largest volume of funding was directed to WFP for addressing humanitarian needs (USD 142.28 million). Brazil also allocated large volumes to other entities to promote long-term partnerships: UNESCO (USD 49.70 million), FAO (USD 47.91 million), and the UN regular budget (USD 41.13 million).

Collaboration with the UN is also a means to give prominence to the South-South co-operation agenda, improve Brazil's capacity for delivery. Brazil's contributions to UN funds and programmes have been fairly variable year on year. While WFP has received unstable but overall considerable contributions, support to other UN funds and programmes has been financially limited although important for knowledge sharing in the context of South-South co-operation. For example, the financing from Brazil received by UNDP (USD 11 million in 2009-11) was only one-eighth of that received by WFP. Yet Brazil has a strategic partnership agreement with UNDP whose aim is to share the country's experience and knowledge and expand its capacity to deliver South-South co-operation. In addition, partnering with UNDP has been a way for Brazil to overcome the fact that it lacks a co-operation law (currently under discussion) necessary to carry out procurement functions and provide services in other countries. Many Brazilian technical co-operation activities have been executed through projects between the Brazilian Cooperation Agency (ABC) and UNDP (IDS, 2014a). The share of Brazil's funding that is earmarked for specific projects is 69%.

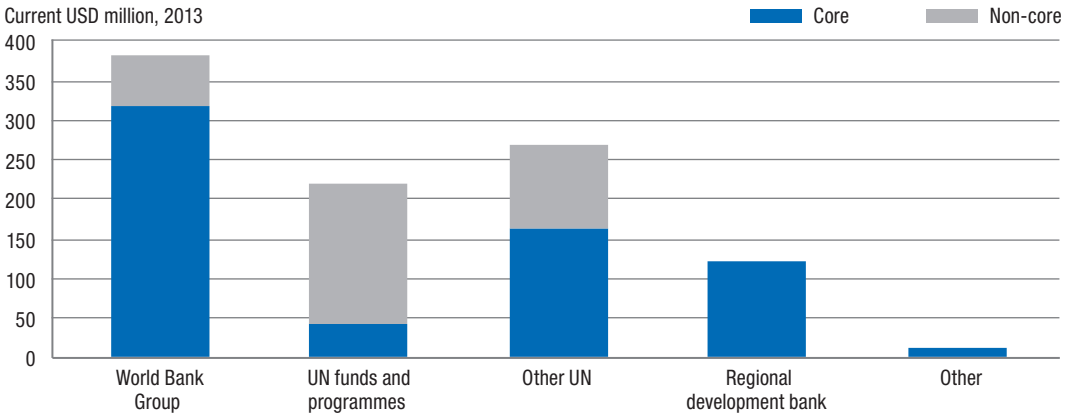
Engagement with the World Bank Group has mainly taken place through IDA, to which Brazil more than doubled its funding between 2009 (USD 68.29 million) and 2013 (USD 177.86 million). In this period Brazil made only minimal use of trust funds, yet its USD 55 million contribution to the Haiti Reconstruction Fund in 2010 stands out. This contribution complemented Brazil's strong bilateral engagement in Haiti in response to the humanitarian crisis. The trust funds to which Brazil contributed during this period were multi-donor.

Most organisations received highly variable funding from Brazil, and only a few saw steady increases. In 2012 Brazil was the 11th largest contributor to the UN as a whole, ahead of France and Italy. However, its contributions to the UN contracted the following year. The few UN entities receiving steady increases include: FAO (from USD 3.73 million in 2009 to USD 16.34 million in 2013, for a total of USD 47.91 million in 2009-13), the UN regular budget (from USD 4.28 million in 2009 to USD 7.50 million in 2013, for a total of USD 14.85 million in 2009-13), and the Central Emergency Response Fund (CERF) (from USD 0.14 million in 2009 to USD 1 million in 2013, for a total of USD 2.6 million in 2009-13).

Although Brazil provides most of its funding to specific organisations (e.g. FAO, IaDB, UNRWA, WFP) as earmarked resources, overall 34% of its multilateral allocations are earmarked.

Figure 5.A1.1 ***Brazil's multilateral support focuses on the World Bank Group and the United Nations***

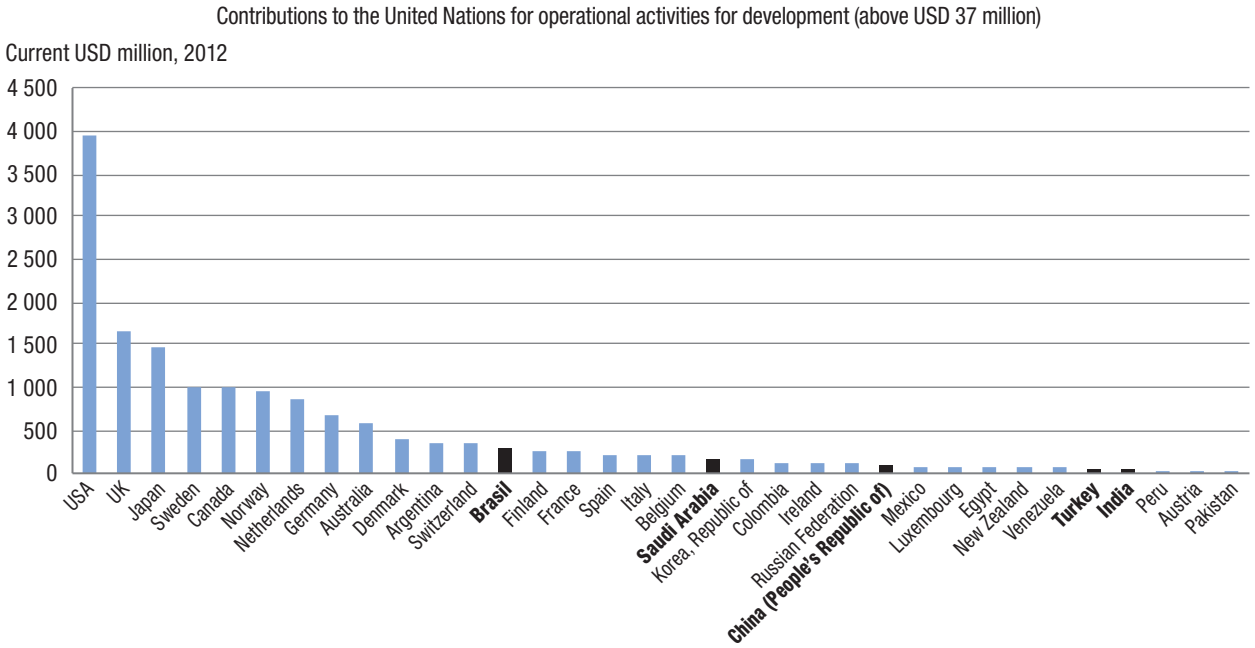
Sum of core and non-core contributions, 2009-13



Source: Authors' calculations based on OECD/DAC estimates.

StatLink *http://dx.doi.org/10.1787/888933247380*

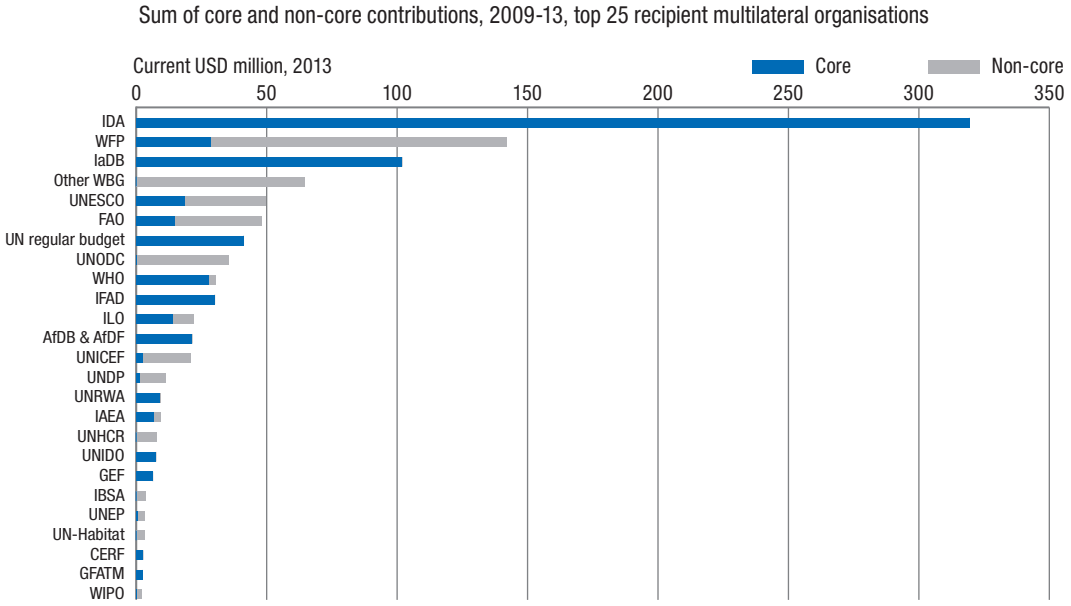
Figure 5.A1.2 ***Brazil's contributions to the United Nations exceed those of the majority of the DAC members in 2012***



Source: Authors based on UNDESA statistical data (*http://www.un.org/en/development/desa/oesc/qcpr.shtml*).

StatLink *http://dx.doi.org/10.1787/888933247394*

Figure 5.A1.3 ***The International Development Association was by far the largest individual recipient of Brazil's core resources***



Source: Authors' calculations based on OECD/DAC estimates.

StatLink *http://dx.doi.org/10.1787/888933247404*

China

In 2009-13, China provided the largest volume of funding to multilateral organisations of any of the other focus countries. However, this funding was highly volatile and not on a clear upper trend. China's funding peaked in 2012 at USD 471.96 million.

Support to regional development banks is predominant in China's engagement with multilateral organisations. In 2009-13 regional banks received almost half of China's support to multilateral organisations (49%, or USD 808.68 million), while the UN came next, receiving 37% of all of its funding to multilateral organisations, or USD 608.51 million. The World Bank Group received 12% of the total (USD 191.58 million) and "other" organisations only 3%, or USD 48.35 million.

Among the regional development banks, IaDB received the lion's share (66% of all funding to regional banks, or USD 531.20 million) followed by AfDB (26%, or USD 209.86 million). These two organisations were also the largest recipients of multilateral funding overall. AsDB and the Caribbean Development Bank (CDB) received much less: 6% and 3%, respectively (USD 45.36 million and USD 22.67 million).

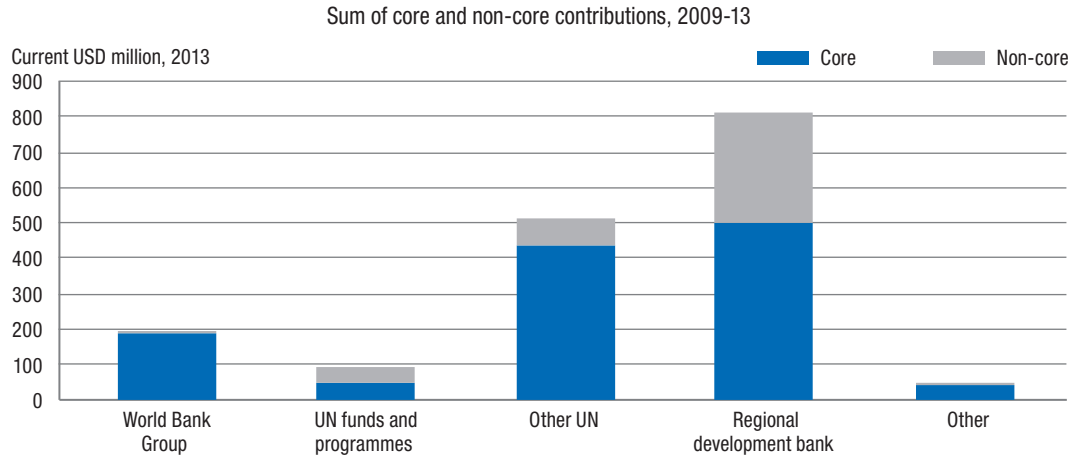
China collaborates with the UN mainly to foster South-South co-operation, expand its delivery capacity and take part in responding to humanitarian crises. Among the top UN recipients are a variety of UN entities: the Department of Peacekeeping Operations (UNDPKO) received the largest allocations (USD 125.23 million, or 21% of all UN funding) followed by the UN regular budget (USD 82.64 million, or 14%), FAO (USD 65.85 million, or 11%), and WHO (USD 54.92 million, or 9%). Advancing South-South co-operation has been a clear priority in China's engagement with the UN. For example, in 2009 Premier Wen Jiabao signed a strategic partnership between UNDP and China which strongly emphasised the expansion of South-South co-operation, and in 2010 a memorandum of understanding was signed in New York augmenting UNDP's ability to engage with the Government of China in additional South-South work streams, which was considered as a real breakthrough (UNDP, 2014). In addition, in 2009 the Chinese government began to contribute to the South-South Cooperation Trust Fund managed by FAO.

China is playing a more important role in the international humanitarian community, demonstrating its increasing integration into the system. For example, it has provided large support to combat the Ebola epidemic, increasingly backing co-ordinated international response mechanisms and channelling a significant volume of its support through international institutions: in October 2014 it pledged to provide USD 6 million to WFP and USD 2 million funding each for WHO and the African Union. In December 2014 it contributed an additional USD 6 million to the UN Ebola Response Multi-Partner Trust Fund.[23]

Engagement with IDA is increasing sharply, while use of World Bank Group trust funds is limited. China's disbursements to IDA totalled USD 190.78 in 2009-13 and China almost doubled its contributions between the IDA 16th replenishment and the 17th replenishment. China's funding to the trust funds has been small in comparison: it contributed to seven of them for a total of USD 38.90 million in 2009-13. This included financial intermediary funds (FIFs) such as the GEF and the Global Fund, as well as other multi-donor trust funds.

To a few organisations China provides much of its funding as earmarked resources (WFP, 76% of the total; IaDB, 56%; FAO 45%; UNDP, 44%). Overall, 27% of its multilateral allocations is earmarked.

Figure 5.A1.4 ***China shows a predominant focus on regional development banks***



Source: Authors' calculations based on OECD/DAC estimates.

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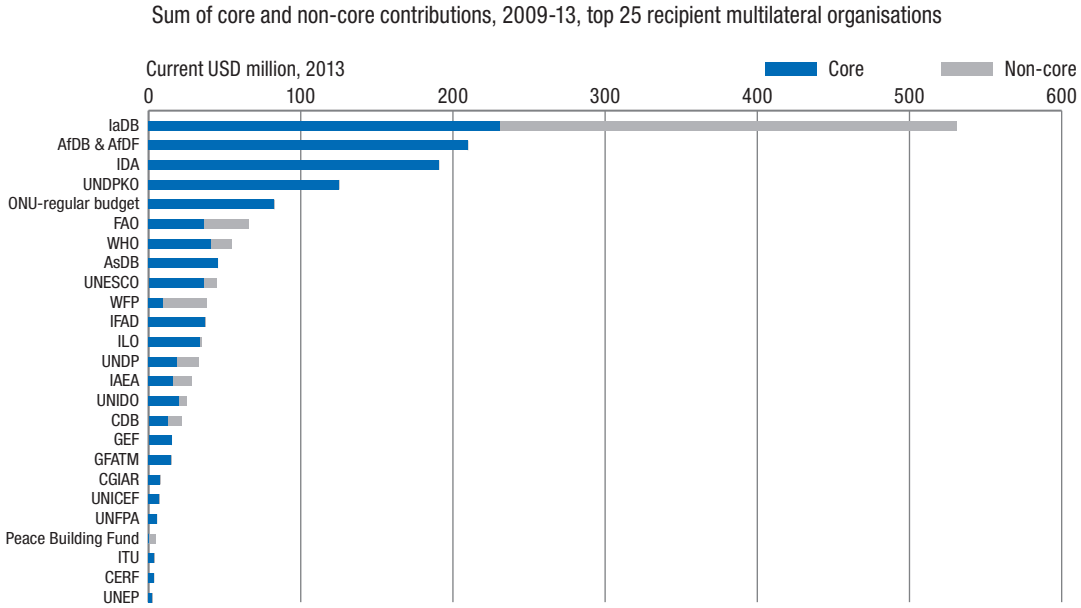
Figure 5.A1.5 ***Top five recipients (development banks and UN Department of Peacekeeping Operations) received 69% of China's multilateral funding***



Source: Authors' calculations based on OECD/DAC estimates.

StatLink *http://dx.doi.org/10.1787/888933247420*

India

India's funding to multilateral organisations grew steadily in 2009-13, reaching USD 65.14 million in 2013. Funding jumped to USD 48.44 million in 2010 (up from USD 2.35 million the year before) and then grew each year with annual increases of between 4% and 18%.

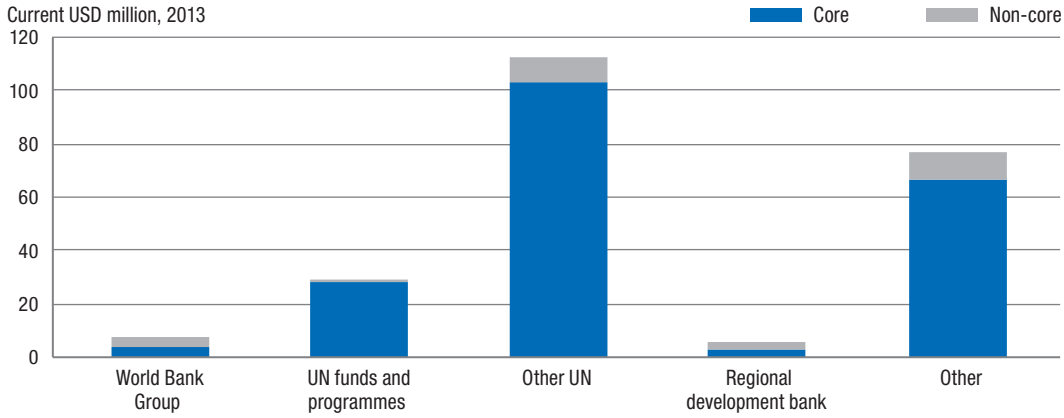
India's support to multilateral organisations is mainly focused on the UN system and some large vertical funds. The UN received 61% of all of India's funding to multilateral organisations in 2009-13 (or USD 141.60 million), mainly because of contributions to four entities – IFAD, the UN regular budget, UNDP and the UN Industrial Development Organization (UNIDO) – which together accounted for 42% of all multilateral funding in the period. Within the "other" cluster (the one receiving the second largest share of multilateral funding from India – 33%, or USD 79.90 million), contributions to the GEF, CGIAR and the Global Fund stand out.

Support to the UN is mainly in the form of core resources. Rather than providing funding tied to specific projects, India is stepping up its core contributions to the UN. With the exception of UNIDO, the UN entities funded by India receive funding entirely in the form of core resources (99% in the case of UNDP). In 2013 India was among UNDP's five programme countries (with China, Russia, Saudi Arabia and Turkey), contributing USD 1 million or more to the organisation's regular budget (India contributed USD 4.90 million). In 2009-13 India steadily increased its core contributions to WHO (from USD 1.92 million in 2009 to USD 2.79 million in 2013) and to IFAD (from USD 7.78 million to USD 10.59 million), as well as slightly increasing contributions to UNESCO (from USD 1.24 million to USD 1.59 million) and FAO (from USD 1.15 million to USD 1.57 million). Like Brazil, China, South Africa and Turkey, India entered into a strategic partnership with UNDP to advance South-South co-operation on shared objectives.

India contributes more to World Bank Group trust funds than to IDA. India's contributions to IDA were small in 2009-13 (only USD 7.6 million). In the same period it contributed to the GEF in a fairly stable manner (USD 11.2 million) and to CGIAR (USD 8.5 million). It provided USD 7 million to the Global Fund in 2010 and contributed to six trust funds – all multi-donor – for a total of USD 3.9 million in 2009-13.

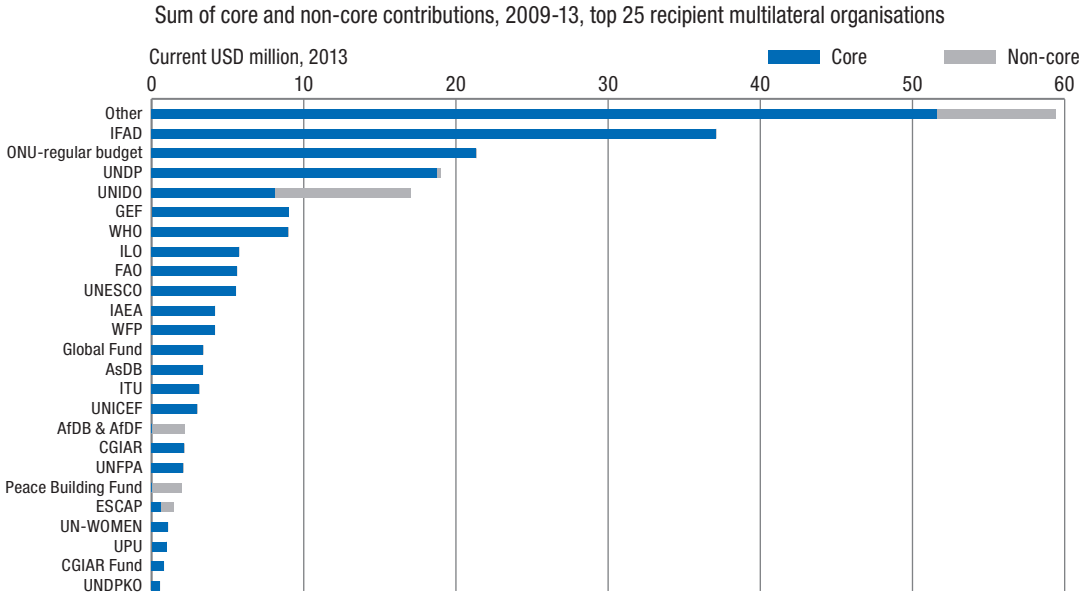
Figure 5.A1.6 ***India focuses strongly on United Nations entities through core contributions***

Sum of core and non-core contributions, 2009-13



Source: Authors' calculations based on OECD/DAC estimates. StatLink http://dx.doi.org/10.1787/888933247438

Figure 5.A1.7 ***Besides United Nations entities, some vertical funds are also among India's top recipients***



Source: Authors' calculations based on OECD/DAC estimates.

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Saudi Arabia

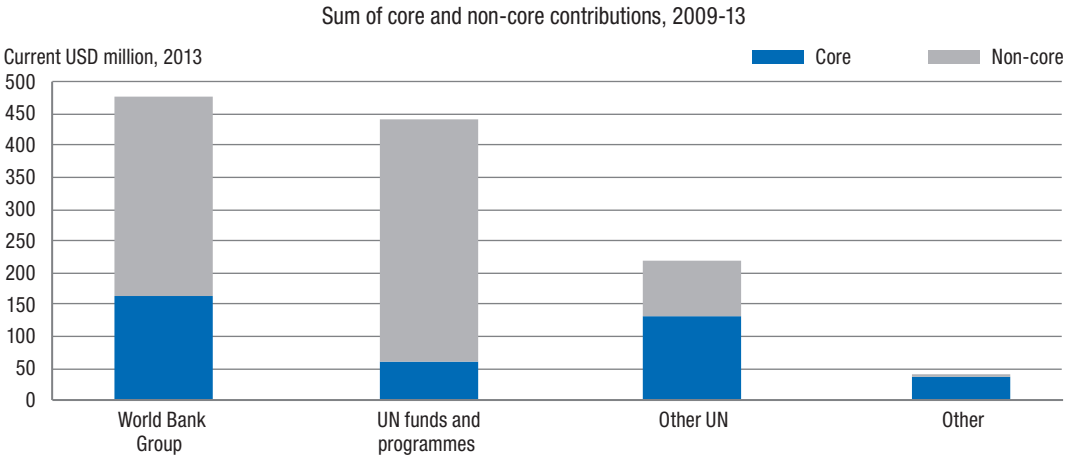
Saudi Arabia's[24] funding to multilateral organisations almost doubled (+68%) in 2009-13: from USD 137 in 2009 to USD 230 million in 2013. However, funding to multilateral organisations did not grow steadily in this period, having peaked at USD 250 million in 2011.

Saudi Arabia's support is strongly focused on the UN to contribute to addressing humanitarian crises. Altogether, the UN accounted for 56% of Saudi Arabia's total multilateral funding to ODA-eligible multilateral organisations in 2009-13, or USD 658 million. Across the UN, Saudi Arabia contributes primarily to UN funds and programmes such as UNHCR, UNRWA and WFP (the three received 42% of all multilateral funding in 2009-13, or USD 362 million) and largely through earmarked contributions (71% of funding to the UN was earmarked).

Saudi Arabia's funding is largely determined by humanitarian assistance needs, and so it is fairly volatile year on year. FAO, ILO and UNDP were the only UN entities receiving steady increases, primarily in the form of non-core funding (FAO from USD 0.76 million in 2009 to USD 12.53 million in 2013; ILO from USD 1.44 million in 2009 to USD 2.15 million in 2013; UNDP from USD 3 million in 2009 to USD 10.38 million in 2013).

Across the World Bank Group, Saudi Arabia contributed steadily to IDA (USD 163 million, or 14% of all multilateral funding in 2009-13) and the Global Fund (USD 35 million, or 3%), while it made sporadic contributions to other trust funds. It provided a large contribution to a single-donor IFC trust fund in 2013 (USD 300 million), which explains why non-core resources in the figure below look so large. It also contributed to the Middle East and North Africa (MENA) Transition Fund in 2013 (USD 10 million) and to a multi-donor trust fund for tropical diseases (USD 21 million in 2009-13).

