Multilateral Development Finance

TOWARDS A NEW PACT ON MULTILATERALISM TO ACHIEVE THE 2030 AGENDA TOGETHER

OECD

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Foreword

The OECD Multilateral Development Finance report (previously called ‘Multilateral Aid Report’ and henceforth ‘Report’) is a unique and internationally renowned reference for understanding developments in the multilateral development finance landscape. 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 over 200 multilateral organisations that contribute to development in partner countries. It thus offers a unique ‘systemic view’ of the multilateral development system, going beyond individual multilateral organisations or groups of institutions. In addition, the Report 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. By holding a mirror up to funders of the multilateral development system, the report shows them how they are collectively supporting the multilateral development system, it provides accountability for official development assistance (ODA) spending through the multilateral system and encourages mutual learning for bilateral providers to engage most effectively with the multilateral development system. The report Findings from past editions of the Report have fostered policy dialogue and learning among DAC members, emerging providers, multilateral organisations, practitioners and think tanks, contributing to greater effectiveness of the multilateral development system.

This edition of the Report contributes to the broader international debate on why we need multilateralism and how we can forge a more effective, more inclusive and more accountable multilateral co-operation system that is fit-for-purpose for delivering on the 2030 Agenda. It provides new evidence and recommendations that can help lay the foundations of a new ‘pact’ on multilateralism, one founded on the recognition that sovereign states and multilateral institutions hold a mutual responsibility towards a stronger and more effective multilateral system. In addition to a detailed picture of official development assistance (ODA) spending through the multilateral system, this year’s report brings about three innovations: (i) it examines the growing role of People’s Republic of China, other sovereign states, philanthropy and the private sector as funders of multilateral organisations; (ii) it analyses concessional and non-concessional spending by multilateral institutions, and discusses how multilateral action needs to adapt to the new development agenda; (iii) it presents a new multi-dimensional metrics to measure the quality of multilateral funding, based on financing to the World Health Organisation as a case study. Building on this evidence, the report develops policy recommendations that could serve as a basis for principles of good multilateral donorship for the 2030 Agenda.

Acknowledgements

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Piera Tortora conceptualised and co-ordinated the report and was the author of Chapter 1 (with inputs from Emilio Chiofalo), Chapter 2, Chapter 4, Chapter 5 and Chapter 6, and co-authored Annex 6.A (with Emilio Chiofalo). Emilio Chiofalo authored Chapter 3 (with inputs and guidance from Piera Tortora), Annex 6.B and the Country Fact Sheets; and provided the computations and initial analysis for the metrics on good multilateral funding used as a basis for Chapter 6 and Annex 6.A. Valentina Bellesi provided excellent research assistance for the report, analytical inputs and support to production.

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The report features short think pieces (in the "in my view" boxes) by the following authors: Nancy Lee (Center for Global Development), Annalisa Prizzon (Overseas Development Institute) and Silke Weinlich (Deutsches Institut für Entwicklungspolitik).

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Editorial: We need a new pact on good multilateral donorship

We are living in a time of inescapable interdependence. OECD member states first formed together in the aftermath of two devastating world wars that resulted from unbridled nationalism, in an agreement to replace a divisive history with a future of multilateral solidarity and co-operation. Since then, multilateralism has worked to contain the Ebola crisis, defend nuclear non-proliferation, and increase and protect the rights of women, children, journalists, lawyers and humanitarian workers.

Today, we need multilateral co-operation to prevent forced migration from conflict-torn environments, and those ravaged by climate-related natural disasters. We need multilateral co-operation to prevent the next major financial crisis that will affect all of us – but hit hardest at the poorest – and to develop the joint capacity needed to curtail escalating environmental vulnerabilities and infectious disease threats which, left un-tackled, will push large numbers into poverty. In a world soon to host more than 10 billion people, more than 80% of the world's poorest citizens will be living in fragile contexts by 2030, if no action is taken.

Given today's demand for a strong multilateral system, this report takes stock of its muscle. What we find are paradoxes that require urgent action. While the 2030 Agenda calls for integrated solutions, the multilateral development system often works in siloes and lacks the necessary level of coherence in its approaches and interventions. Multilateral organisations are critical sources of funding for developing countries, but they will need to support partner countries access an array of financing sources - public and private, domestic and international – and channel these investments better, to deliver sustainable social, economic and environmental impact. Finally, multilateral organisations will need to do better in providing global public goods, including the norms and standards required to create a level playing field across actors in the global capital and trade markets in a globalised production system. In a context of increasing inequality, multilateral organisations will need to be a credible source of innovative thinking and new policy solutions that put people at the centre, and leave no one behind.