Figure 5.A1.8 ***The vast majority of Saudi Arabia's core and non core flows go to the World Bank Group and the United Nations funds and programmes***

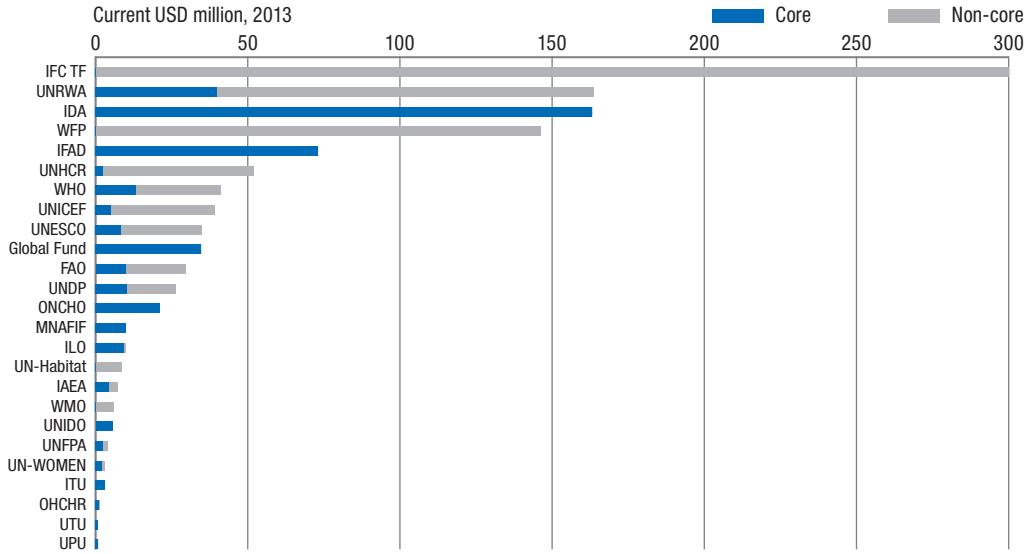


Source: Authors' calculations based on OECD/DAC estimates.

StatLink http://dx.doi.org/10.1787/888933247452

Figure 5.A1.9 ***Several of Saudi Arabia's largest multilateral recipients have a humanitarian mandate***

Sum of core and non-core contributions, 2009-13, top 25 recipient multilateral organisations



Source: Authors' calculations based on OECD/DAC estimates.

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South Africa

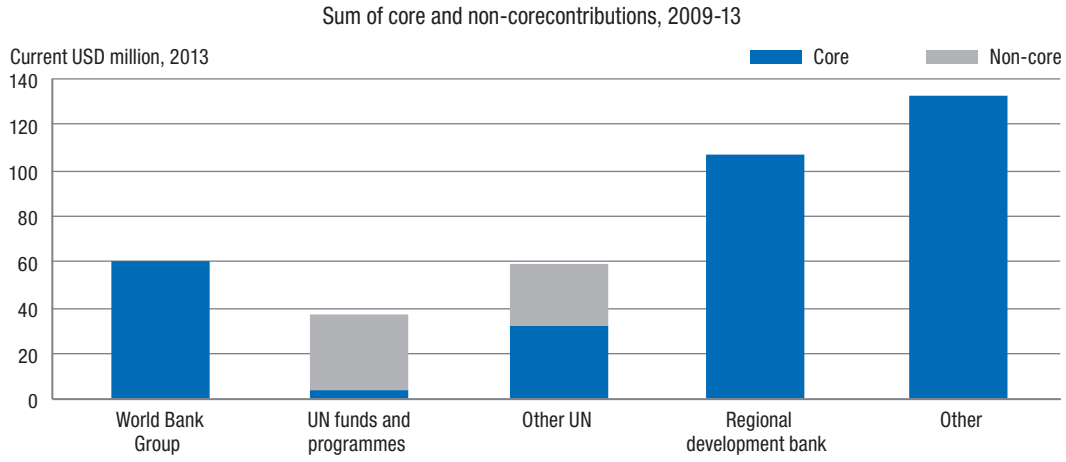
South Africa's funding to multilateral organisations grew five-fold between 2009 and13 (from USD 22.15 million to USD 110.53 million). Funding increased each year in this period, with the largest increases recorded in 2010 (+172%) and 2011 (59%), compared to year on year increases of 10% and 4% in 2012 and 2013, respectively. Across institutions, the largest increases in South Africa's financing were to the African Development Bank (AfDB), to which South Africa has started to allocate much larger contributions since 2011 (USD 7.54 million in 2009-10 and USD 99.98 million in 2011-13)

South Africa is largely investing in multilateral institutions based and promoting development in its region, with the AfDB, the African Union (AU), and the Southern African Development Community (SADC) accounting for 52% of all its allocations in 2009-13 (USD 108 million, USD 73 million and USD 24 million, respectively).

UN entities come next, having received 24% of South Africa's multilateral funding in 2009-13 (USD 96 million), 62% of which was earmarked (USD 59 million). South Africa contributes earmarked funds to UN entities both to contribute to responses to humanitarian needs (with WFP receiving 23% of all UN funding[25]) and to partner on specific projects. Among UN entities, after WFP the largest recipients of core and non-core funding in 2009-13 were: FAO (USD 16 million), ILO (USD 11 million) and UNDP (USD 11 million). These four organisations account for 63% of all funding to the UN.

South Africa allocated 15% (USD 59.79 million) of its multilateral funding in 2009-13 to the World Bank Group, mainly IDA (USD 45.06 million). It also contributed USD 6.93 million to the GEF and USD 2 million to CGIAR in this period.

Figure 5.A1.10 ***Almost half of South Africa's multilateral flows go to regional development banks and the African Union***



Source: Authors' calculations based on OECD/DAC estimates.

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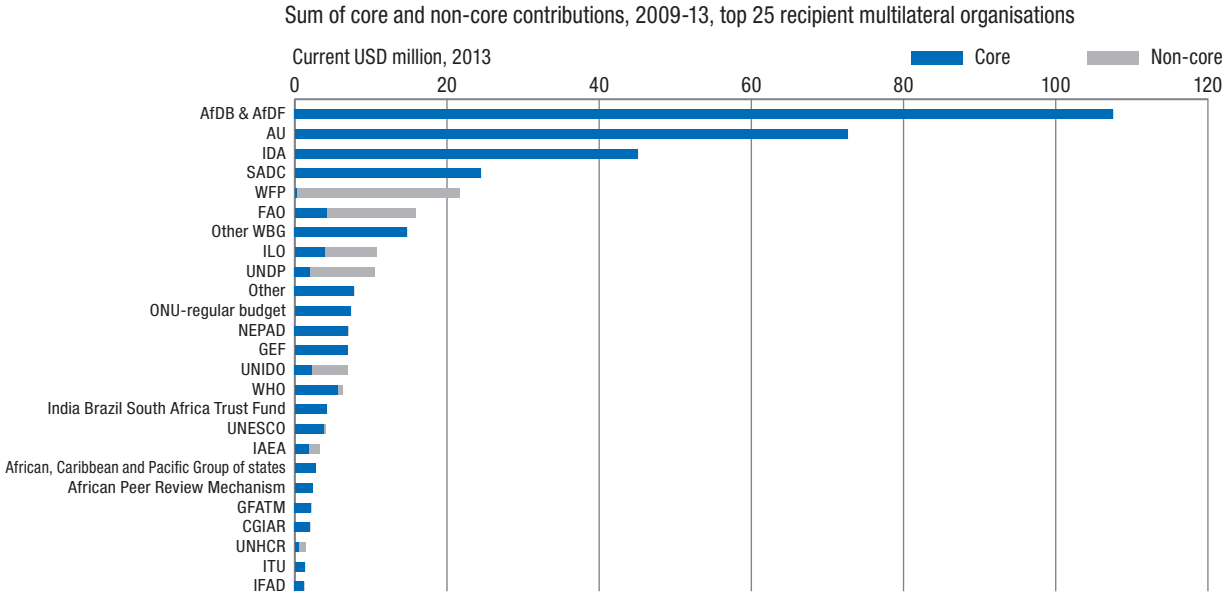
Figure 5.A1.11 ***Besides development banks and regional entities, four United Nations entities figure among the top ten recipients of South Africa's multilateral allocations***



Source: Authors' calculations based on OECD/DAC estimates.

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Turkey

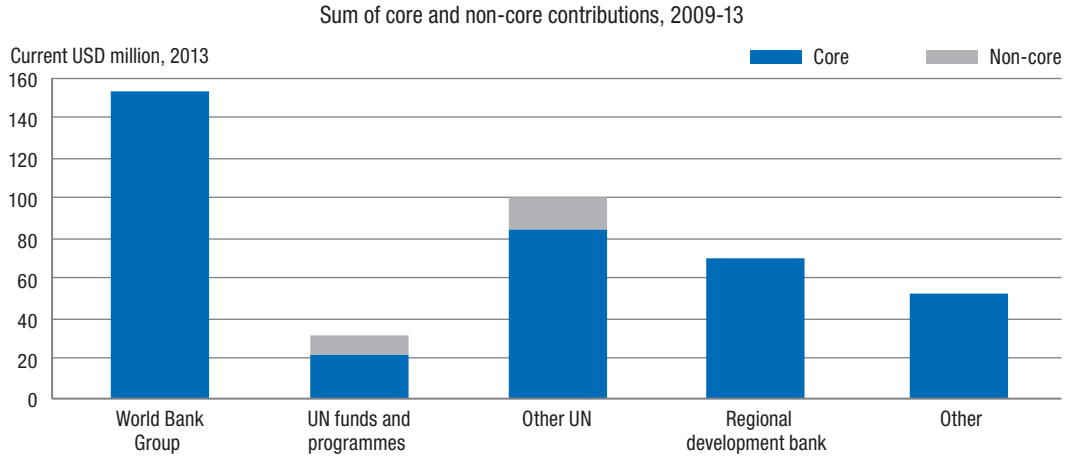
Turkey's support to multilateral organisations more than tripled in 2009-13 (+266%, from USD 41.86 million in 2009 to USD 153.11 million in 2013), mainly because of increased contributions to IBRD and some UN entities, such as FAO, IFAD, UNESCO and WHO.

The World Bank Group is the largest recipient cluster, receiving 38% of all Turkey's multilateral funding in 2009-13 (USD 154 million). Turkey has directed most of its funding to IBRD (85% or USD 130.69 million in 2009-13), especially since 2012. Turkey's contributions to IBRD increased from USD 20.19 million in 2011 to USD 42.23 million in 2012 and USD 65.97 million in 2013. IDA received the remaining USD 23 million. In addition, Turkey has contributed to some of the FIFs (accounted for here in the "Other cluster"), such as the GEF and CGIAR. While contributions to CGIAR have been limited but steady over time (USD 0.5 million each year between 2009 and 2013 except 2010), funding to the GEF was more significant (USD 6.65 million in 2009-13) although it declined (from USD 1.57 million in 2010 to USD 0.49 million in 2013).

The UN as a whole received the second largest share of Turley's funding in 2009-13: 32% (or USD 132 million). Funding to the UN was mainly concentrated in FAO, UNDP, UNESCO, UNDPKO and WFP, which received 53% of the total. FAO, IFAD, UNESCO and WHO recorded strong increases in funding by Turkey in 2009-13.

Turkey also directed a significant share of its multilateral funding to regional banks, especially the AfDB. Regional banks received USD 69 million in 2009-13, almost one-third of which went to the AfDB (USD 20 million).

Figure 5.A1.12 ***Turkey provides almost 40% of its multilateral resources to the World Bank Group***

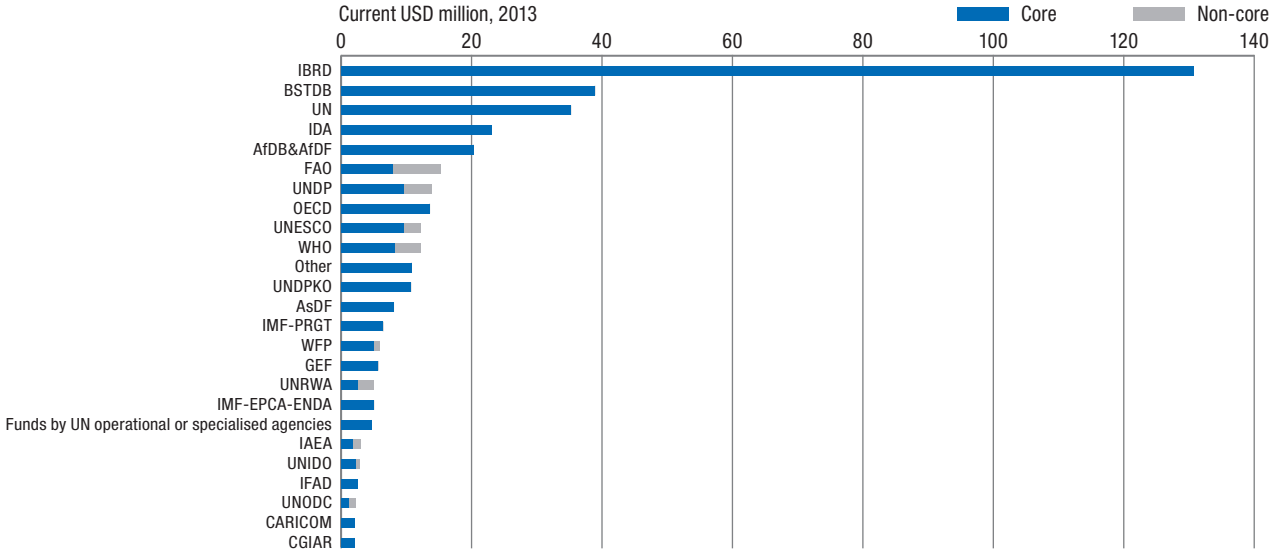


Source: Authors' calculations based on OECD/DAC estimates.

StatLink *http://dx.doi.org/10.1787/888933247498*

Figure 5.A1.13 ***Four out of five top recipients of Turkey's multilateral funding are development banks***

Sum of core and non-core contributions, 2009-13, top 25 recipient multilateral organisations



Source: Authors' calculations based on OECD/DAC estimates.

StatLink *http://dx.doi.org/10.1787/888933247509*

United Arab Emirates

The United Arab Emirates' support to multilateral organisations almost doubled in 2009-13. It peaked in 2012, at USD 97.95 million, while in 2013 it stood at USD 53.08 million.

Support to multilateral organisations is strongly concentrated on the UN system, mainly to address humanitarian needs. The UN as a whole received 62% of the United Arab Emirates' total multilateral funding in 2009-13 (USD 205 million). UN entities with a humanitarian mandate (e.g. UNHCR, UNRWA and WFP) together received one-third of all UN funding (USD 71 million).

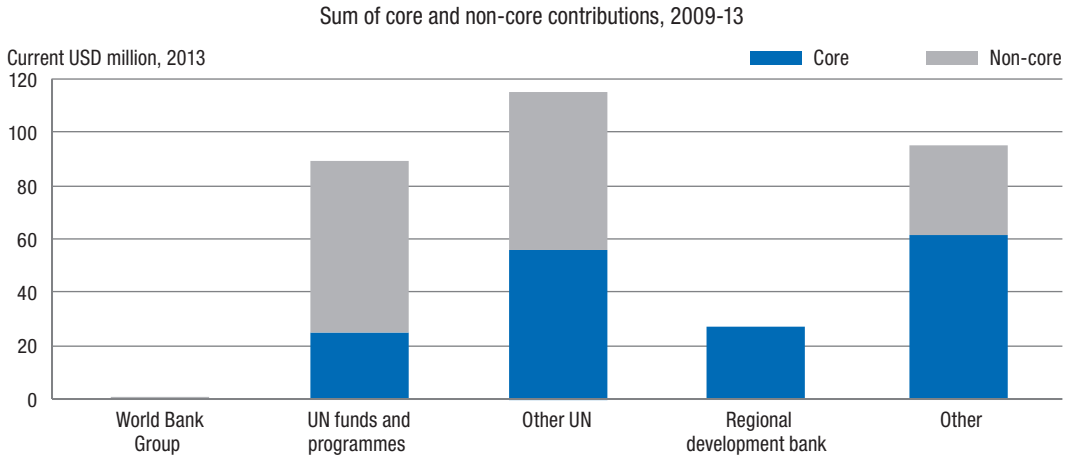
Regional development banks and "other" multilateral organisations also received significant shares of multilateral funding from the United Arab Emirates: 8% and 29%, respectively, in 2009-13 (or USD 95 million and USD 27 million). Among "other" multilateral organisations, it has contributed steadily to GAVI (USD 33 million).

Engagement with the World Bank Group is very limited. Among the focus countries, the United Arab Emirates is the only country that does not contribute to IDA. It made its first financial contribution to a trust fund (USD 1 million to the MENA Transition Fund) in 2013.

Overall, funding to individual multilateral organisations varies largely year on year, in part because of the humanitarian nature of many of these contributions.

The United Arab Emirates provides more than 70% of its funding as earmarked resources to several organisations (OHCHR, UNDPKO, UNHCR, UNICEF, UNODC, UNRWA, WFP). Overall, earmarked funding represents less than half of all its multilateral funding (48% in 2009-13).

Figure 5.A1.14 ***Multilateral allocations from the United Arab Emirates largely focus on United Nations entities***

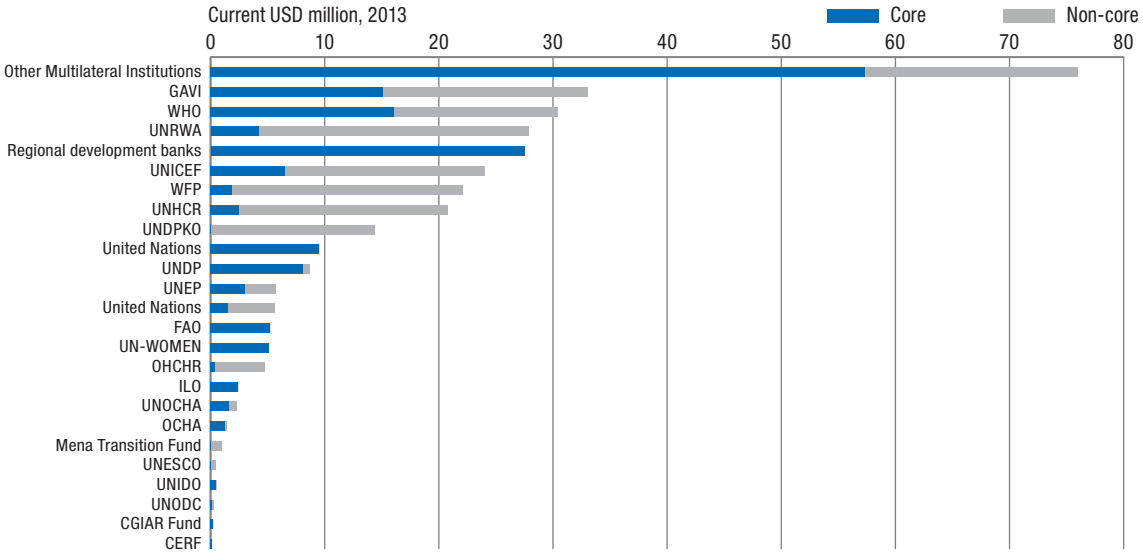


Source: Authors' calculations based on OECD/DAC estimates.

StatLink http://dx.doi.org/10.1787/888933247518

Figure 5.A1.15 ***Top providers include a mix of United Nations entities, vertical funds, and development banks***

Sum of core and non-core contributions, 2009-13, top 25 recipient multilateral organisations



Source: Authors' calculations based on OECD/DAC estimates.

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Annex 5.A2 • Note on statistical data sources for this chapter

Aggregate gross concessional development finance figures are based on OECD/DAC official figures and estimates for 27 providers beyond the DAC. Among these countries, 18 report to the OECD/DAC (Table 5.A2.1) and for the remaining 9 the OECD/DAC provides estimates (Table 5.A2.2).

Aggregate figures on multilateral ODA for Saudi Arabia, Turkey and the United Arab Emirates are derived from these countries' official reporting to the OECD/DAC (DAC 1 table). The analysis of the United Arab Emirates' core and non-core allocations across multilateral organisations is based on the country's official reporting to the OECD/DAC Creditor Reporting System. Since Saudi Arabia and Turkey only report aggregate figures to the OECD/DAC, the analysis of their allocations across multilateral organisations is based on statistical data publicly available from multilateral organisations' reports and websites (see Table A3 for a list of multilateral organisations covered). For Saudi Arabia, total 2009-13 core and non-core resources derived from statistical data collected from multilateral organisations are a smaller amount (USD 1.2 billion) than the core resources reported by that country in the same period (USD 1.78 billion).

Table 5.A2.1 ***Economies reporting concessional development finance to the OECD/DAC***

Economy	Concessional development finance (current USD million)			
	2010	2011	2012	2013
Bulgaria	40	48	40	50
Croatia	n.a.	n.a.	21	45
Cyprus*	51	38	25	20
Estonia	19	24	23	31
Hungary	114	140	118	128
Israel	145	206	181	202
Kuwait (KFAED)	617	495	452	496
Latvia	16	19	21	24
Liechtenstein	27	31	29	28
Lithuania	37	52	52	50
Malta	14	20	19	18
Romania	114	164	142	134
Russia	472	479	465	714
Saudi Arabia	3 494	5 239	1 436	5 825
Chinese Taipei	381	381	305	272
Thailand	45	50	35	65
Turkey	967	1 273	2 533	3 308
United Arab Emirates	571	816	1 165	5 502

* 1. Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
2. Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Authors' calculations based on OECD/DAC estimates. StatLink *http://dx.doi.org/10.1787/888933247935*

Table 5.A2.2 **Countries for which the OECD/DAC estimates total concessional development finance**

Countries	Concessional development finance (current USD million)				Data source
	2010	2011	2012	2013	
Brazil	500	n.a.	n.a.	n.a.	Ipea and ABC (Brazilian Development Cooperation Agency)*
Chile	16	24	38	44	Ministry of Finance and multilateral organisations**
China	2 561	2 776	3 114	3 009	Fiscal Yearbook (Ministry of Finance) and multilateral organisations
Colombia	15	23	86	95	Strategic institutional plan 2013 (Presidential Agency of International Cooperation) and multilateral organisations**
India	709	788	1 076	1 257	Annual Reports, Ministry of Foreign Affairs
Indonesia	10	16	26	12	Ministry of National Development Planning (presentation) and multilateral organisations**
Mexico	50	99	203	89	Mexican Agency for International Development Cooperation
Qatar	334	734	544	1 344	Foreign Aid reports (Ministry of Foreign Affairs) and multilateral organisations**
South Africa	151	227	188	183	Estimates of Public Expenditures 2013 (National Treasury) and multilateral organisations***

*Brazil's development co-operation is significantly higher according to the official figures published by the Brazilian government. The OECD uses these data but, for the purposes of this analysis, only includes in its estimates: i) activities in low and middle-income countries and ii) contributions to multilateral agencies whose main aim is to promote economic development and welfare of developing countries (or a percentage of these contributions when a multilateral agency does not work exclusively on developmental activities in developing countries). The OECD also excludes bilateral peacekeeping activities. Brazil's official data may exclude some activities that would be included as development co-operation in DAC statistics, and so are also excluded from the OECD estimates that are based on Brazil's own data.
*Contributions to multilateral organisations are based on statistical data from: (i) www.aidflows.org, (ii) UN Department of Economic and Social Affairs (DESA), and (iii) other multilateral organisations.

**Figures on contributions to multilateral organisations are complemented by statistical data from the UN Department of Economic and Social Affairs (DESA).

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For Brazil, China, India and South Africa aggregate figures on core and non-core contributions to multilateral organisations, as well as the analysis of core and non-core allocations across multilateral organisations, are based on statistical data publicly available from multilateral organisations' reports and websites (see Table 5.A2.3 for a list of multilateral organisations covered).

For India and South Africa multilateral figures were complemented by official budget documents: in the case of South Africa, its annual report; in that of India, public budget documents available online.[26]

Local resources (financing to multilateral organisations earmarked for programmes within the provider country) are excluded. The ODA-eligibility coefficients indicated in the OECD/DAC List of ODA-eligible International Organisations are applied throughout the chapter. These coefficients reflect the developmental part of the multilateral organisations' activities. Figures from India's and South Africa's national sources, and from IDA, IBRD and World Bank Group trust funds, are based on fiscal years. Data on the fiscal year 2012/2013 were treated as 2012 data in this chapter.

Core and non-core figures cover the period 2009-13 unless otherwise specified. All figures are in current prices. Therefore, unlike in the rest of this report, variations in this chapter are in nominal (and not real) terms.

Table 5.A2.3 List of multilateral organisations for which data was collected and data source

Organisation for which statistical data was collected	Data source
AfDB and AfDF	www.afdb.org/fr/
African Peer Review Mechanism	South Africa Annual Report
African, Caribbean and Pacific Group of states	South Africa Annual Report
AsDB	aidflows.org
AU	South Africa Annual Report
Black Sea Trade and Development Bank	www.bstdb.org/
CDB	CDB annual reports
CERF	www.unocha.org/cerf/our-donors/funding/cerf-pledges-and-contributions-2006-2014
CGIAR	aidflows.org
ECLAC	UN-DESA
ESCAP	UN-DESA
FAO	UN-DESA
Global Environment Facilty (GEF)	aidflows.org
Global Funds for Aids, TB and M (GFATM)*	aidflows.org
IaDB	IaDB annual reports
IAEA	UN-DESA
IFAD	UN-DESA
ILO	UN-DESA
IMF	www.imf.org/external/index.htm
IMO	UN-DESA
India Brazil South Africa Trust Fund	
International Dev Association (IDA)	aidflows.org
IsDB	ISDB-annual reports
ITC	UN-DESA
ITU	UN-DESA
KNOWLEDGE FOR CHANGE PROGRAM II	aidflows.org
NEPAD	South Africa Annual Report
OCHA	UN-DESA
OEI	OEI financial report
OFID (counted as non-ODA)	OFID Annual Reports: www.ofid.org/PUBLICATIONS/AnnualReports.aspx
OHCHR	UN-DESA
ONU-regular budget	UN website
Other UN	UN-DESA
Other WBG	aidflows.org
SADC	South Africa Annual Report
SOUTH-SOUTH EXPERIENCE EXCHANGE FACILITY	aidflows.org
UNCTAD	UN-DESA
UNDESA	UN-DESA
UNDP	UN-DESA
UNDPKO	UN website on financing peacekeeping: www.un.org/en/peacekeeping/operations/financing.shtml
UNEP	UN-DESA
UNESCO	UN-DESA
UNFPA	UN-DESA
UN-Habitat	UN-DESA
UNHCR	UN-DESA
UNICEF	UN-DESA
UNIDO	UN-DESA
UNISDR	Annual report 2011, 2013 and 2008-2009 (taken half of biennual total for 2009)
UNODC	UN-DESA
UNRWA	UN-DESA
UN-WOMEN	UN-DESA
UNWTO (only non-core)	UN-DESA
UPU	UN-DESA
WFP	UN-DESA
WHO	UN-DESA
WIPO	UN-DESA
WMO	UN-DESA

StatLink http://dx.doi.org/10.1787/888933247959

Notes

1. The global estimate of concessional development finance covers OECD data as reported DAC and 18 non-DAC countries (see endnote 61 for full list) and estimates for other nine non-DAC countries (see endnote 62 for full list).
2. The DAC defines ODA as "those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are provided by official agencies, including state and local governments, or by their executive agencies; and each transaction of which has a developmental purpose and a concessional in character. For details see *www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm*.
3. Eighteen non-DAC members reported their 2013 flows to the DAC: Bulgaria, Croatia, Cyprus, Estonia, Hungary, Israel, Kuwait, Latvia, Liechtenstein, Lithuania, Malta, Romania, Russia, Saudi Arabia, Chinese Taipei, Thailand, Turkey and the United Arab Emirates. Reporting providers accounted for 70% of all concessional development finance beyond the DAC in 2013.
4. The OECD/DAC estimated concessional development finance of nine non-DAC providers: Brazil, Chile, China, Colombia, India, Indonesia, Mexico, Qatar and South Africa (see Annex 5.A2).
5. See *www.oecd.org/dac/stats/49194441.pdf*.
6. Core resources, also classified as "multilateral ODA" in OECD/DAC statistics, are official contributions to ODA-eligible multilateral agencies, whether negotiated, assessed or voluntary. These are resources that the governing boards of multilateral organisations have the unqualified right to allocate as they see fit within the organisation's charter.
7. Core contributions to multilateral organisations as a share of gross concessional finance was 7% for China, 5% for India, 5% for Saudi Arabia, 5% for Turkey and 0.4% for United Arab Emirates. For the United Arab Emirates, the large bilateral loan extended to Egypt weighs heavily on the 2013 value. In 2009-11 its multilateral share of ODA was between 6% and 7%.
8. This figure is based on 2009 data.
9. Saudi Arabia officially reports its headline concessional development finance figures to the OECD/DAC, but not figures disaggregated by multilateral organisation. Official reporting from Saudi Arabia is used in the aggregate figures in this chapter. The analysis disaggregated by multilateral organisation is instead based on data collected by the Secretariat by multilateral organisation (see Annex 5.A2), which totalled USD 1.2 billion in 2009-13, below what was reported by Saudi Arabia as core resources (USD 1.78 billion) in the same period.
10. Turkey's official reporting to the OECD/DAC and the reports of some of its recipient multilateral organisations show large discrepancies in the volumes of its earmarked, or non-core, funding. The reports of multilateral organisations point to much higher volumes of earmarked funding. The figures used in this chapter largely rely on Turkey's official reporting to the OECD/DAC and may underestimate its use of earmarked funding.
11. China's contributions were exceptionally large in 2009, mainly due to the Asian Development Bank replenishment and extraordinary allocations to UNDPKO.
12. According to World Bank data, between 2002 and 2013 Turkey's per capita income rose from USD 8 630 to USD 18 800 (GNI per capita, PPP, in current USD) and its GDP from USD 232 billion to USD 822 billion.
13. "Other UN" includes UN specialised agencies (e.g. FAO, ILO, UNESCO and WHO) and other UN entities (e.g. IFAD and UNOCHA)
14. This finding is in line with Eichenauer (2015). However, it should be noted that, in line with the DAC statistical system, in this chapter contributions to large WBG trust funds like GEF and the Global Fund are accounted as core contributions.
15. In line with the OECD/DAC statistical system, this figure excludes contributions to large trust funds such as many of the World Bank's Financial Intermediary Funds (e.g. the Global Fund and CGIAR). These are included in the "Other" cluster and contributions to them are counted as core contributions.
16. UN funds and programmes include UNDP, UNHCR, UNICEF and WFP.
17. See *www.cn.undp.org/content/china/en/home/presscenter/pressreleases/2014/12/china-bolsters-international-response-to-ebola-with-usd--6-milli/*.

18. The authors interviewed five UN entities in August-September 2014, as well as three development banks.

19. In line with the OECD/DAC statistical system, contributions to some of the World Bank's large Financial Intermediary Funds, such as the Global Fund and CGIAR, are included in the "Other" cluster as core funding (so not considered as WBG's non-core funding).

20. The reform would situate China, Brazil, India and Russia among the Fund's ten largest holders, with China at 6.071% of the total voting power (third behind the United States and Japan). However, despite having garnered the required measure of support among shareholders, the reform has languished while waiting for the United States Congress to ratify the change.

21. A study by Binden and Erten (2013) suggests that Turkey's humanitarian assistance, currently the bulk of Turkish aid, depends on factors that are not entirely within the control of the government, and that mean the continued growth of Turkish development co-operation will not be straightforward.

22. For example, in 2013 the United Arab Emirates was the most generous donor in terms of ODA as a share of gross national income (GNI). In 2009 it established a Ministry of International Cooperation and Development to co-ordinate co-operation efforts from official domestic sources, and it has been working closely with the OECD to adopt best practices in development co-operation.

23. See *www.cn.undp.org/content/china/en/home/presscenter/pressreleases/2014/12/china-bolsters-international-response-to-ebola-with-usd--6-milli/*.

24. Saudi Arabia officially reports its headline concessional development finance figures to the OECD/DAC, but not figures disaggregated by multilateral organisation. Official reporting from Saudi Arabia is used in the aggregate figures in this chapter. The analysis disaggregated by multilateral organisation is instead based on data collected by the Secretariat by multilateral organisation (see Annex 5.A2), which totalled USD 1.2 billion in 2009-13, less than that reported by Saudi Arabia as core resources in the same period (USD 1.78 billion).

25. This is mainly due to a USD 20 million contribution to WFP in 2013.

26. *http://indiabudget.nic.in/ub2015-16/eb/cont.pdf*.

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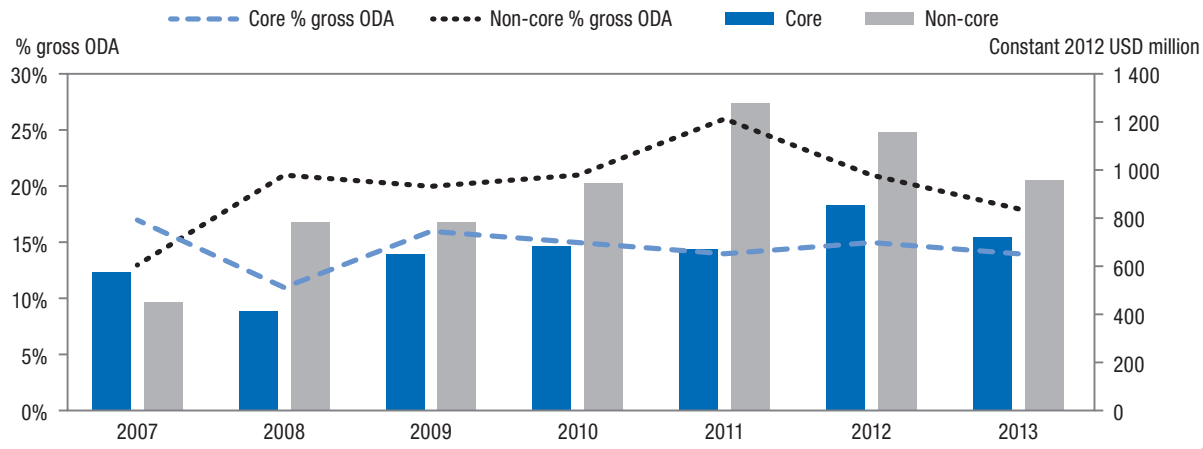
Part III

Country Fact Sheets

AUSTRALIA, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

17%
Government and civil society

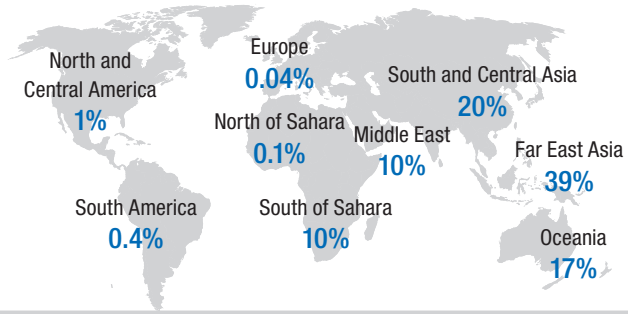
16%
Humanitarian aid

12%
Multi-sector

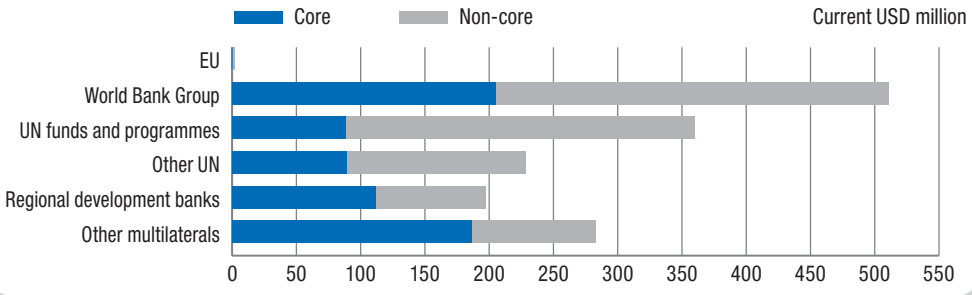
9%
Economic infrastructure and services

9%
Health

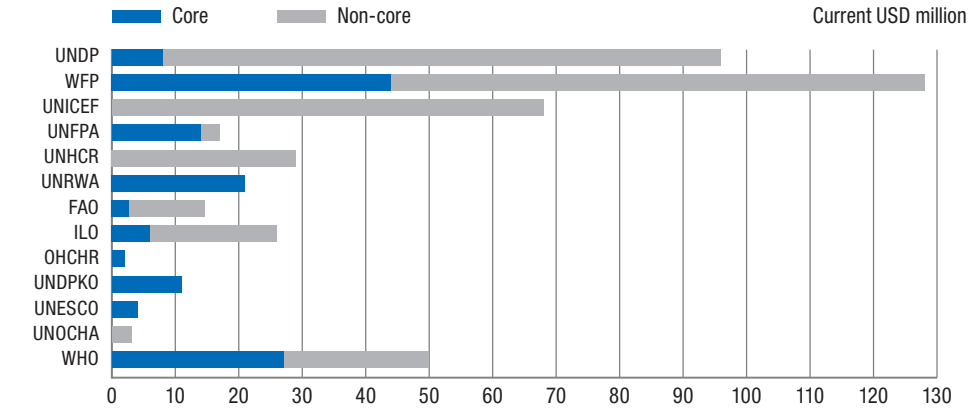
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



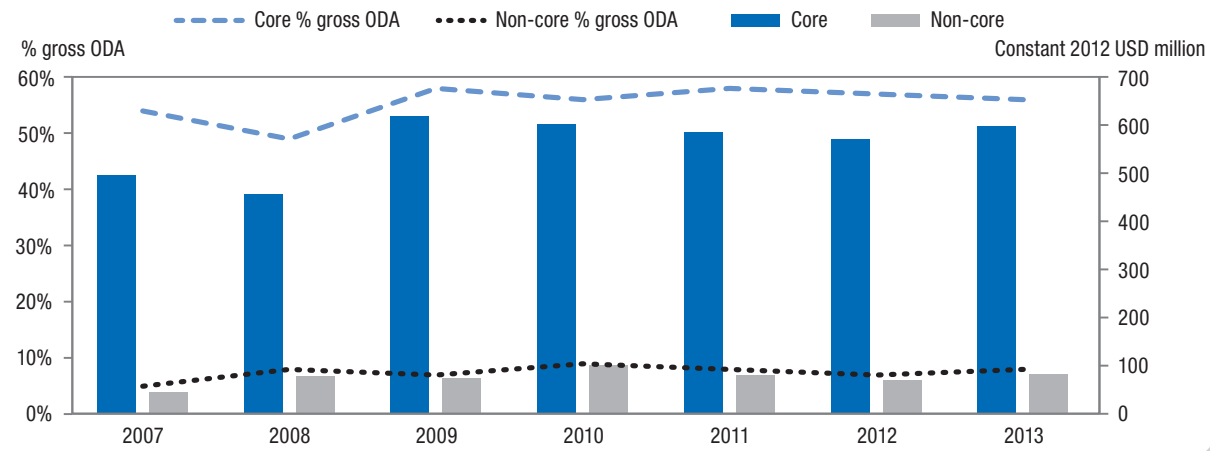
Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247532*

AUSTRIA, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

22%
Multi-sector

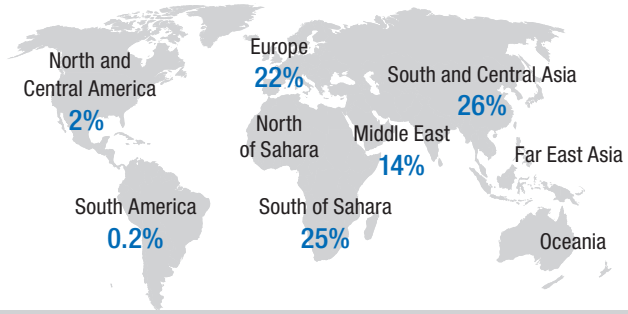
19%
Economic infrastructure and services

15%
Agriculture

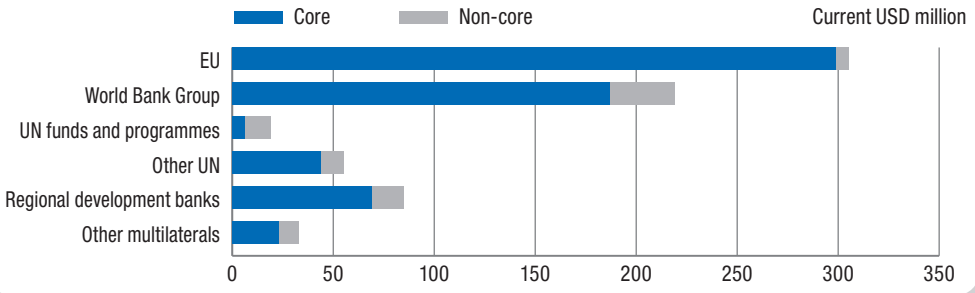
13%
Government and civil society

9%
Humanitarian aid

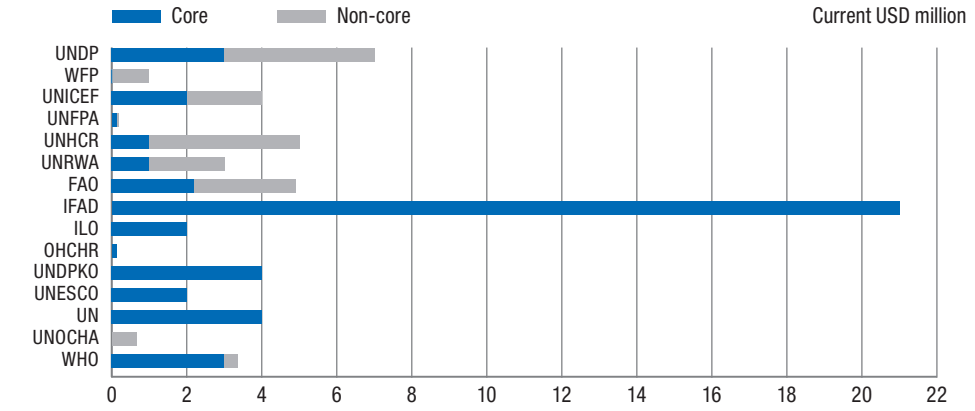
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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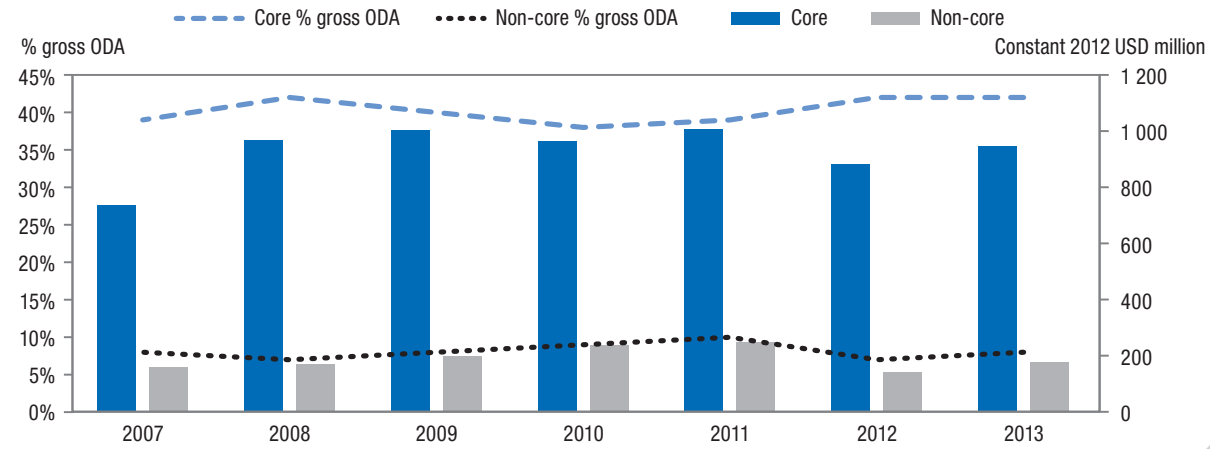
BELGIUM, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

47%
Humanitarian aid

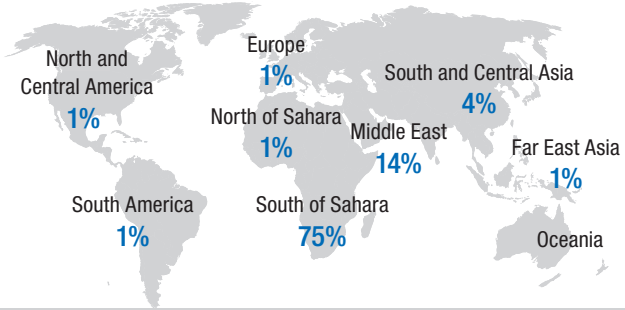
10%
Government and civil society

8%
Agriculture

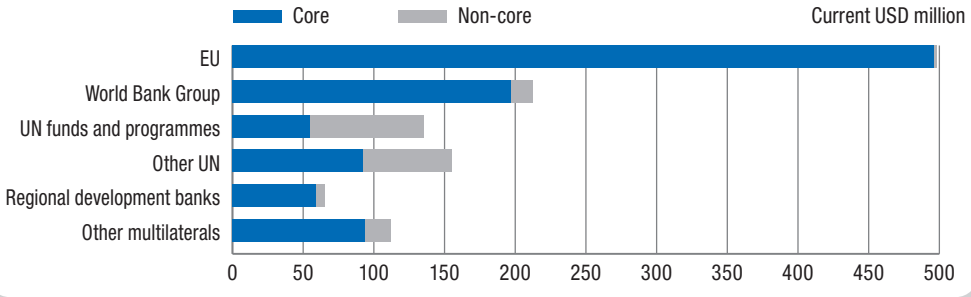
7%
Education

6%
Economic infrastructure and services

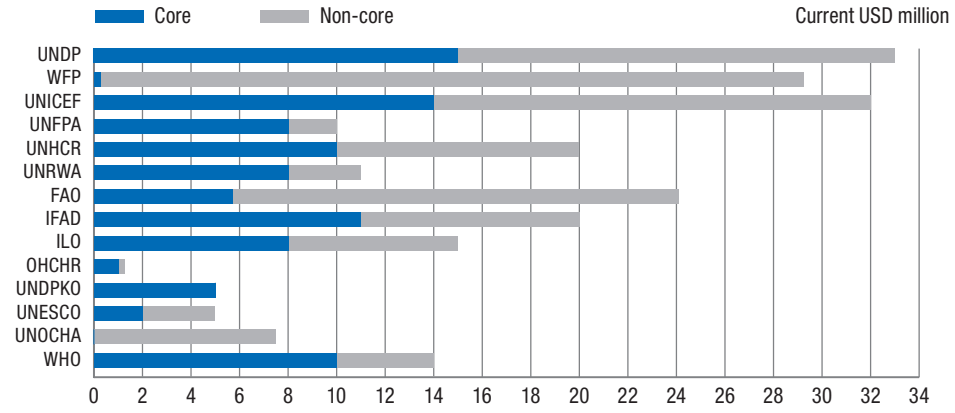
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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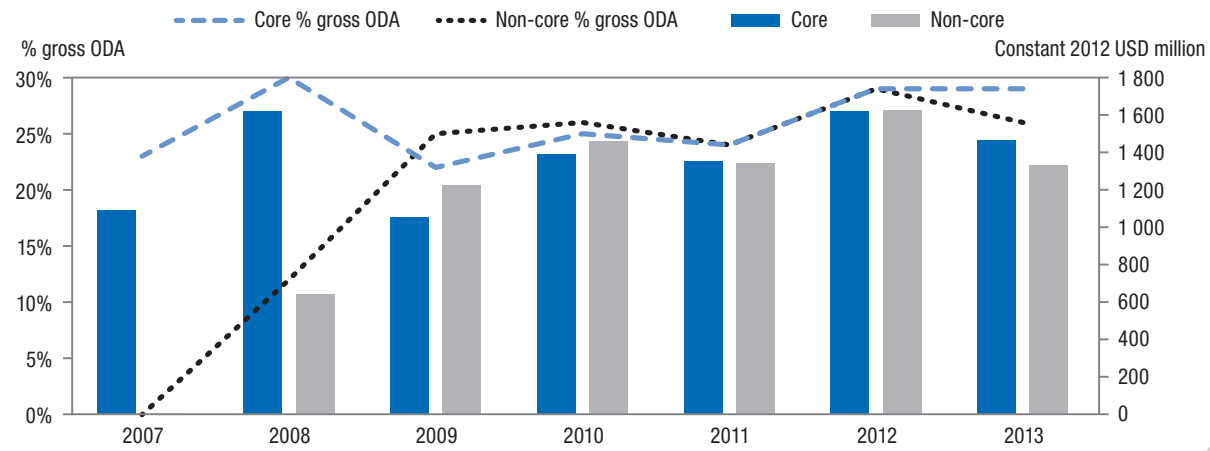
CANADA, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