Delivering on this broader and more complex development agenda will only be possible through a renewed pact of "good donorship" of the sovereign states that have created the multilateral development system, and who continue to shape it as its members, funders and shareholders. As argued in this report, these states hold primary responsibility to ensure that resources to the multilateral development system match the ambitions the 2030 Agenda for Sustainable Development. They also have a responsibility to push back against earmark funding which can risk the multilateral system's ability to provide the transformative, holistic and integrated solutions needed to protect global security. Finally, as multilateral organisations access greater resources from philanthropies, private corporations and other multilateral organisations, sovereign states have a role to play to push for safeguards and measures that can ensure that these resources are fully aligned to the institutions' mandates, and the imperatives of the 2030 Agenda.

Based on the evidence and recommendations in this report, the international community has an opportunity to agree, through inclusive dialogue, on Principles of good multilateral donorship. These principles can help lay the foundations of a new 'pact' on multilateralism between sovereign states and multilateral organisations. A pact founded on the recognition that both sides hold a mutual responsibility towards a stronger and more effective multilateral system. A new pact to double-down on achieving the 2030 Agenda for a more secure and peaceful world, together.

Jorge Moreira da Silva

Director

Development Co-operation Directorate

Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda
ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AMC	Advance Market Commitment
ADB	Asian Development Bank
BMGF	Bill and Melinda Gates Foundation
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
CAF	Corporacion Andina de Fomento – Banco de Desarrollo de América Latina (Development Bank of Latin America)
CDC	Commonwealth Development Corporation
CHAP	Common Humanitarian Action Plans
CRS	Creditor Reporting System
CSO	Civil society organisation
DAC	Development Assistance Committee
DFI	Development finance institutions
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECOSOC	United Nations Economic and Social Council
EDF	European Development Fund
EFSD	European Fund for Sustainable Development
EIB	European Investment bank
EIP	external investment plan
EU	European Union
GATT	General Agreement on Tariffs and Trade

GAVI	Global Alliance for Vaccines and Immunisation
GCF	Global Climate Fund
GDP	Gross domestic product
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environment Facility
GFEA	Guarantee Fund for External Actions
GHD	Good humanitarian donorship
GHG	Greenhouse gas
GNI	Gross national income
GPG	Global public goods
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFFIM	International Finance Facility for Immunisation
IFI	International Financing Institution
ILO	International Labour Office
IMF	International Monetary Fund
IsDB	Islamic Development Bank
LDC	Least developed country
LIC	Low-income country
LMIC	Large middle-income country
MAR	Multilateral Aid Review
MCC	Millennium Challenge Corporation
MDB	Multilateral development banks
MFF	Multiannual Financial Framework
MIGA	Multilateral Investment Guarantee Agency
MOPAN	Multilateral Organisation Performance Assessment Network
MPA	Multilateral Performance Assessment
MPFM	Multilateral Pooled-Funding Mechanism
NATO	North Atlantic Treaty Organization
NDICI	Neighbourhood, Development and International Co-operation Instrument

NGO	Non-governmental organisations
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PIR	Policy and institutional reforms
PPP	Public-private partnership
PSD	Private sector development
PSW	Private sector windows
QCPR	Quadrennial Comprehensive Policy Review
RCS	Resident co-ordinator system
SDG	Sustainable Development Goals
SDR	Special drawing rights
SIDS	Small island development states
SME	Small and medium-sized enterprises
SPV	Special purpose vehicle
TOSSD	Total official support for sustainable development
UMICs	Upper middle-income countries
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNDS	United Nations Development System
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UNGA	United Nations General Assembly
UNHCR	United Nations Refugee Agency
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organisation

Executive summary

The 2030 Agenda for Sustainable Development calls for more and better multilateral development co-operation. Multilateral organisations and contributors – i.e. founders, shareholders and funders – hold the responsibility for achieving it.

The 2030 Agenda for Sustainable Development recognises that the most pressing development challenges the world faces are complex and cross-border, requiring integrated, multi-stakeholder approaches. Official development assistance (ODA) continues to play a vital role in supporting the achievement of the 2030 Agenda, and most countries have yet to meet internationally agreed targets on ODA. Multilateral institutions have – and will continue to play – a crucial role in the delivery of ODA and other forms of support to developing countries, as well as helping to address global public goods and "bads".

This report presents new evidence on how multilateral development co-operation is evolving, including because of a growing number of actors – governments, philanthropists, private sector and others – engaging with the multilateral development system. The report outlines policy recommendations to help all actors support a stronger and more effective multilateral system through evidence-based Principles of Good Multilateral Donorship. These principles can be the basis of a new pact on multilateralism needed to achieve the 2030 Agenda.