28%
Humanitarian aid

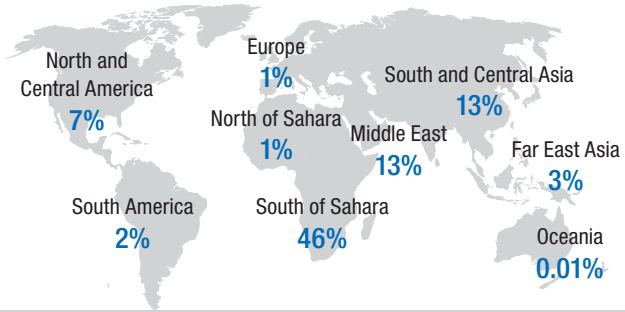
25%
Health

11%
Economic infrastructure and services

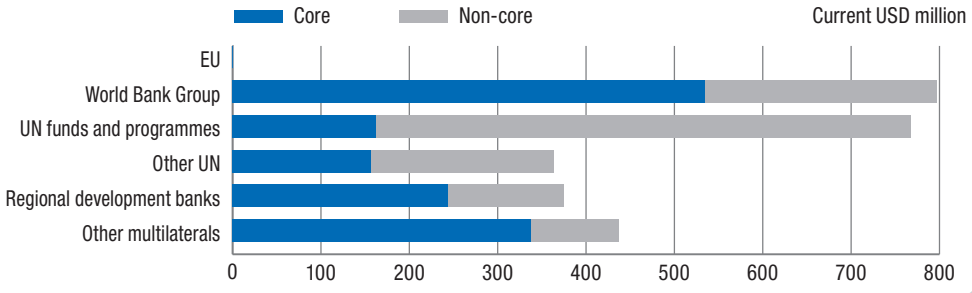
9%
Agriculture

6%
Government and civil society

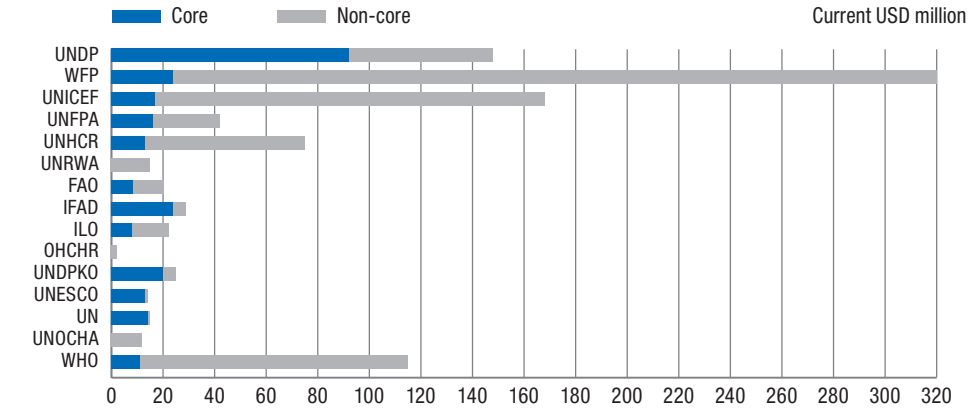
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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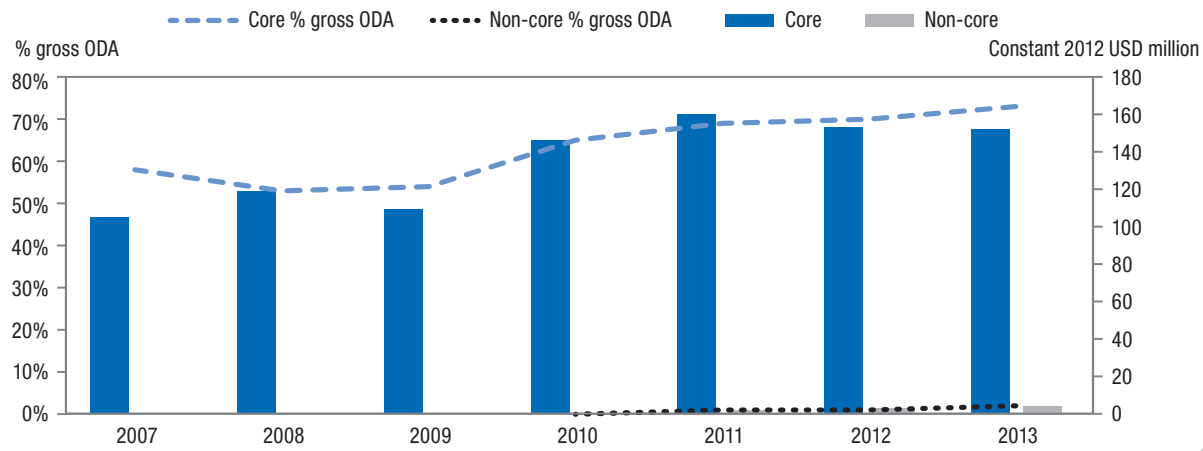
CZECH REPUBLIC, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

28%
Humanitarian aid

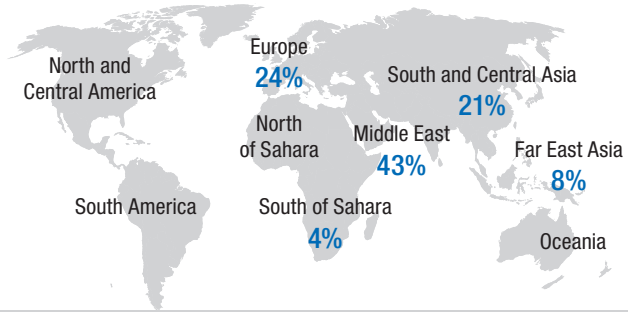
23%
Government and civil society

15%
Economic infrastructure and services

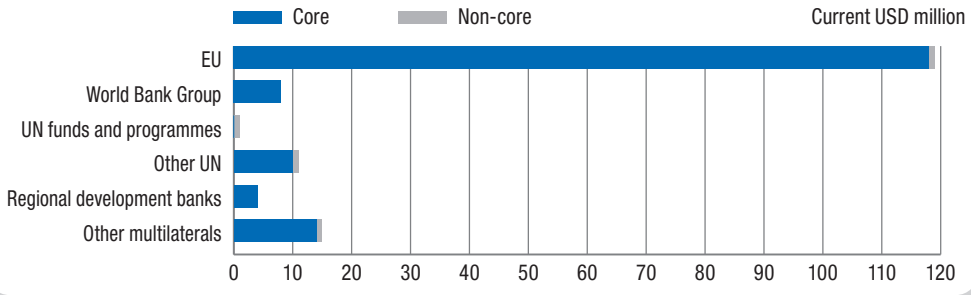
15%
Multi-sector

13%
Other production sectors
(forestry, fishing, industry, mining, construction, trade policy, tourism)

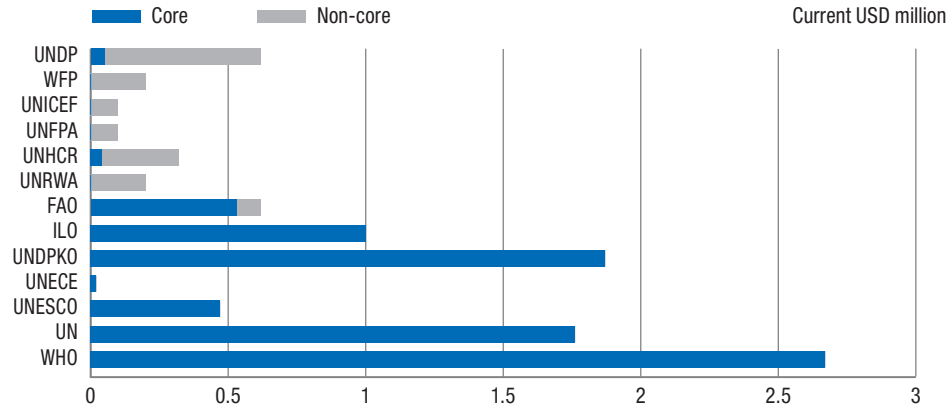
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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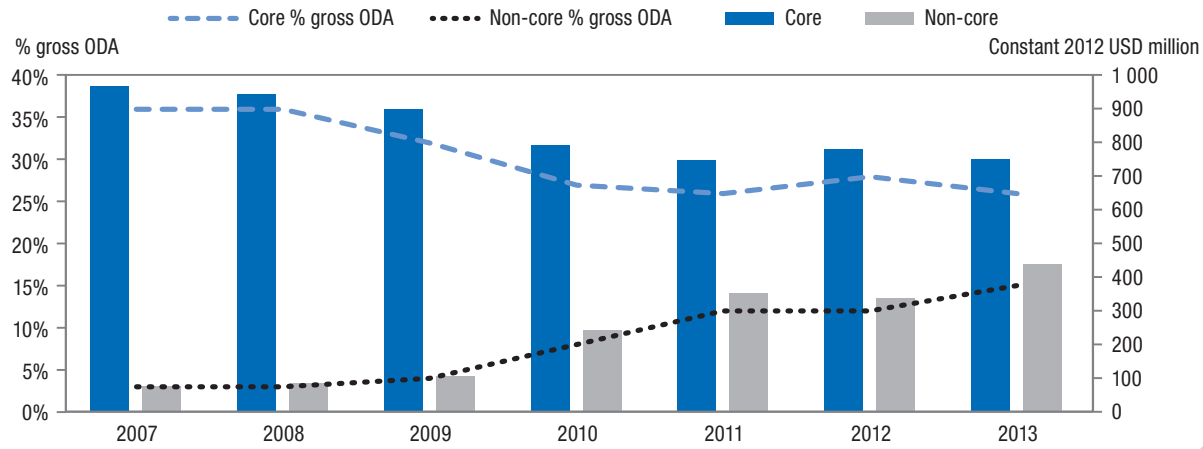
DENMARK, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

26%
Government and civil society

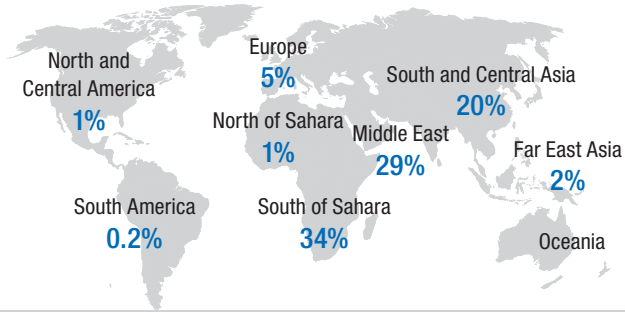
26%
Humanitarian aid

14%
Education

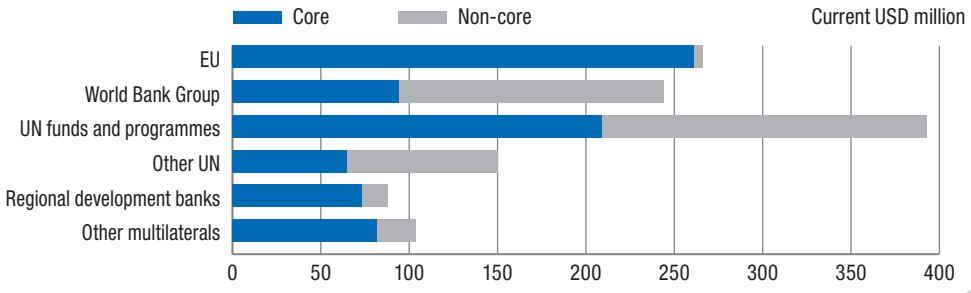
10%
Environment

9%
Multi-sector

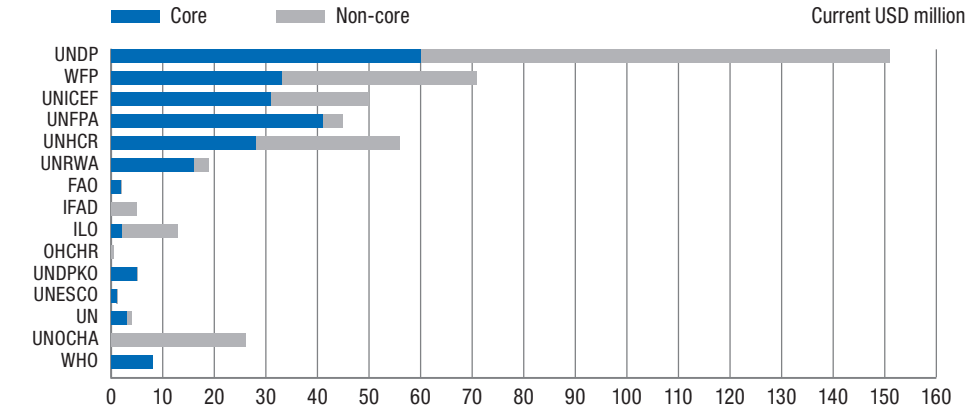
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



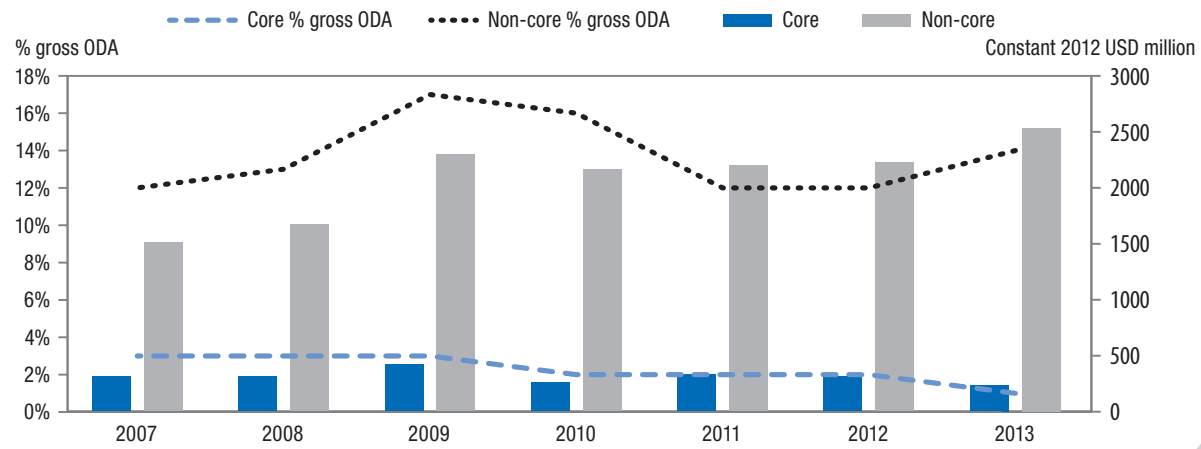
Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247587*

EUROPEAN UNION, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

32%
Humanitarian aid

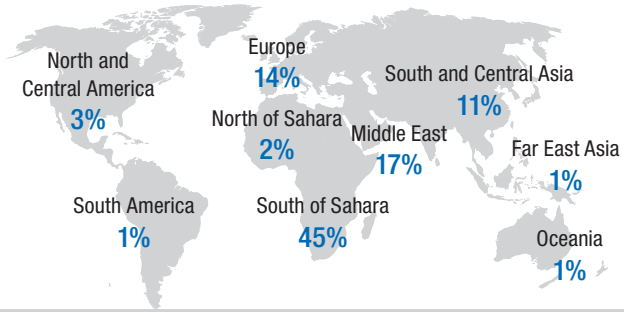
14%
Government and civil society

8%
Multi-sector

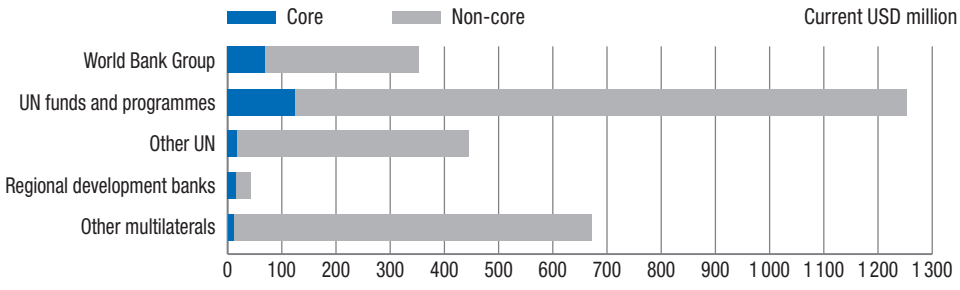
8%
Agriculture

6%
Health

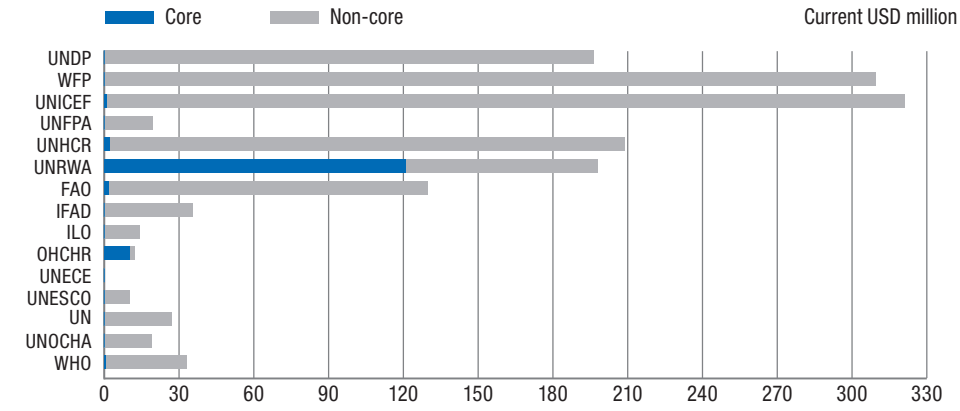
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013

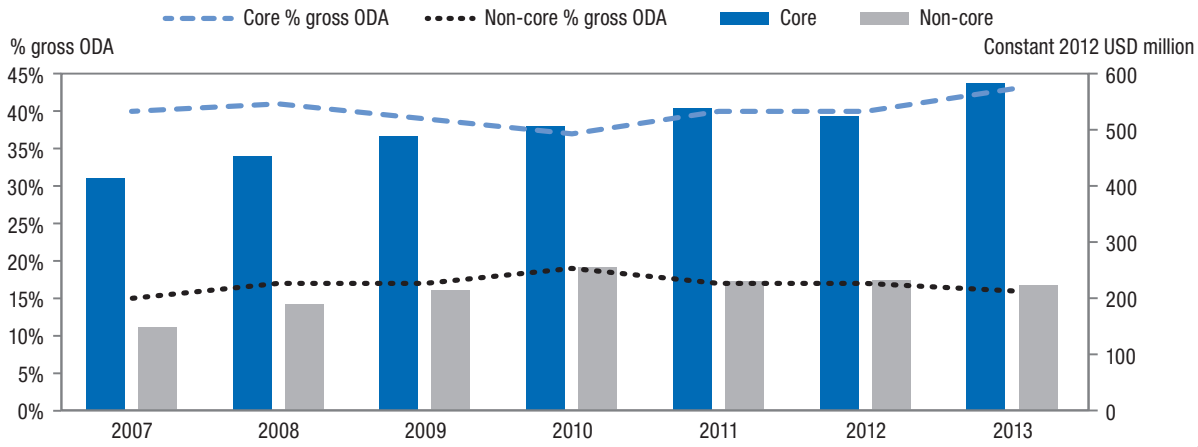


Note: The European Union (EU) has provided the following clarification: "The EU is unique among DAC members in that it plays a dual role in development assistance. Although the EU is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources, it is often presented as a multilateral in DAC publications for statistical purposes. This report reflects this dichotomy."

Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database). StatLink http://dx.doi.org/10.1787/888933247598

FINLAND, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

31%
Humanitarian aid

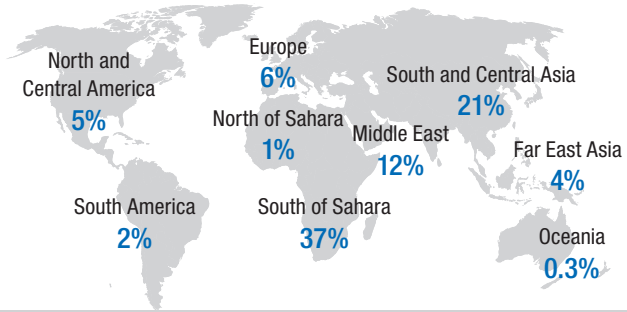
20%
Government and civil society

12%
Multi-sector

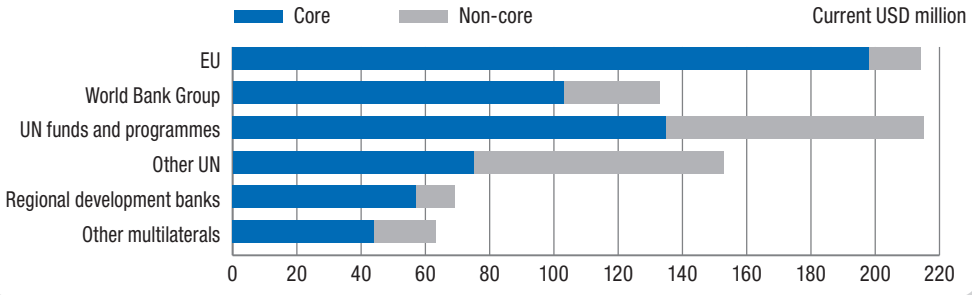
8%
Other production sectors
(forestry, fishing, industry, mining, construction, trade policy, tourism)

6%
Water supply and sanitation

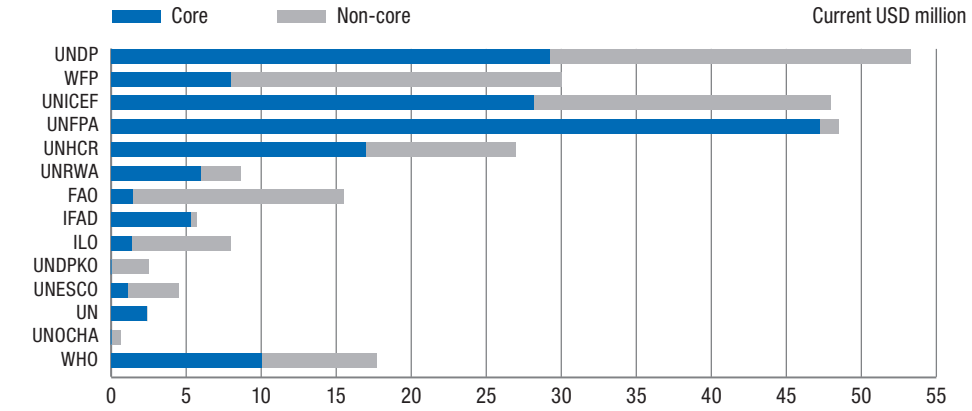
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



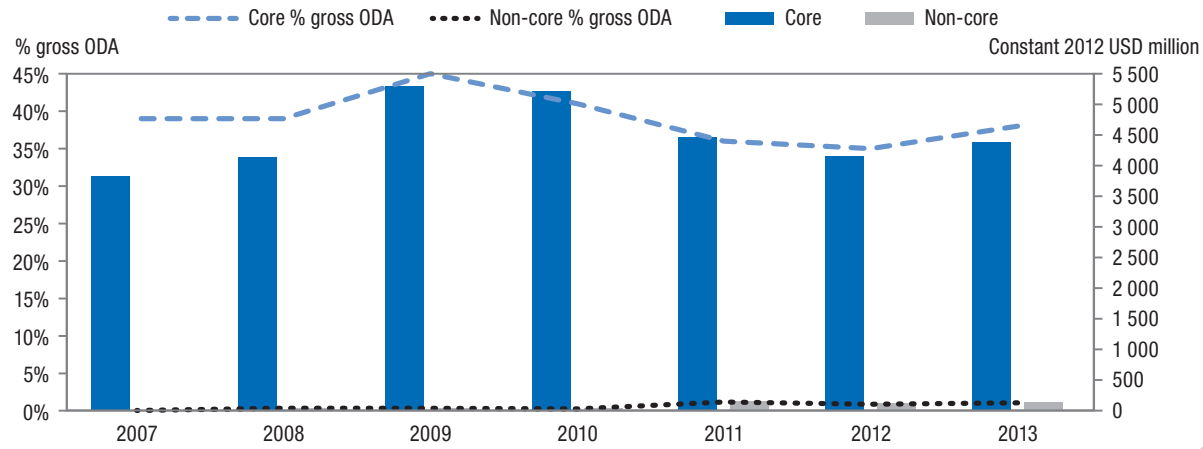
Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247605*

FRANCE, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

18%
Population policies and reproductive health

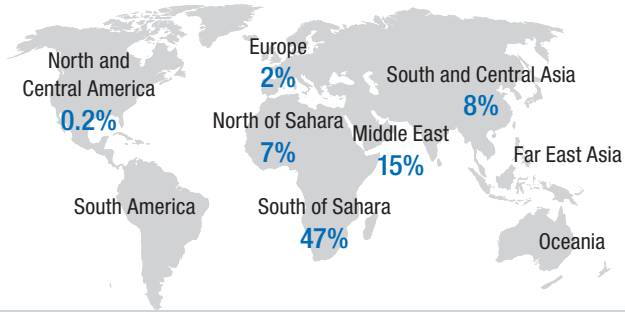
17%
Developmental food aid

16%
Education

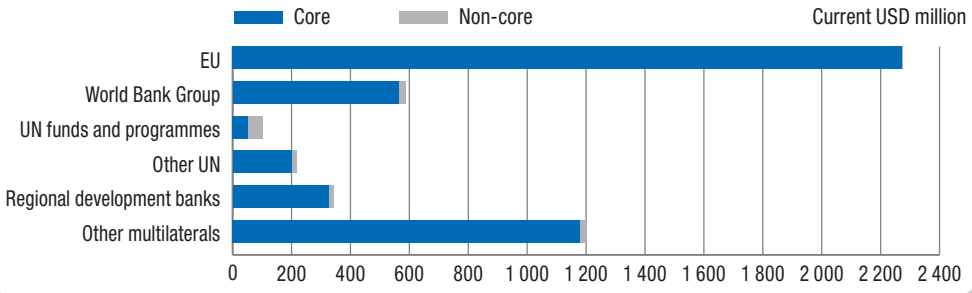
12%
Water supply and sanitation

9%
General budget support

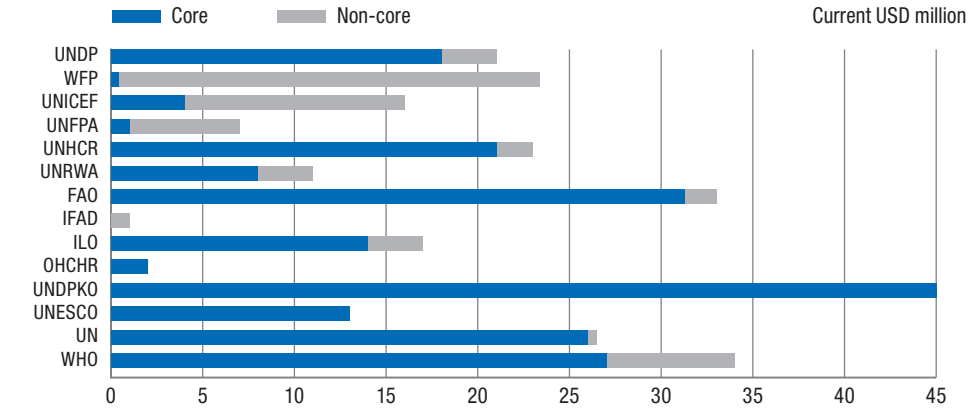
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



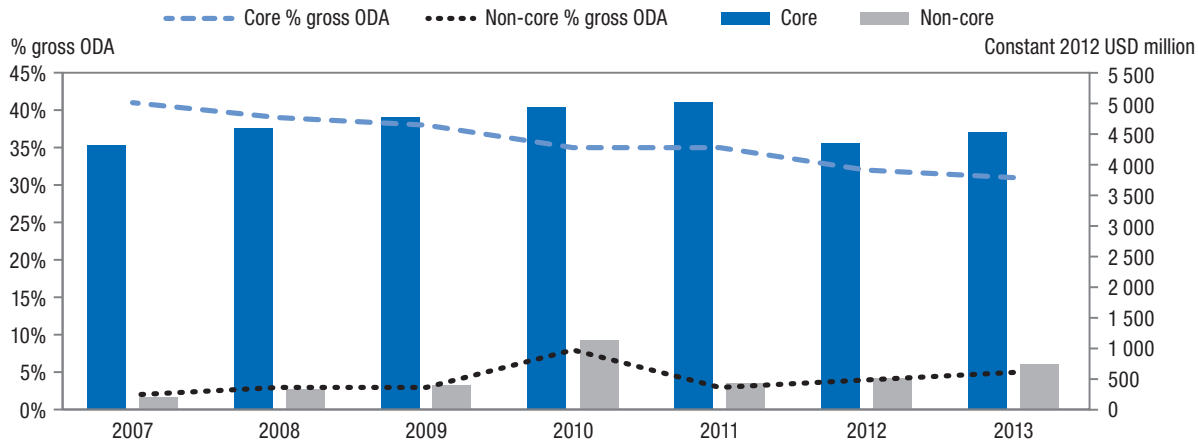
Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247611*

GERMANY, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

31%
Humanitarian aid

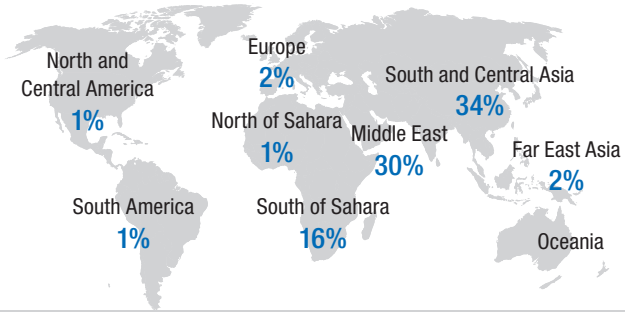
25%
Government and civil society

19%
Environment

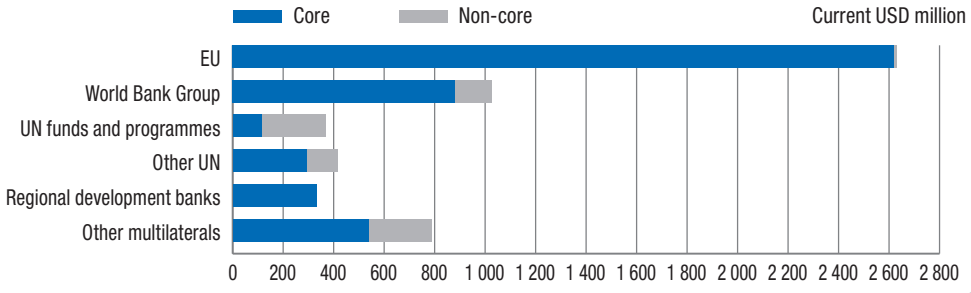
9%
Agriculture

5%
Education

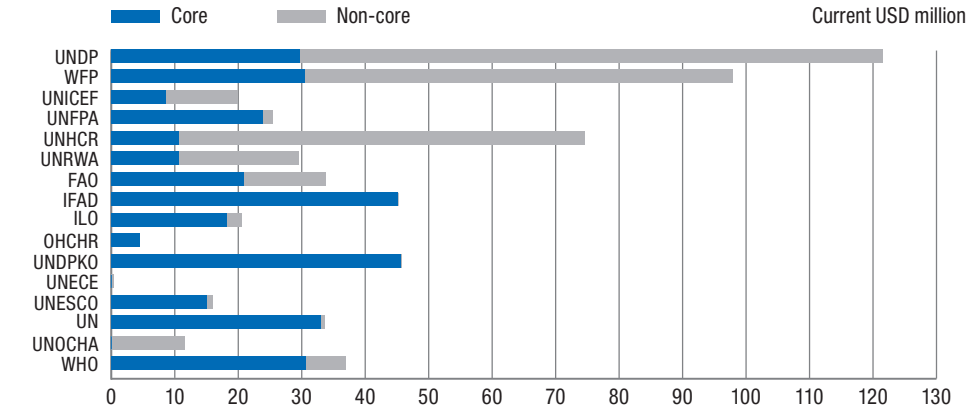
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



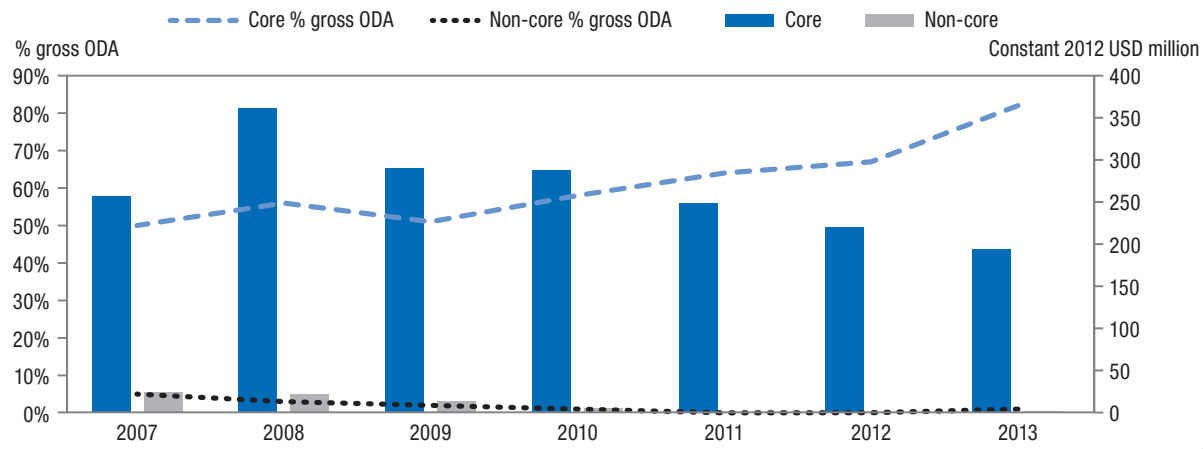
Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247626*

GREECE, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

84%
Multi-sector

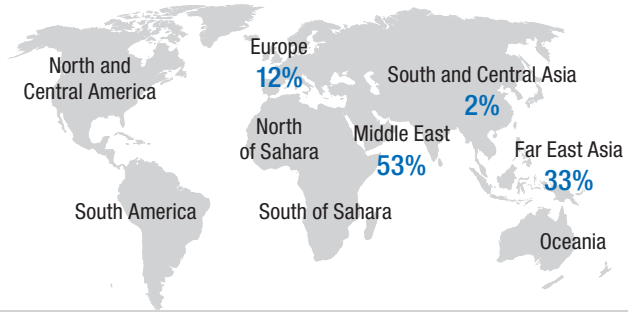
12%
Humanitarian aid

2%
Government and civil society

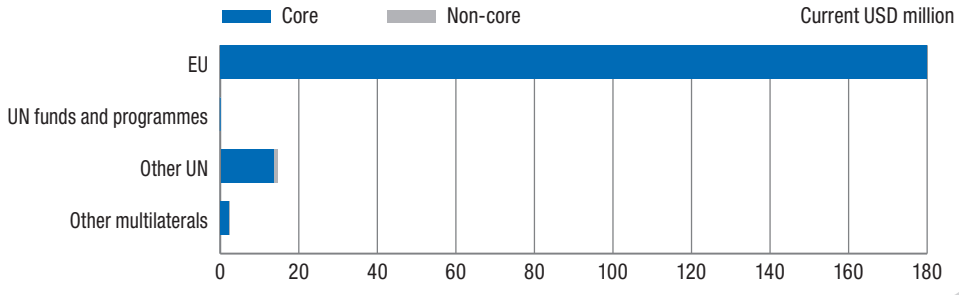
1%
Education

Other production sectors
(forestry, fishing, industry, mining, construction, trade policy, tourism)

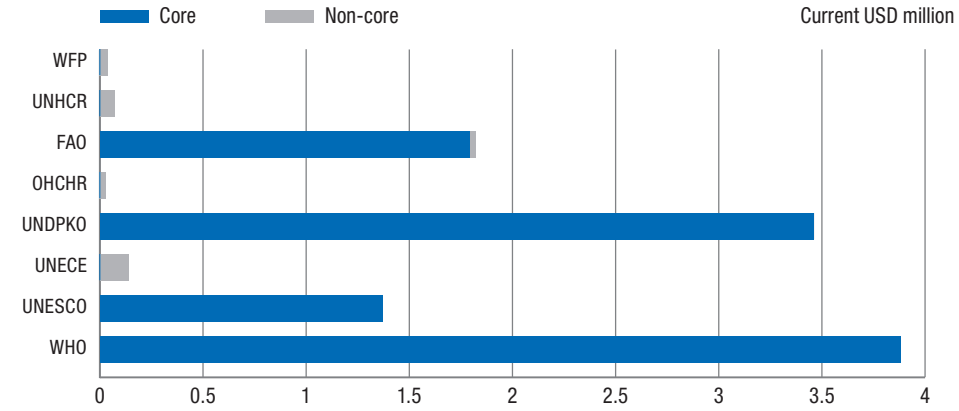
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013

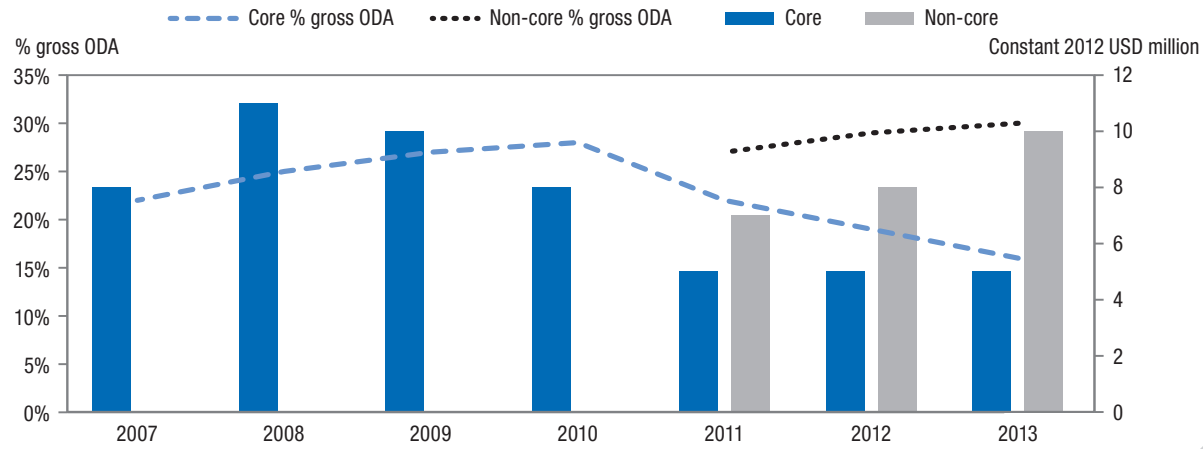


Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).

StatLink *http://dx.doi.org/10.1787/888933247639*

ICELAND, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

28%
Economic infrastructure and services

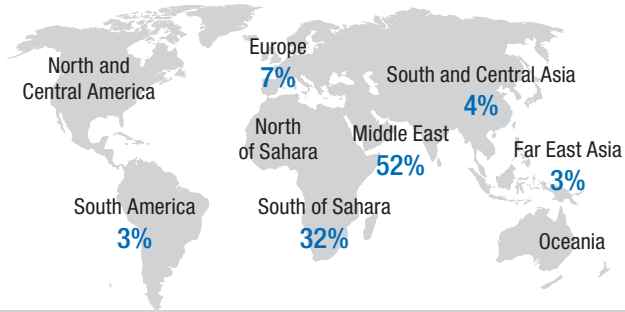
25%
Government and civil society

24%
Other production sectors
(forestry, fishing, industry, mining, construction, trade policy, tourism)

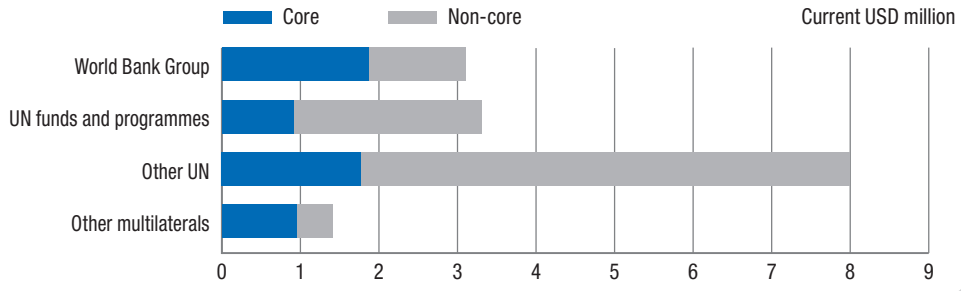
8%
Humanitarian aid

6%
Multi-sector

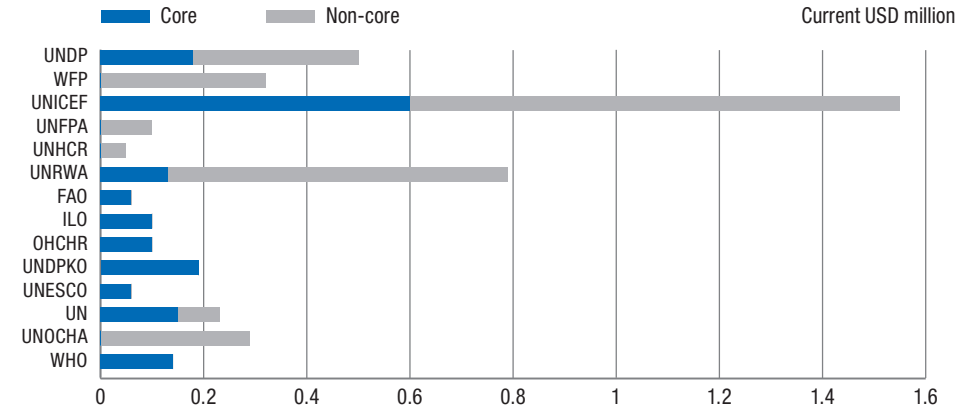
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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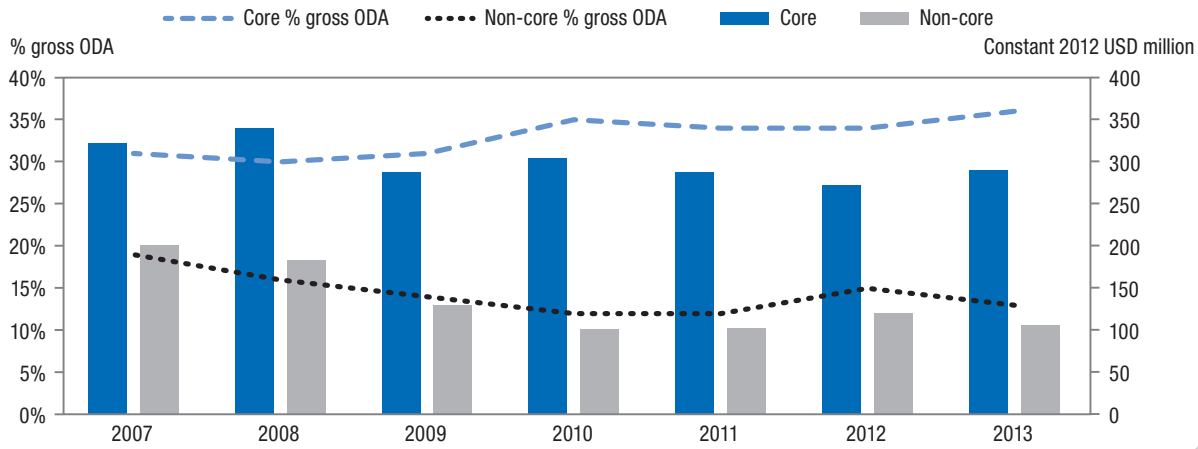
IRELAND, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

46%
Humanitarian aid

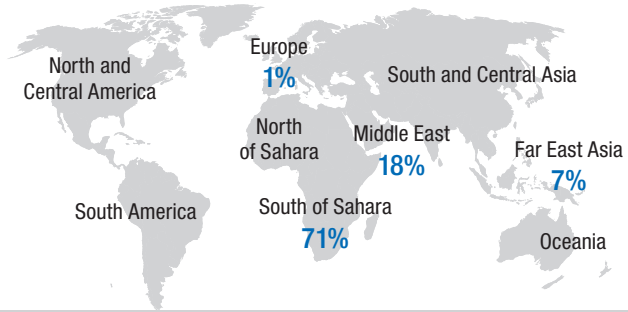
12%
Other social infrastructure

12%
Agriculture

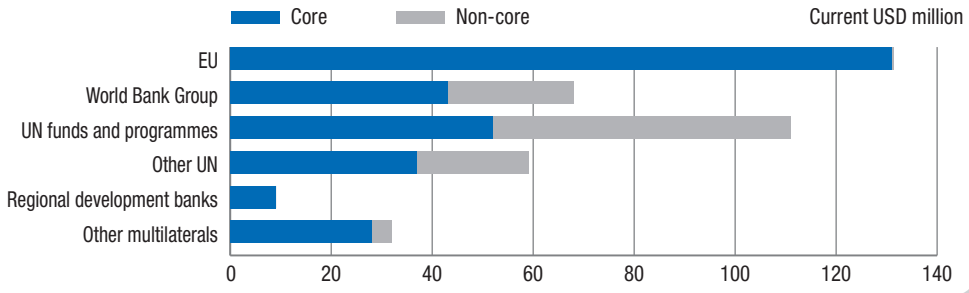
10%
Government and civil society

7%
Health

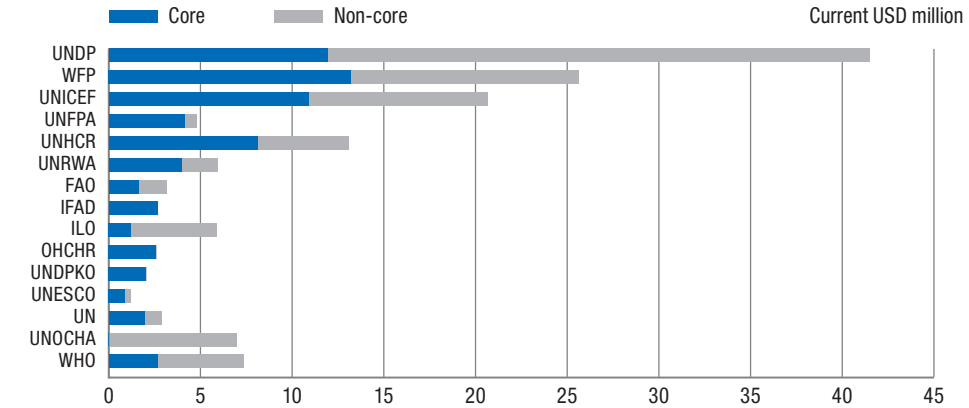
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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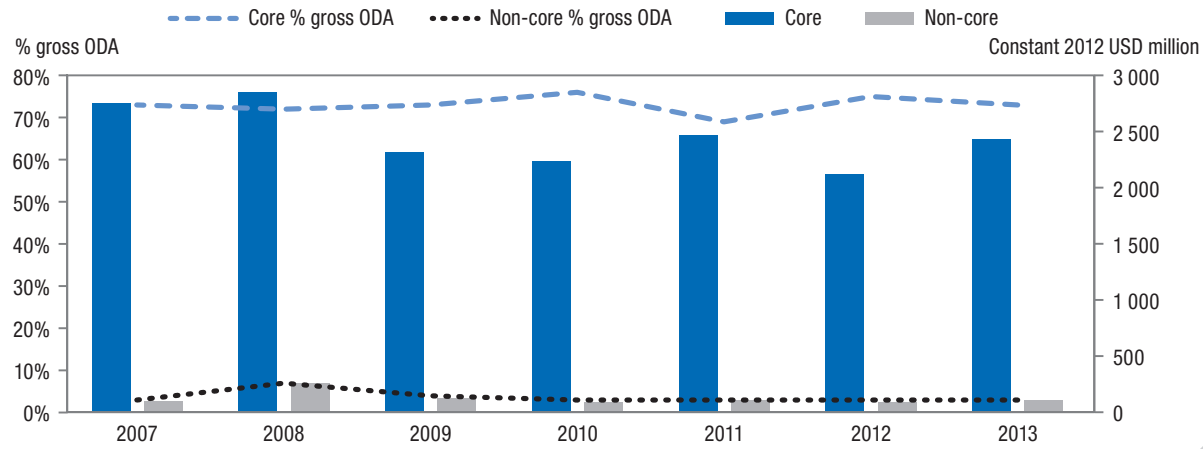
ITALY, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

23%
Multi-sector

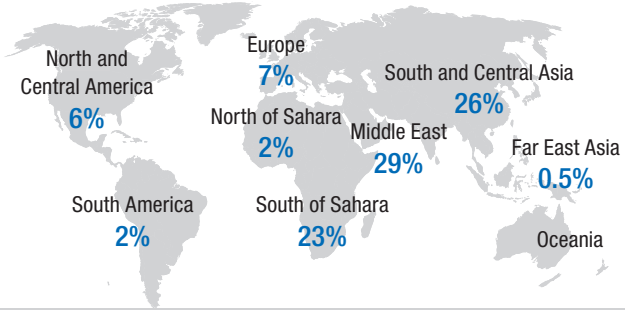
19%
Humanitarian aid

17%
Environment

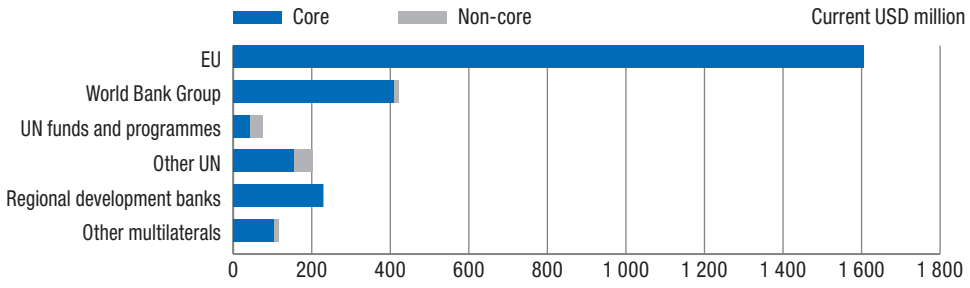
11%
Government and civil society

6%
Education

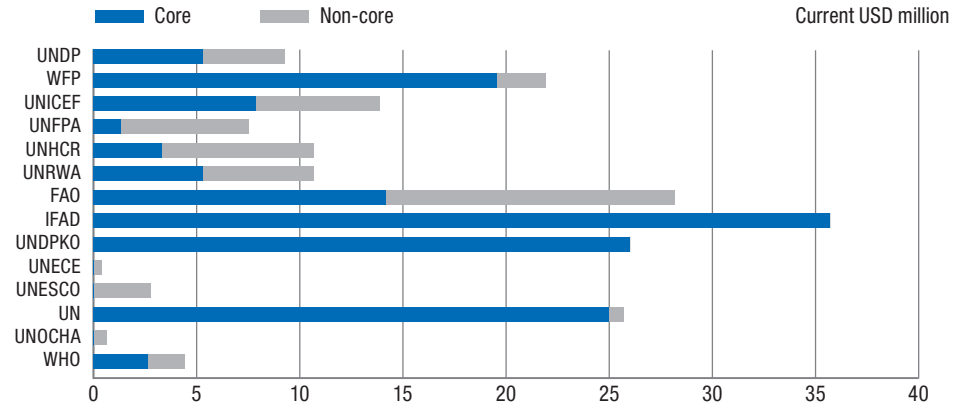
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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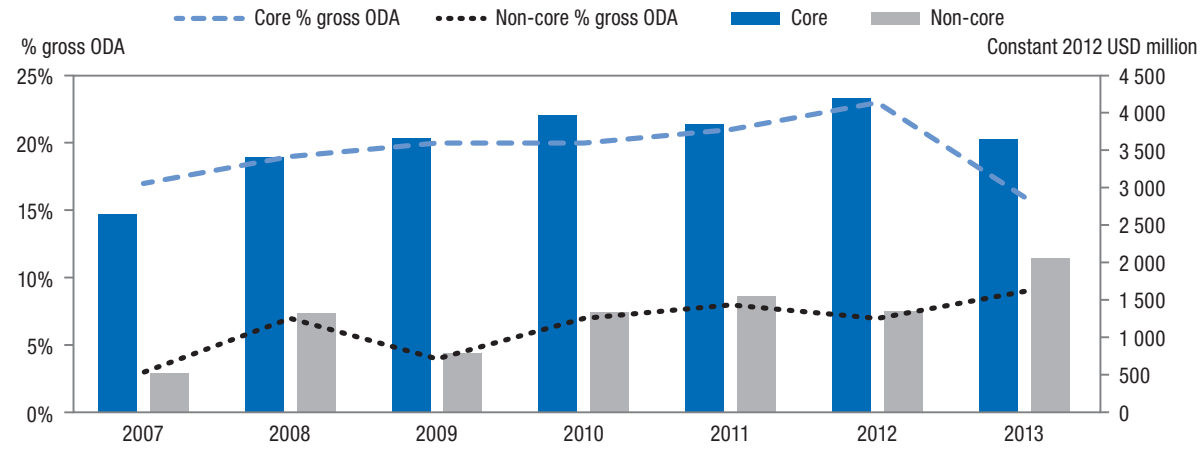
JAPAN, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

36%
Humanitarian aid

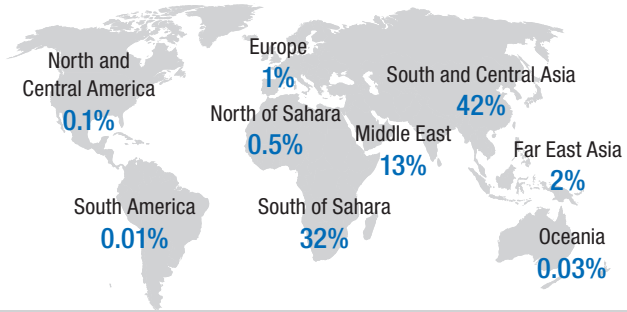
29%
Government and civil society

11%
Health

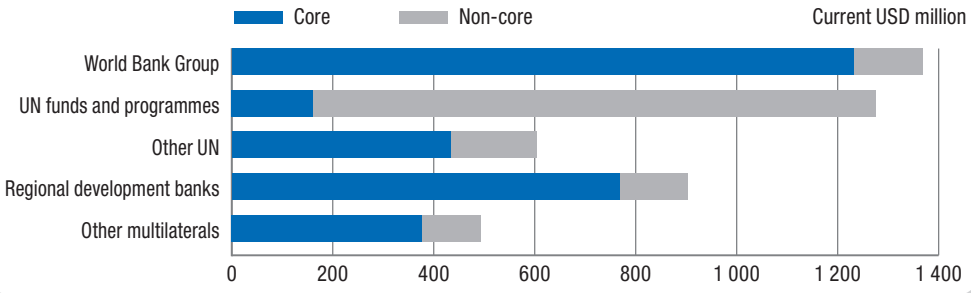
7%
Other production sectors
(forestry, fishing, industry, mining, construction, trade policy, tourism)

5%
Multi-sector

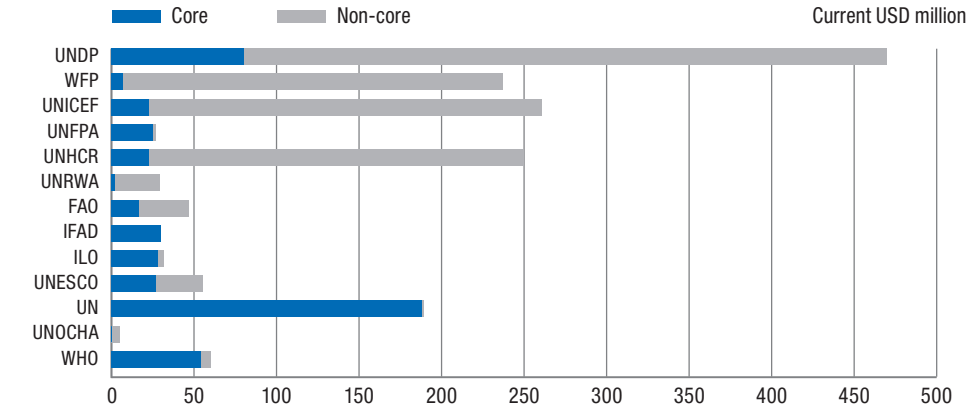
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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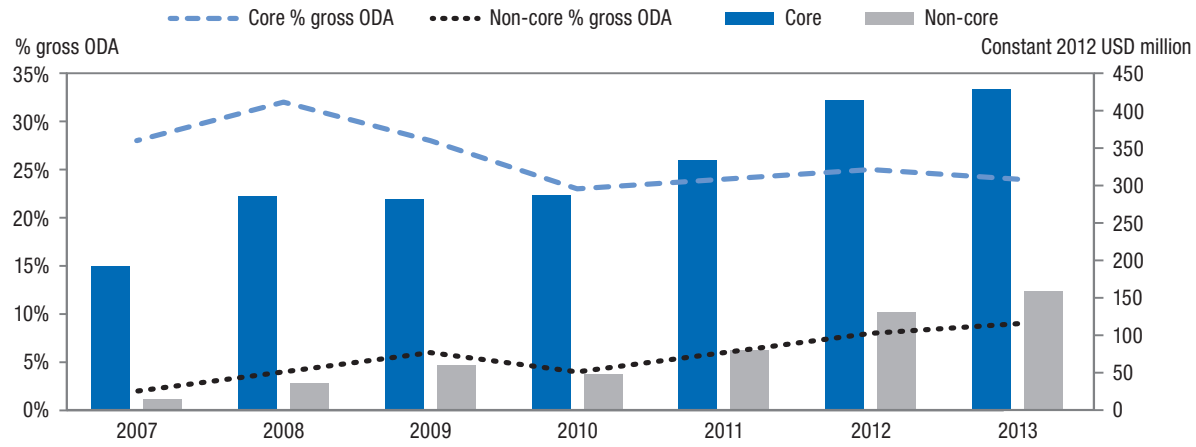
KOREA, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

39%
Government and civil society

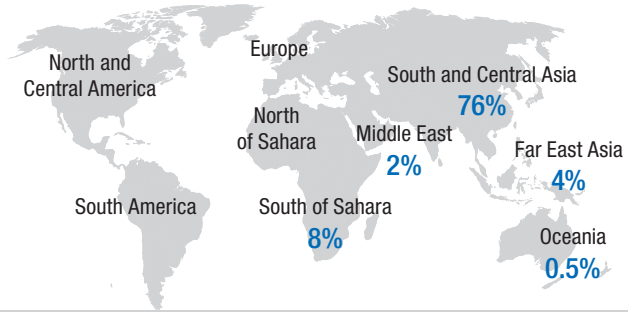
21%
Multi-sector

11%
Humanitarian aid

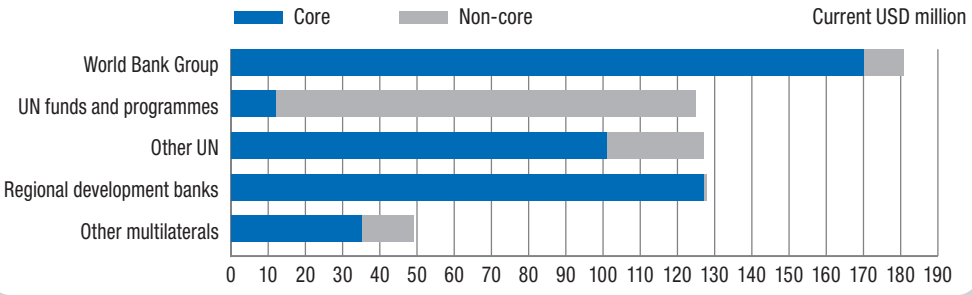
9%
Agriculture

8%
Other social infrastructure

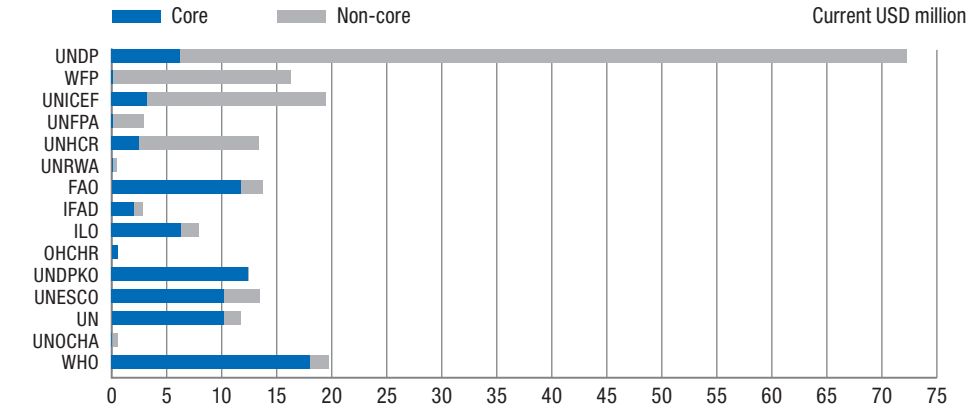
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



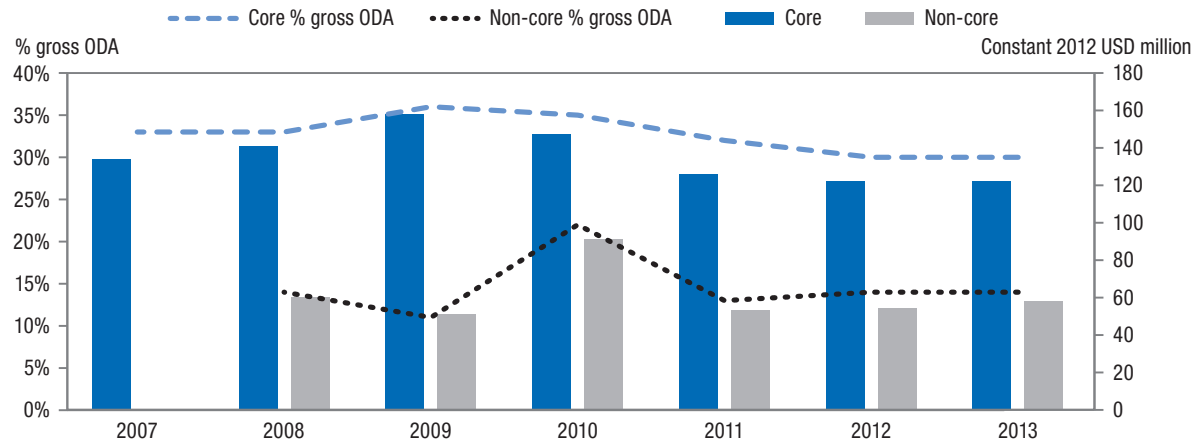
Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247680*

LUXEMBOURG, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

33%
Humanitarian aid

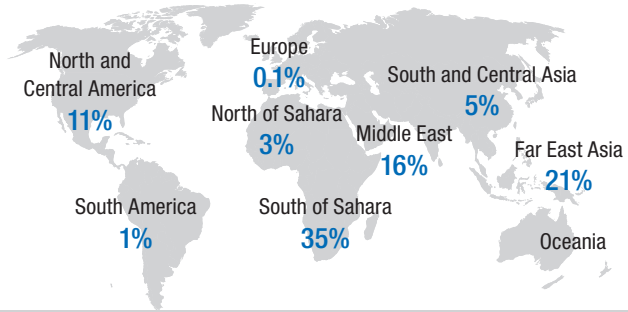
20%
Health

18%
Multi-sector

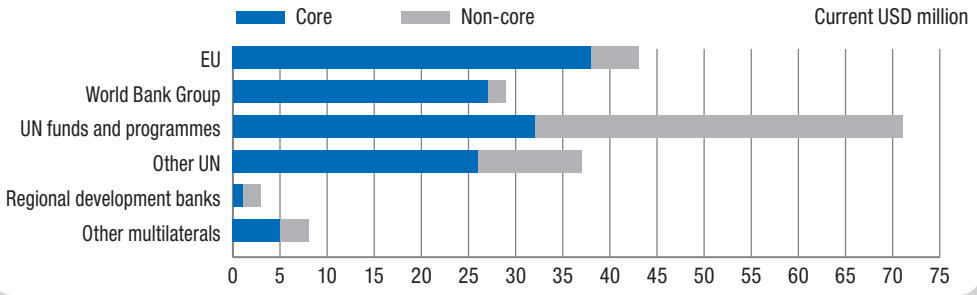
10%
Government and civil society

5%
Education

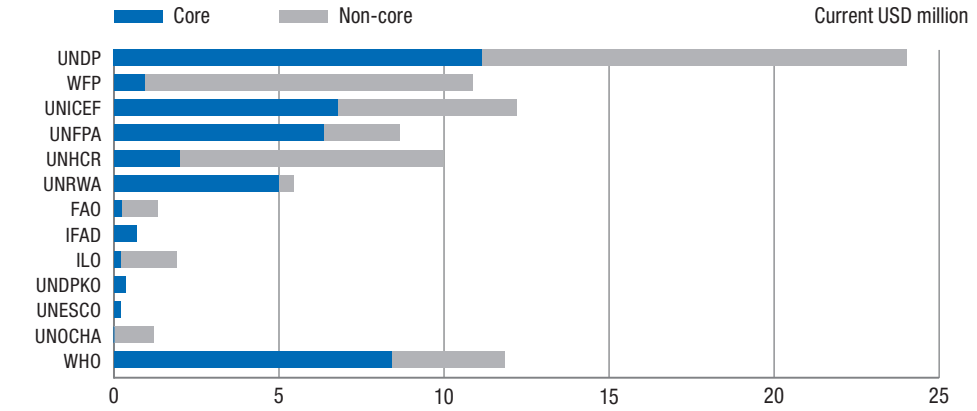
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013

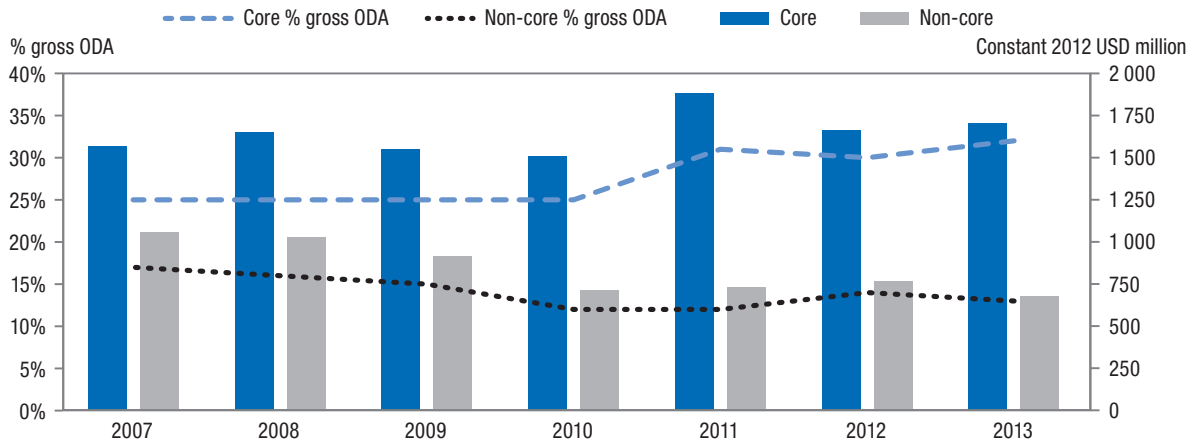


Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).

StatLink *http://dx.doi.org/10.1787/888933247693*

NETHERLANDS, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

22%
Government and civil society

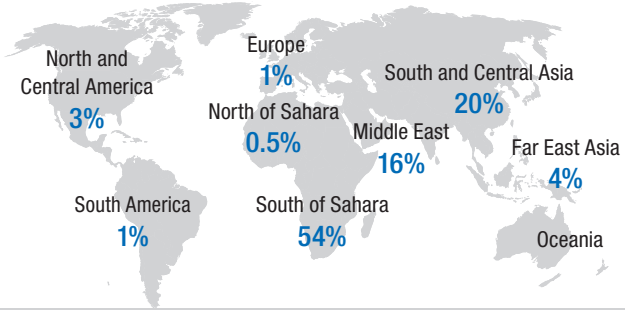
15%
Agriculture

10%
Education

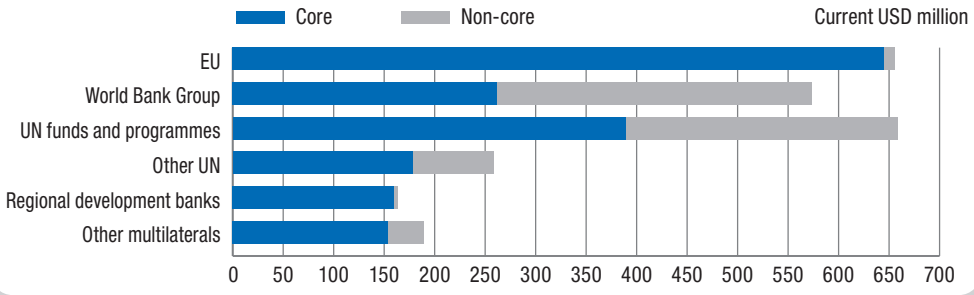
10%
Economic infrastructure and services

10%
Water supply and sanitation

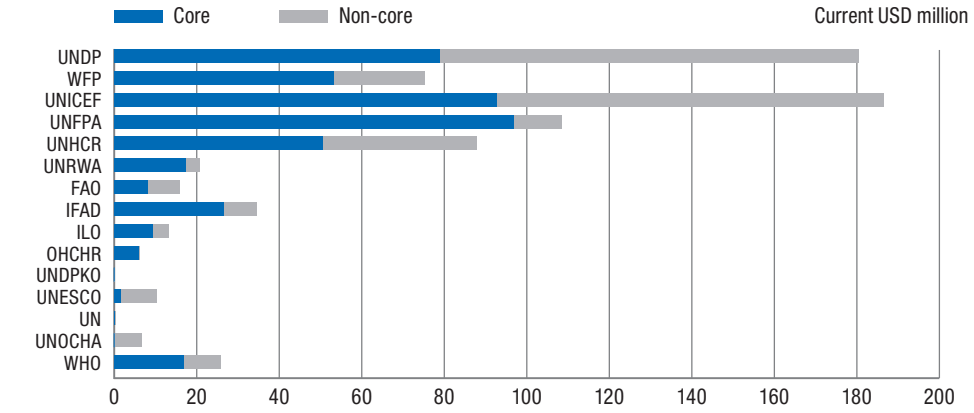
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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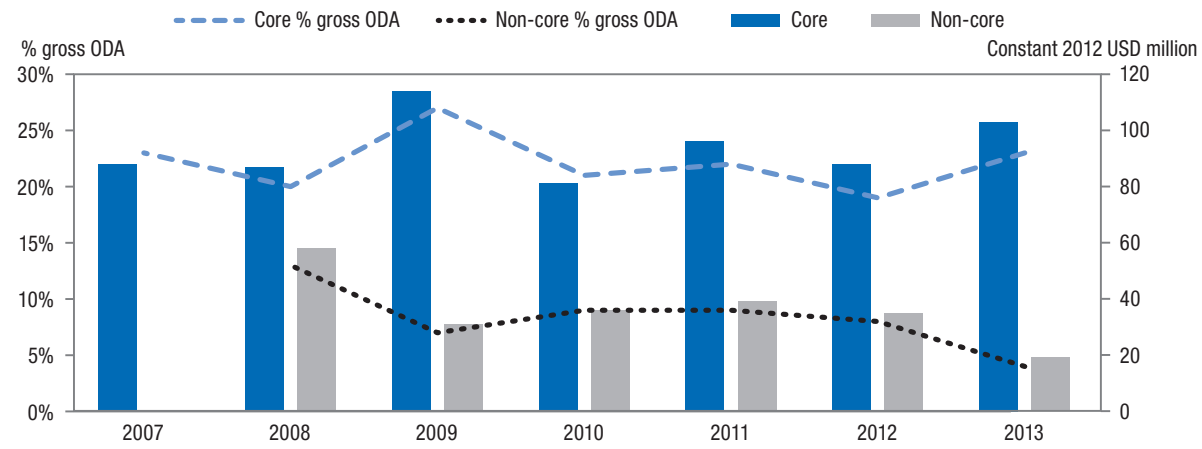
NEW ZEALAND, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

22%
Humanitarian aid

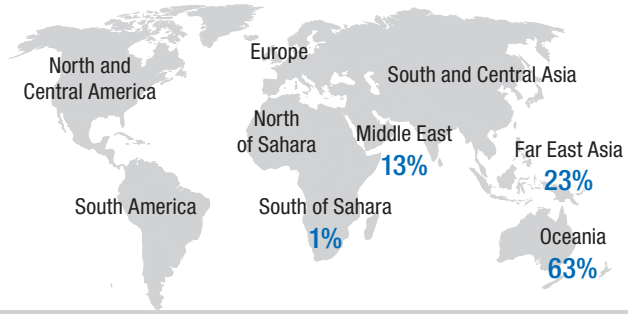
21%
Economic infrastructure and services

17%
Population policies and reproductive health

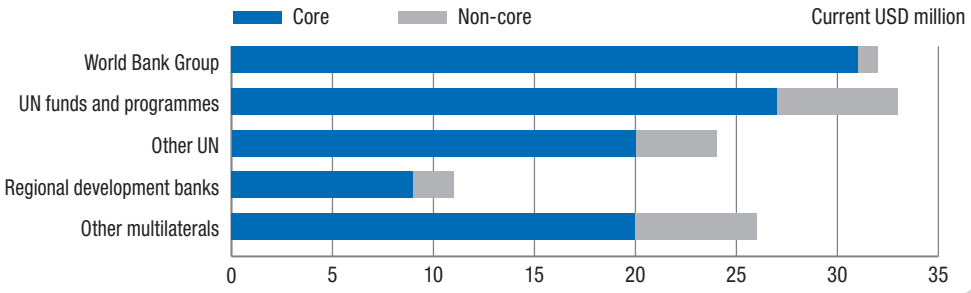
13%
Government and civil society

12%
Agriculture

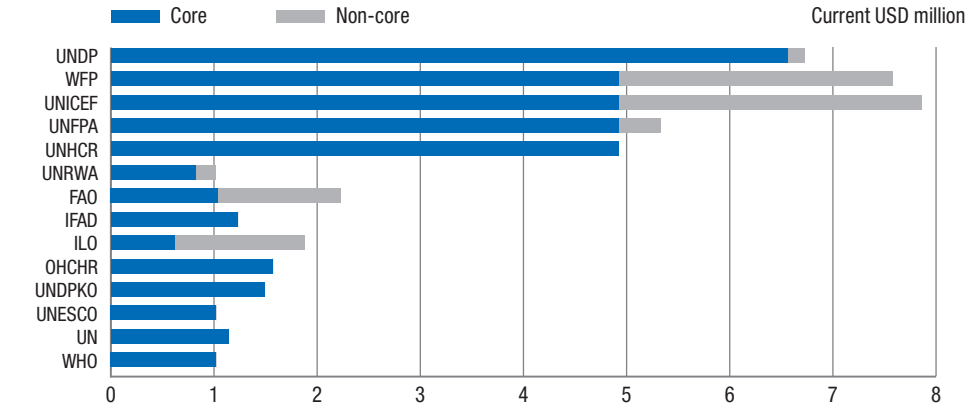
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013

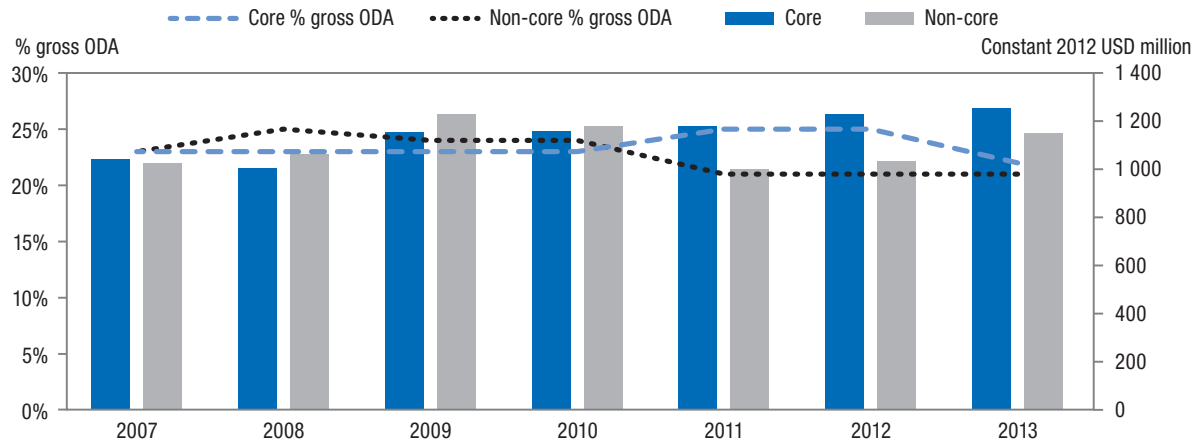


Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933247719

NORWAY, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

18%
Government and civil society

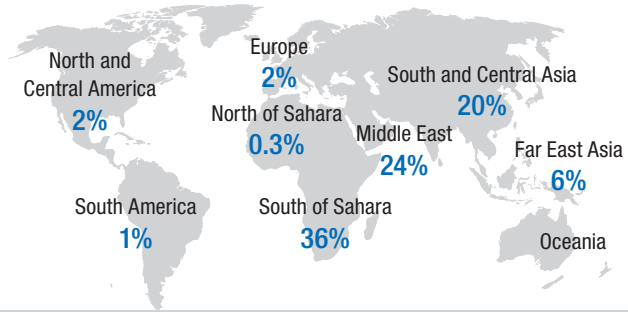
15%
Humanitarian aid

14%
Education

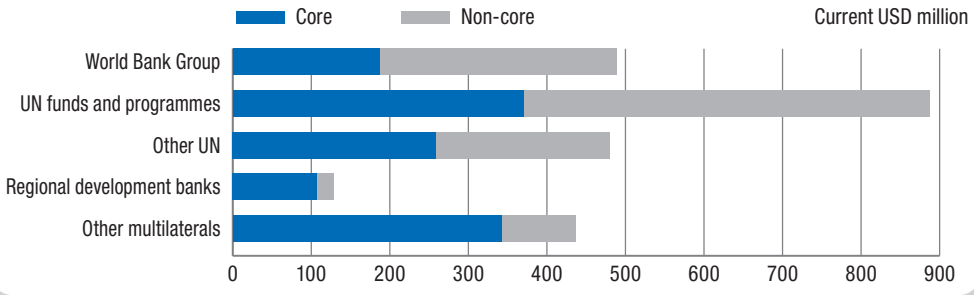
12%
Other production sectors
(forestry, fishing, industry, mining, construction, trade policy, tourism)

9%
Population policies and reproductive health

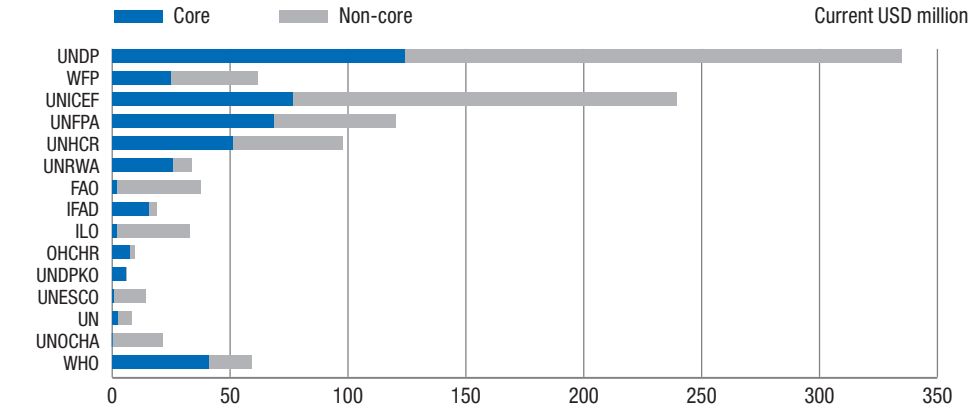
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



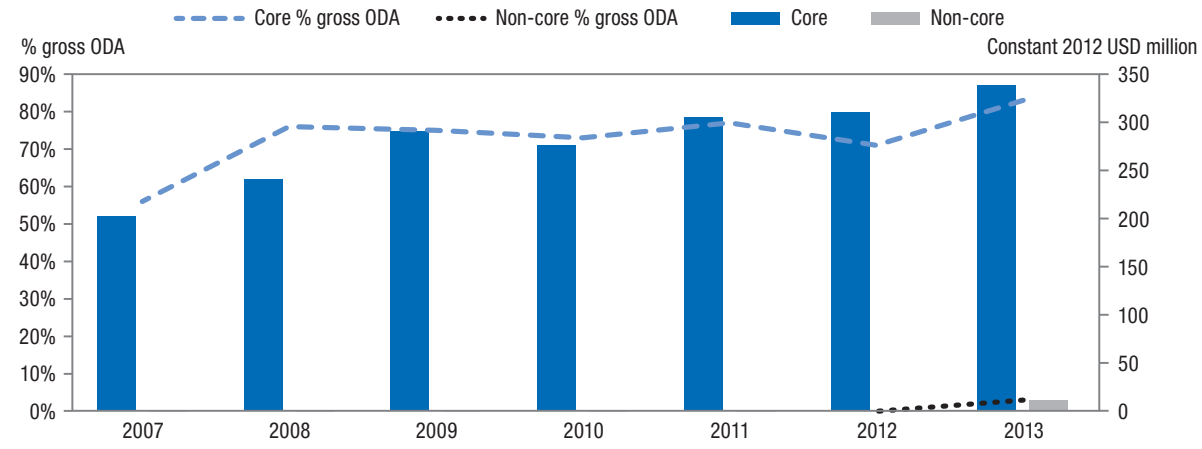
Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247726*

POLAND, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

65%
Government and civil society

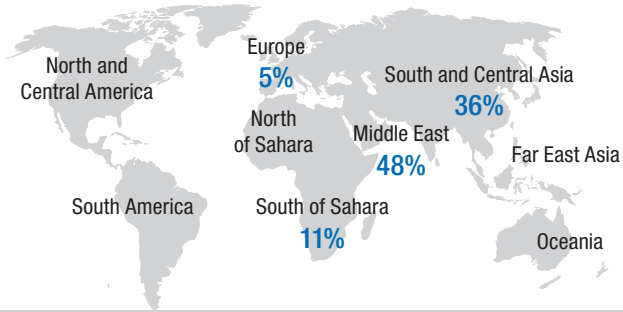
26%
Humanitarian aid

6%
Economic infrastructure and services

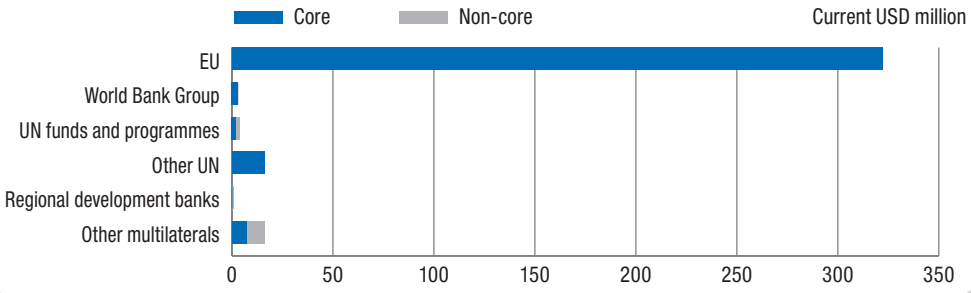
2%
Education

0.5%
Other social infrastructure

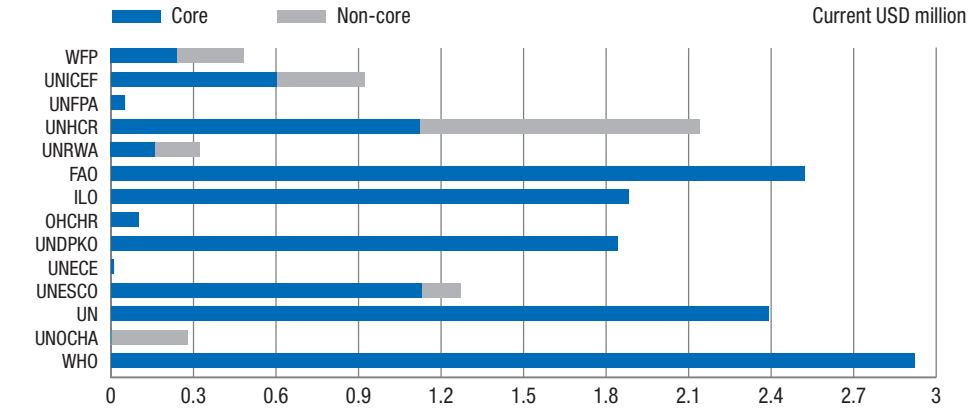
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013

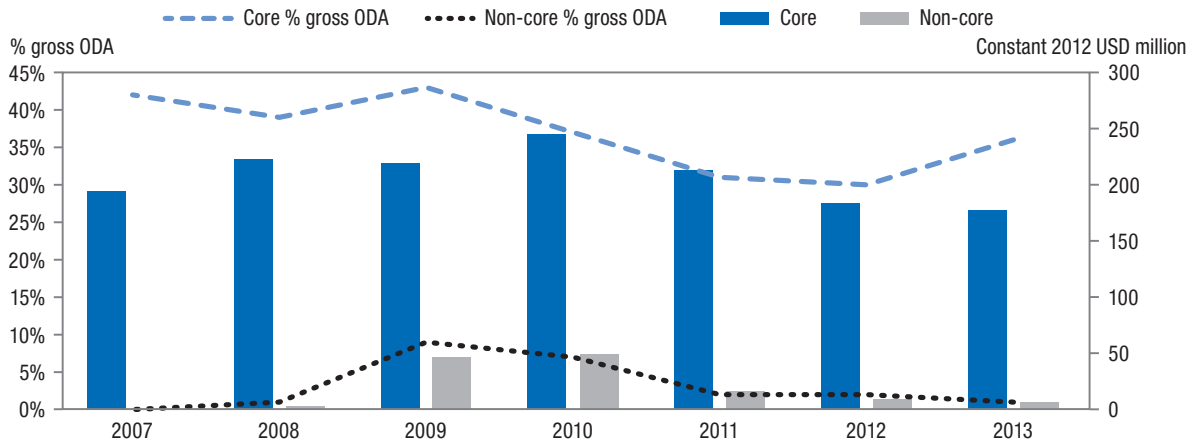


Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933247739

PORTUGAL, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

53%
Government and civil society

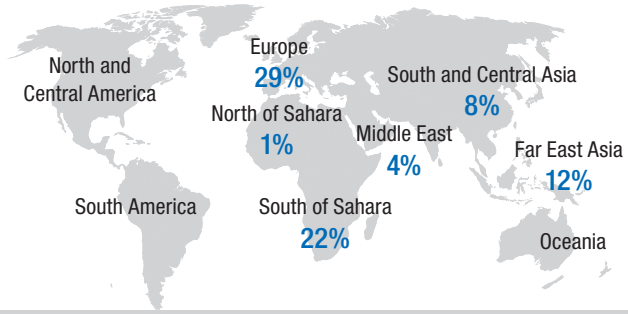
22%
Multi-sector

12%
Education

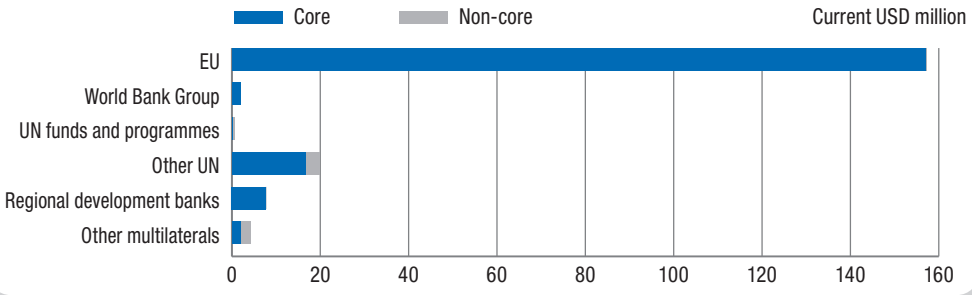
3%
Developmental food aid

3%
Environment

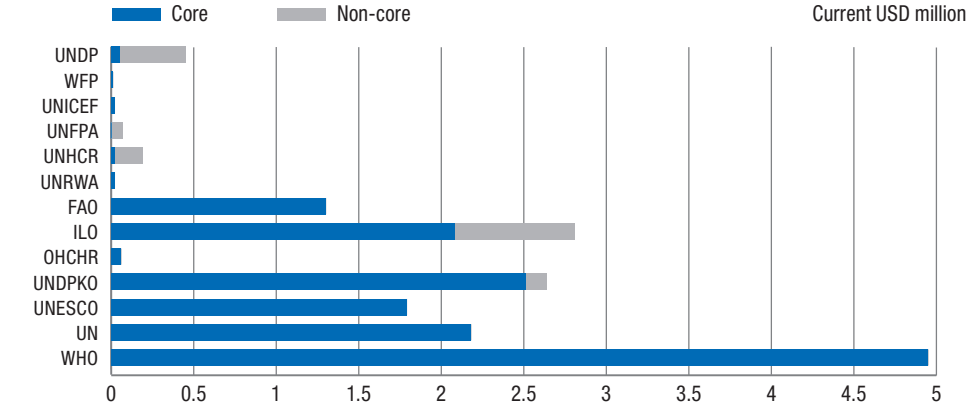
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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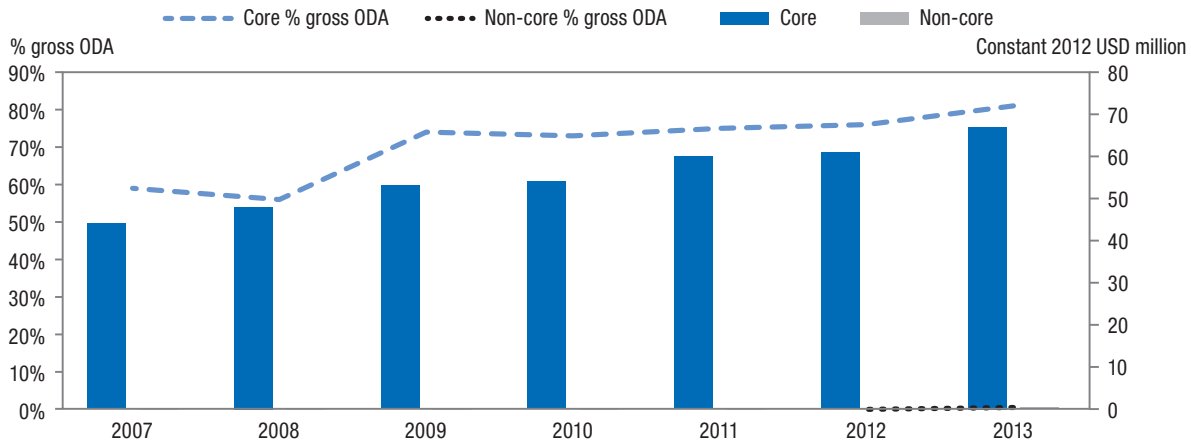
SLOVAK REPUBLIC, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

73%
Multi-sector

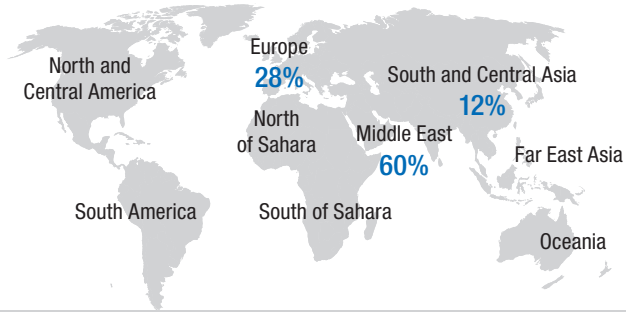
18%
Humanitarian aid

5%
Government and civil society

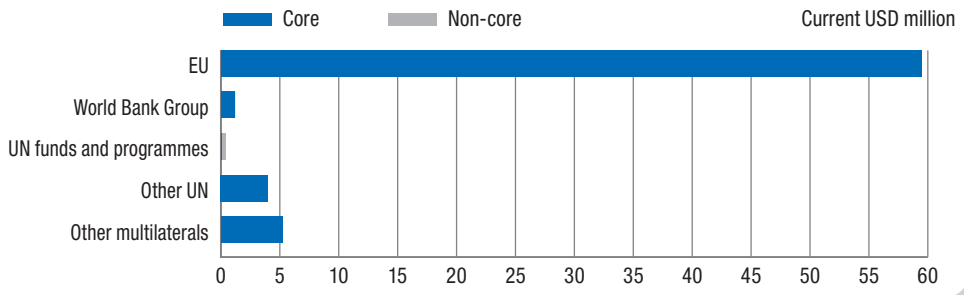
4%
Health

Other social infrastructure

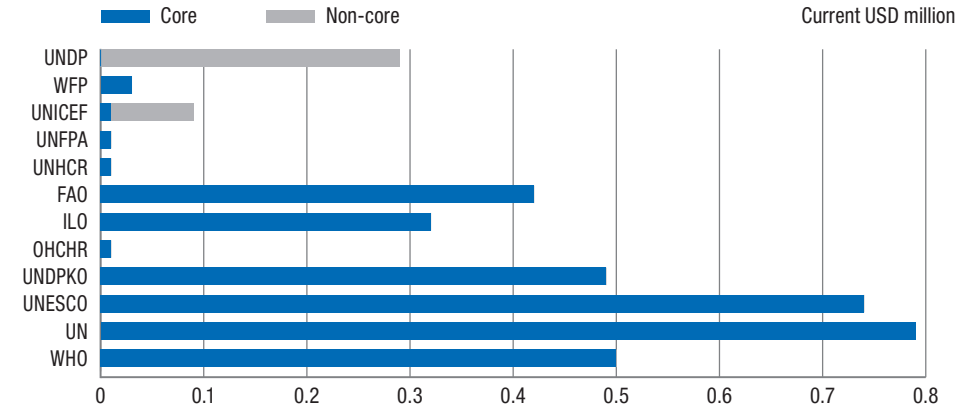
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).

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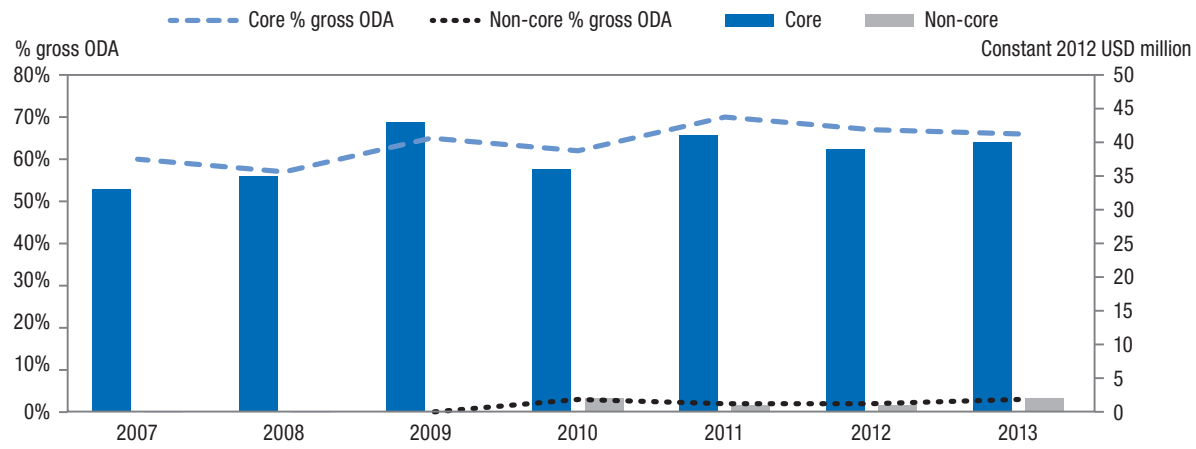
SLOVENIA, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

41%
Environment

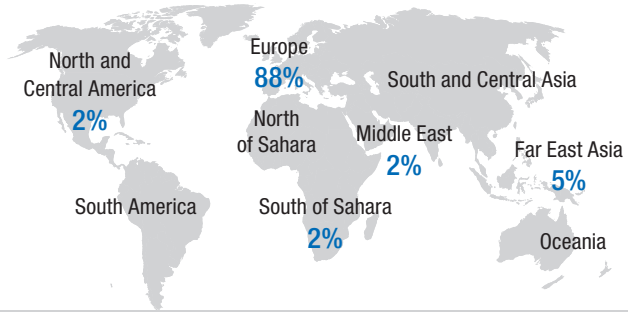
23%
Economic infrastructure and services

10%
Other production sectors
(forestry, fishing, industry, mining, construction, trade policy, tourism)

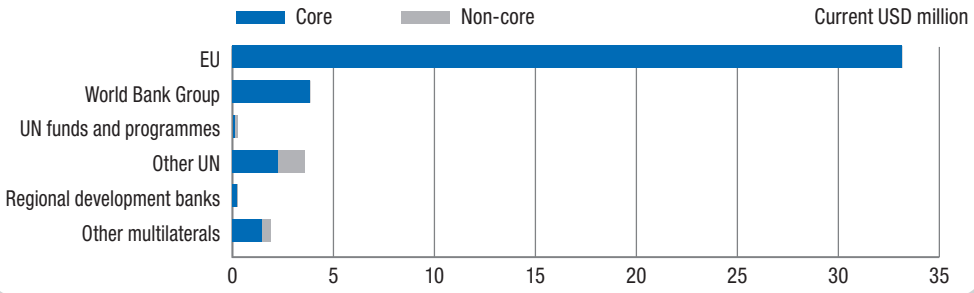
9%
Humanitarian aid

8%
Water supply and sanitation

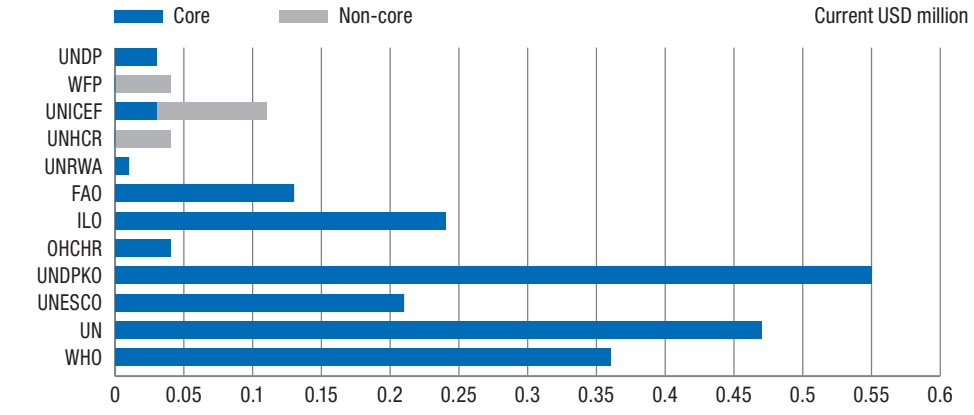
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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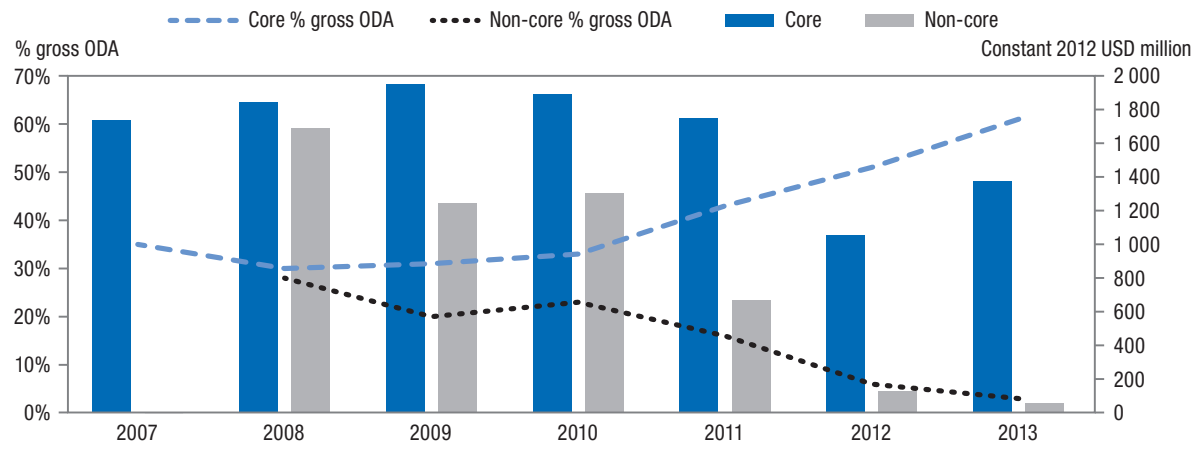
SPAIN, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

31%
Humanitarian aid

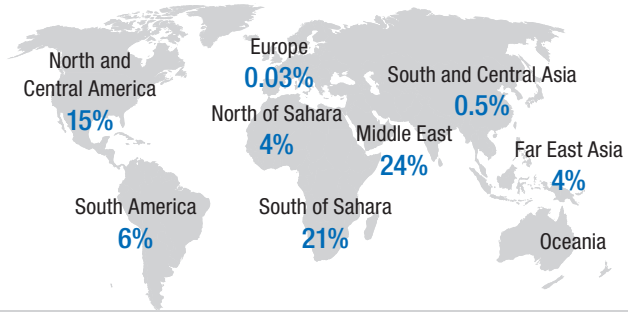
17%
Multi-sector

12%
Agriculture

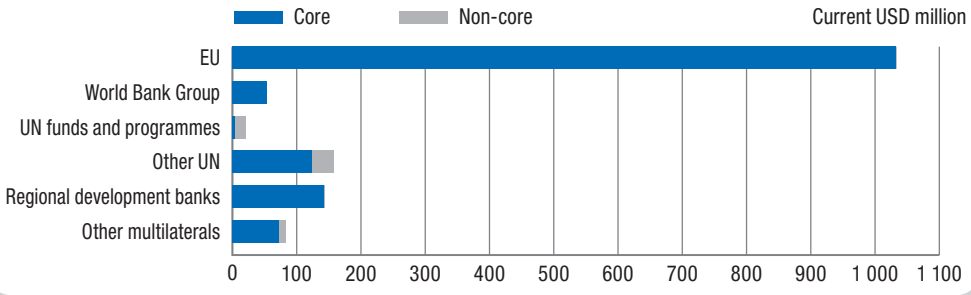
11%
Government and civil society

7%
Population policies and reproductive health

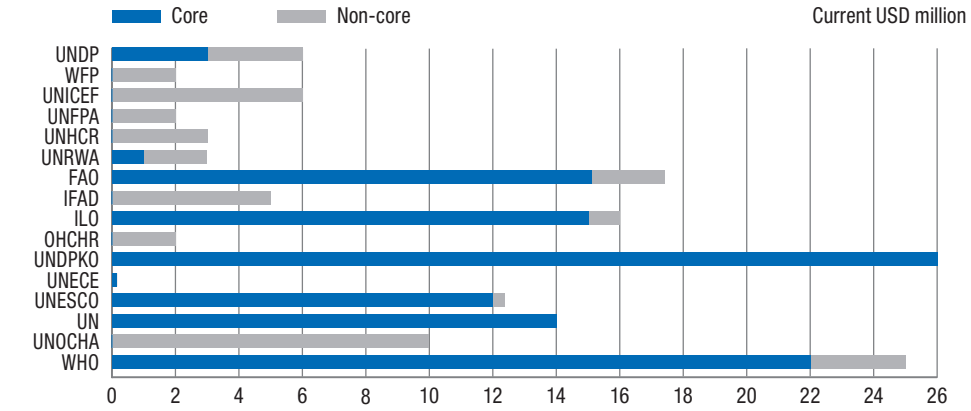
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
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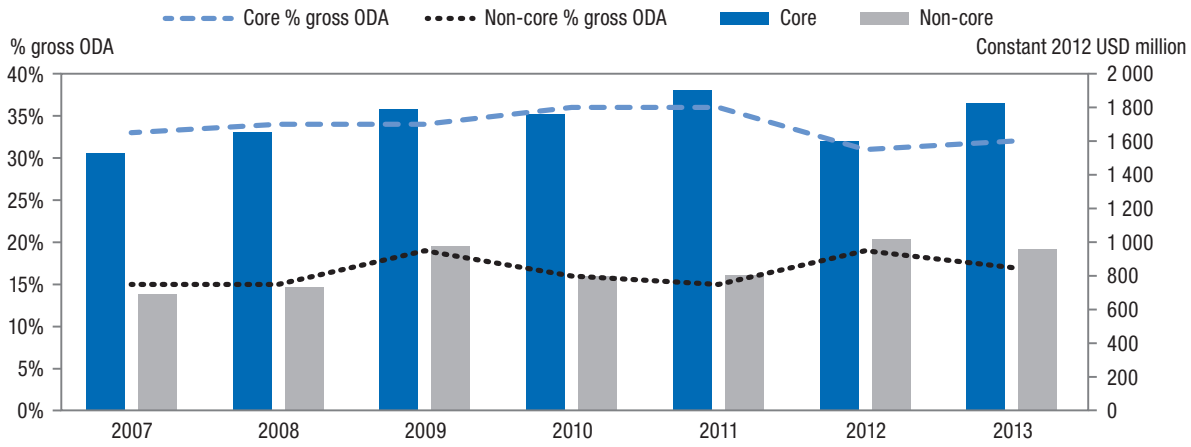
SWEDEN, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

26%
Government and civil society

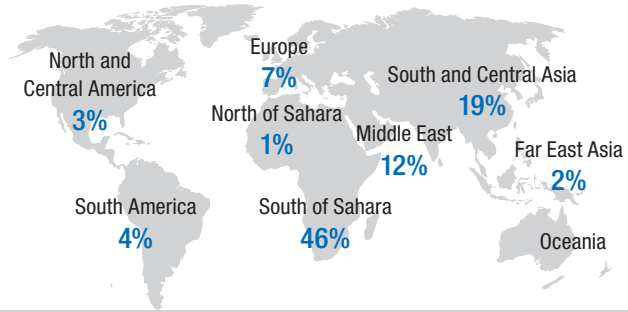
21%
Humanitarian aid

10%
Multi-sector

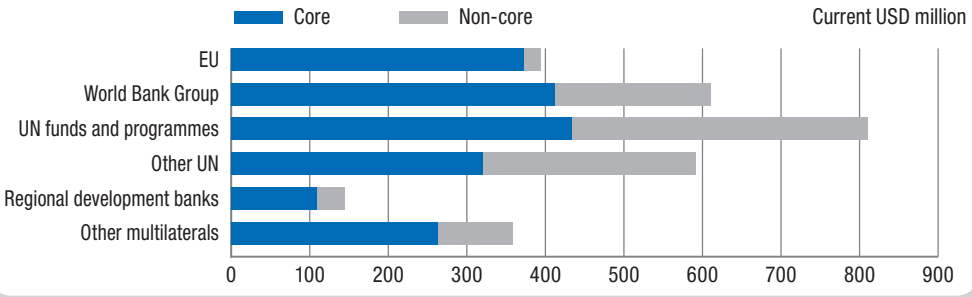
8%
Water supply and sanitation

6%
Economic infrastructure and services

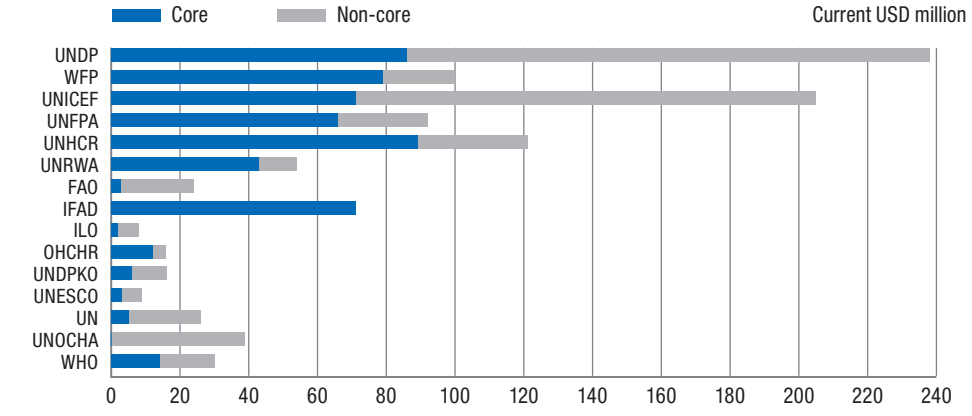
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



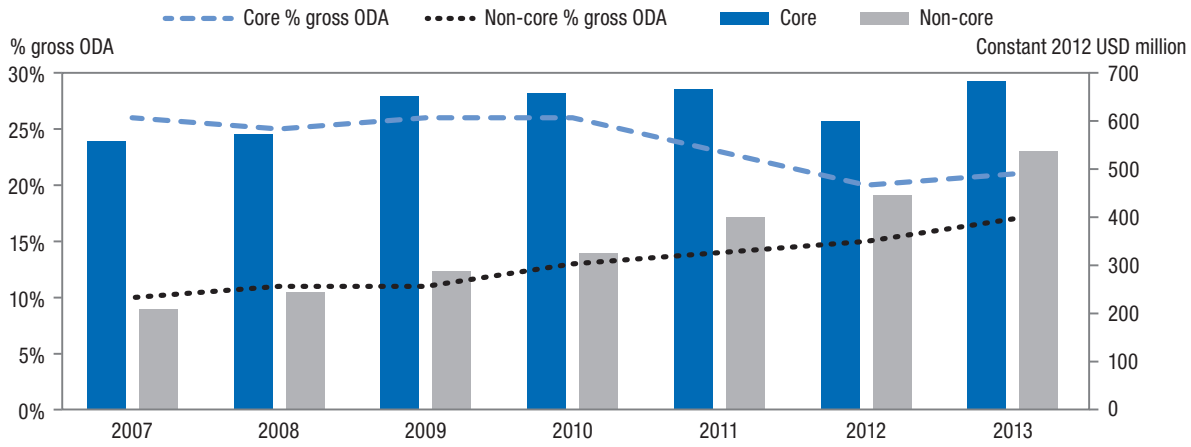
Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247789*

SWITZERLAND, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

23%
Humanitarian aid

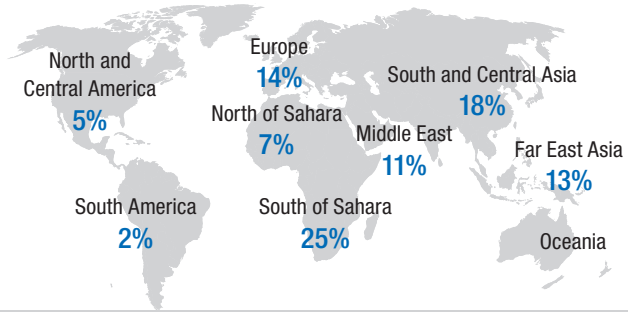
20%
Government and civil society

14%
Economic infrastructure and services

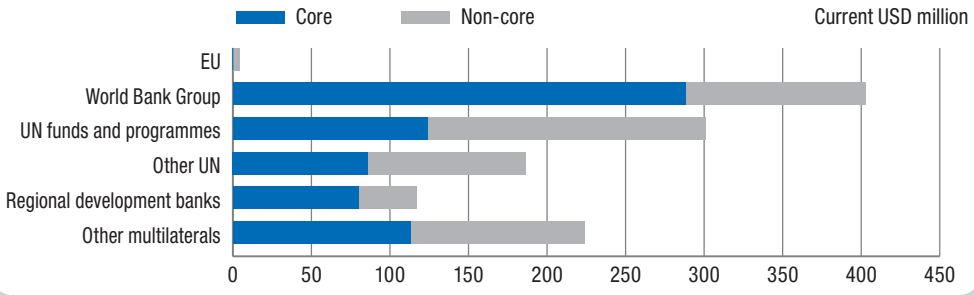
11%
Water supply and sanitation

10%
Multi-sector

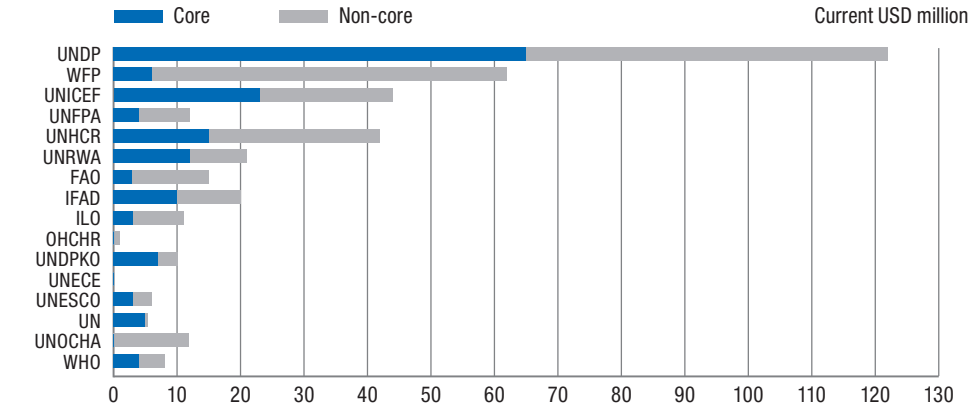
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



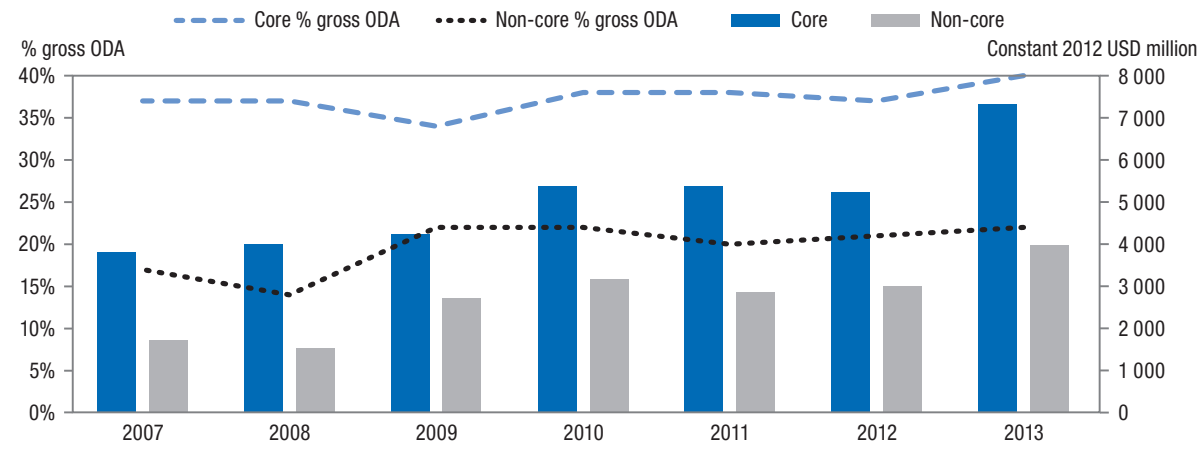
Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247791*

UNITED KINGDOM, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

24%
Humanitarian aid

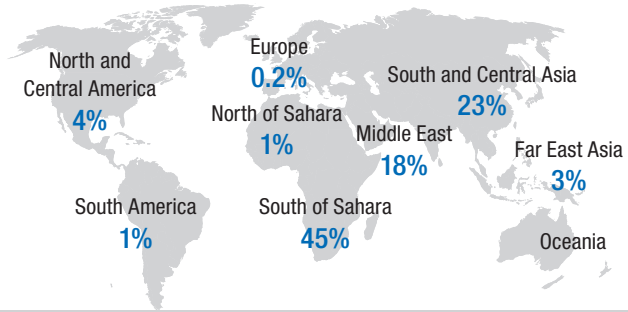
16%
Health

13%
Economic infrastructure and services

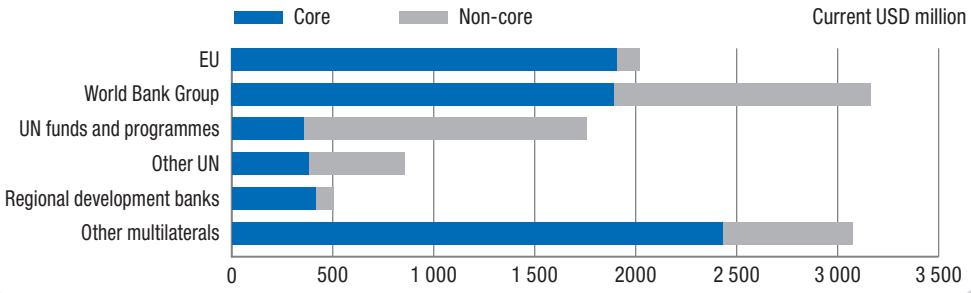
9%
Government and civil society

8%
Education

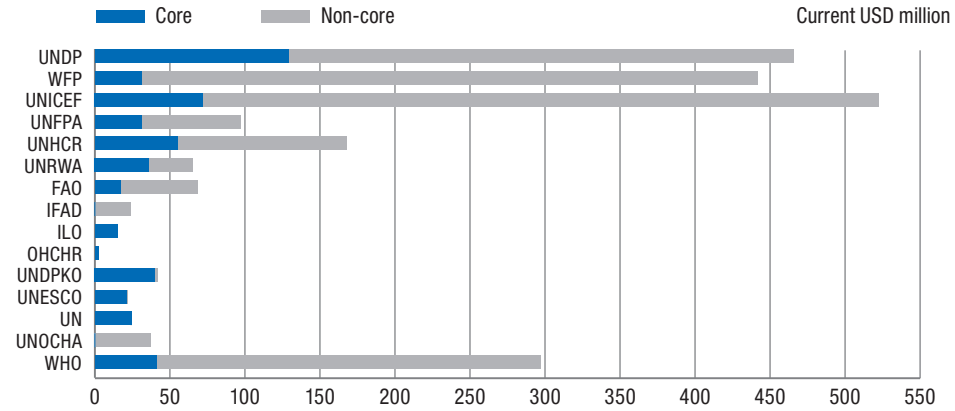
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



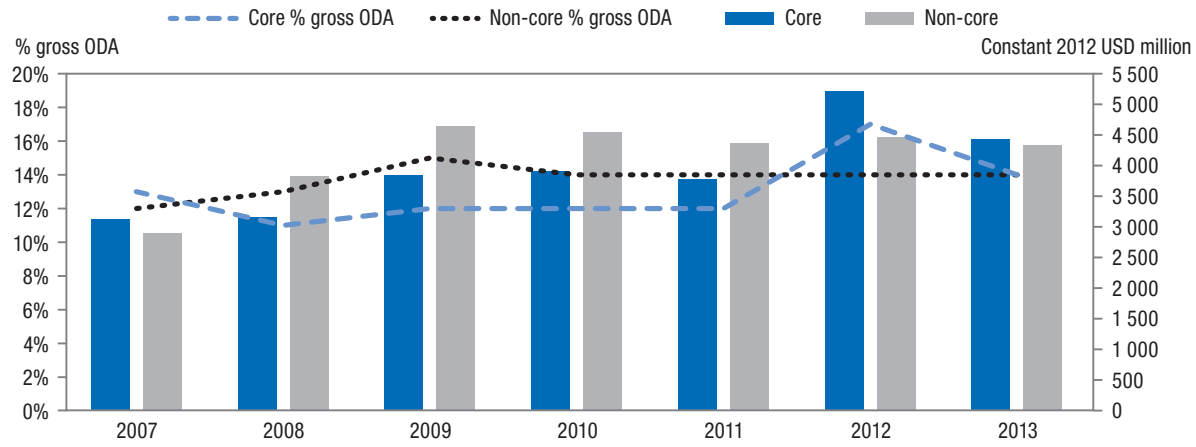
Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247800*

UNITED STATES, use of the multilateral aid system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2013

76%
Humanitarian aid

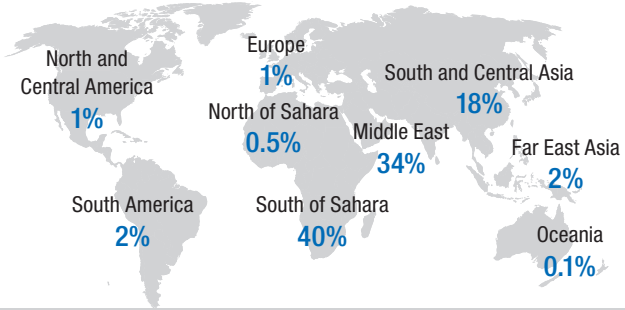
4%
Health

3%
Developmental food aid

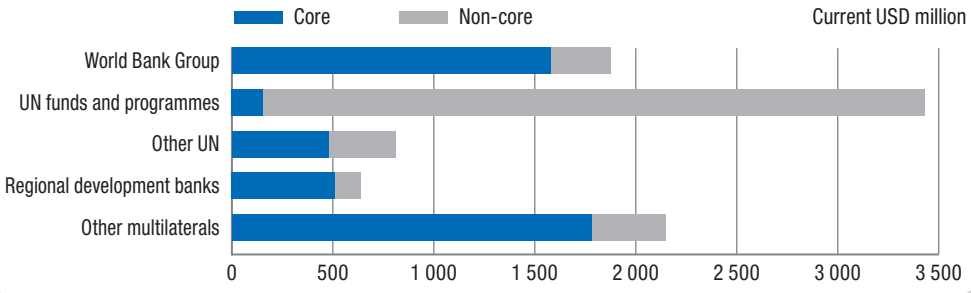
3%
Population policies and reproductive health

3%
Economic infrastructure and services

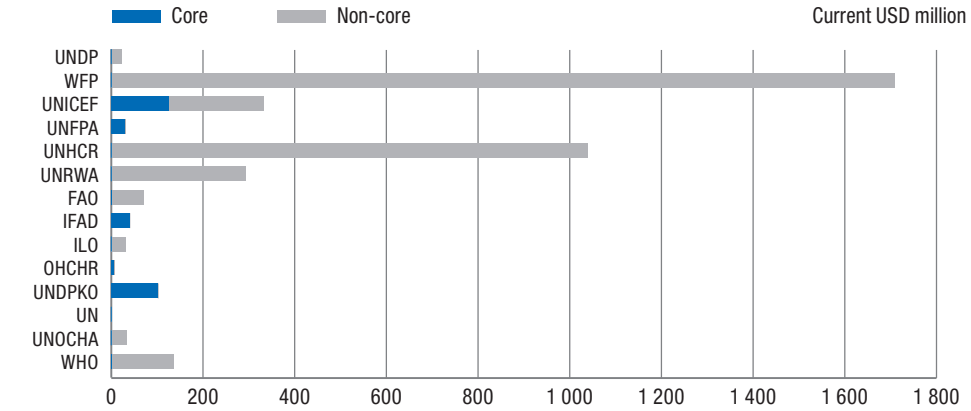
Non-core contributions to multilateral organisations by region, 2013



Core and non-core contributions to multilateral organisations by cluster, 2013



Core and non-core contributions to UN programmes, funds and agencies, 2013



Source: OECD (2014), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).
StatLink *http://dx.doi.org/10.1787/888933247811*

Multilateral Aid 2015 © OECD

Annex A • Notes on the statistical sources used in *Multilateral Aid 2015*

Data coverage

- All figures in this report are gross ODA disbursements excluding debt relief and contributions to the EU, unless otherwise specified.
- Czech Republic, Iceland, Poland, the Slovak Republic and Slovenia joined the OECD-DAC in 2013. Therefore, only partial statistical data is available for years before 2013.
- Reliable data on earmarked funding are available starting from 2007 for most DAC members, with the exception of Luxembourg, New Zealand and Spain, for whom data on earmarked funding are available from 2008.

Sector and geographic breakdown

- For the DAC definitions on the statistical classification of different sectors, please refer to the following website *http://www.oecd.org/dac/stats/documentupload/2012%20CRS%20purpose%20codes%20EN.pdf*.
- In the following Country Fact Sheets, the top five non-core receiving sectors are presented, across the following sectors: agriculture; development food aid; economic infrastructure and services; education; environment; general budget support; government and civil society; health; humanitarian aid; multi-sector; other production sectors (forestry, fishing, industry, mining, etc); population policies and reproductive health; water supply and sanitation; other (administrative costs, promotion of development awareness, etc).
- Regarding the geographical distribution of non-core contributions, please note that for each individual fact sheet, the sum of the percentages does not necessarily add up to 100% due to unspecified allocations and/or multi-regional allocations that cannot be attributed to a single category. Furthermore, please note that when there is no figure displayed for a certain area, it means that no allocations at all are made to this sub-region.

Classifications regarding multilateral organisations

- "UN funds and programmes" include the following multilateral organisations: UNDP, WFP, UNICEF, UNFPA, UNHCR and UNRWA. "Other UN" includes, among others, the following multilateral organisations: FAO, IFAD, ILO, OHCHR, UNDPKO, UNECE, UNESCO, UN general budget, UNOCHA, WHO. Regional development banks include, among others, the following institutions: the AfDB, AsDB, IADB. Other multilaterals include, among others, the Global Fund and Gavi.
- "UN" in the "other UN" category refers to the UN general budget.
- Contributions to large World Bank Group trust funds that are included in the List of ODA-eligible International Organisations in Annex 2 of the OECD-DAC Statistical Reporting Directives (OECD, 2011) are counted as core contributions to "other multilaterals", and thus not as non-core contributions to the World Bank Group. However, for analytical purposes, these contributions are counted as earmarked funding in Chapter 4 of this Report.

Other clarifications

- The European Union (EU) has provided the following clarification: "The EU is unique among DAC members in that it plays a dual role in development assistance. Although the EU is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources, it is often presented as a multilateral in DAC publications for statistical purposes. This report reflects this dichotomy."
- Throughout the report, for analytical purposes the EU is treated as a multilateral organisation. The factsheets here, however, also include a profile of the EU as a donor, showing the allocations of the EU towards multilateral organisations.
- The United States submitted revisions of its 2010-2013 reporting to the DAC on 11 May 2015, for inclusion in the OECD-DAC Creditor Reporting System database in June 2015 (Table below presents the revised total contributions to and through multilateral organisations). The adjusted figures include revisions of assessed contributions to multilateral organisations as well as annual contributions to the Global Environmental Facility and United Nations funds, programmes and specialised agencies. Given the late stage of production of the report at the time of the data revision submission, the revised figures have not been reflected in the report.

Table: Revised total contributions to and through multilateral organisations

Gross disbursement – current

Millions of USD	2010	2011	2012	2013
U.S. Multilateral ODA - Gross Disbursements	3 794	3 737	4 986	4 979
U.S. Bilateral ODA through Multilaterals - Gross Disbursements	4 410	4 272	4 741	4 576

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

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To achieve its aims, the OECD has set up a number of specialised committees. One of these is the Development Assistance Committee (DAC), whose mandate is to promote development co-operation and other policies so as to contribute to sustainable development - including pro-poor economic growth, poverty reduction and the improvement of living standards in developing countries - and to a future in which no country will depend on aid. To this end, the DAC has grouped the world's main donors, defining and monitoring global standards in key areas of development.

The members of the DAC are Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, the European Union, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

The DAC issues guidelines and reference documents in the DAC Guidelines and Reference Series toinform and assist members in the conduct of their development co-operation programmes.

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Multilateral Aid 2015

BETTER PARTNERSHIPS FOR A POST-2015 WORLD

This biennial report provides a snapshot of the global architecture of multilateral organisations and its workings. More than 200 multilateral organisations – such as the United Nations, the World Bank and the global funds – receive about one third of total ODA. When including earmarked funding provided to multilateral organisations, this goes up to two fifths. The scale at which the multilateral system is used reflects donors' views of it as an important aid channel. Monitoring key developments and issues in the multilateral system is a key part of fostering a more effective multilateral system and the main purpose of this report.

Multilateral Aid 2015 identifies how in a post-2015 world bilateral providers can support multilateral organisations in implementing the necessary changes and fostering effective partnerships that (i) make best use of all resources available for development, including earmarked funding, and (ii) leverage knowledge and resources from partners beyond the "traditional donors".

Contents

Overview: Multilateral aid in a post-2015 world

Part I. Trends and practices in the global multilateral landscape

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Part II. Gearing up to support post-2015 partnerships

Chapter 3. Making earmarked funding more effective: Practices and reforms of bilateral providers and multilateral organisations

Chapter 4. Global pooled funding mechanisms and other instruments to earmark funding: How effective are they on the ground?

Chapter 5. Leveraging knowledge and resources from providers beyond the DAC to enhance post-2015 partnerships

Part III. Country fact sheets

Consult this publication on line at ***http://dx.doi.org/10.1787/9789264235212-en.***

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