Resources for multilateral development co-operation are growing

The funding landscape of multilateral organisations is evolving. Development Assistance Committee (DAC) countries remain the main source of financial support for the multilateral development system, towards which they allocate a stable share of ODA: 41% in 2016, or USD 63 billion. At the same time, financial support is increasing from other sources, such as China and other emerging economies, corporations, philanthropists, and other multilateral institutions. In particular, funding from sovereign states excluding the DAC has been the fastest-growing component of funding to the UN Development System, increasing by 52% between 2011 and 2016. However, collectively, sovereign states excluding the DAC only account for 5% of total funding to the UN Development System, for a total of USD 1.5 billion in 2016.

Both public and private resources are slowly helping to grow the pie of funding available to the multilateral development system, but with significant variations across institutions. Overall, the largest increase of resources is through non-concessional finance from capital markets rather than concessional finance from sovereign states and philanthropists. UN entities and vertical funds that are reliant on sovereign states and philanthropy resources have experienced slow increases in funding. In contrast, the International Development Association (IDA) and the Asian Development Bank (ADB) recorded major, transformational boosts of resources, through the IDA's debut on the capital market and the merger of the ADB's soft fund into the bank's overall balance sheet. Overall, non-DAC resources accounted for between 12% for the Global Fund and 71% for the IDA (for which private finance from market borrowing and internal resources covered most of the remaining share).

Increasing resources for multilateral development co-operation are not enough to improve multilateral development co-operation for the 2030 Agenda

Increasing volumes of funding for multilateral development co-operation is not enough to improve multilateral organisations' development impact and contribution to the 2030 Agenda. Resources from old and new sources should align with the mandates of the multilateral organisations and developing countries' needs, supporting an effective multilateral development system.

When contributors provide funding with many conditions and special reporting requirements attached, this can hamper the performance of multilateral development partners. An increasing trend - both from DAC countries and other sources – of scattered and piece-meal funding promotes project-based interventions and jeopardises multilateral organisation's ability to provide the transformative, holistic and integrated solutions needed to achieve the 2030 Agenda.

Resources for multilateral development co-operation also need to allow for tailoring funds and approaches to country needs and the priorities of the 2030 Agenda. However, while finance from multilateral organisations to developing countries is growing significantly (from USD 109 billion in 2008 to USD 162 billion in 2016, or +49% in real terms) mainly due to an increased funding by multilateral development banks, the overall level of concessionality of resources provided is not. This trend raises the question of finding appropriate levels of concessional resources for 'hard-to-finance' operations, which are critical in the 2030 Agenda era. These include humanitarian and development operations in the most fragile and vulnerable contexts as well as support for global public goods.

Multilateral development partners will need to enhance their ways of working and implement programmes that are co-ordinated and coherent across institutions, in order to avoid overlaps and build on comparative advantages. They are already taking steps to address these issues through intergovernmental processes, institutional reforms and partnership agreements— but efforts are still at early stages and need to demonstrate results. Finally, multilateral development partners need to ensure that the programmes and projects they finance truly provide value across all sustainability dimensions: economic, social and environmental.

Evidence-based principles of good multilateral donorship are needed for multilateral co-operation to achieve the 2030 Agenda

The multi-dimensional metrics on good multilateral funding developed for this report shows that sovereign states and multilateral organisations have a common responsibility to ensure adequate volumes and quality of resources for multilateral development co-operation. Greater quality of funding can be achieved through actions by both sovereign states and multilateral organisations to: better align resources to the mandates of multilateral organisations; increase flexibility in the use of resources; enhance predictability of revenue streams and reduce fragmentation of resources.

Beyond providing funding, sovereign states influence and shape multilateral organisations largely through their policies, decision making processes and monitoring practices. For example, sovereign states play a major role in board discussions of multilateral organisations and can encourage the adoption and use of social and environmental safeguards in multilateral operations.

Therefore, this report presents policy recommendations for principles of good multilateral donorship that address contributors': 1) policies, decision-making processes and monitoring practices, and 2) funding policies and practices. These are summarised below:

- *Adopt whole-of-government approaches for defining the expected outcomes of multilateral partnerships and adequate co-ordination mechanisms*. This would maximise the benefits of the growing plurality of national actors involved in multilateral co-operation and reduce overlaps and duplications.
- *Strengthen collective initiatives to assess multilateral performance*, such as multilateral organisations' evaluation units and MOPAN, to reduce the proliferation of bilateral assessments and using board discussions as the key platform for fostering institutional change.
- *Promote harmonised working practices of multilaterals and encouraging discussions on systemic gaps and division of labour*.
- *Fill gaps in underfunded areas by contributing to thematic windows and softly earmark funds* instead of strictly earmarking at the project level.
- *Increase predictability of funding by making multi-annual commitments linked to the strategic plans of multilateral organisations*.
- *Collect and using evidence to make decision on earmarked funding and ensure alignment with the mandate and priorities of multilateral organisations*, particularly by centralising the information on the use and impact of earmarked funding and reviewing the multilateral portfolio accordingly.

Infographic: New Principles on Good Multilateral Donorship

Chapter 1. Overview

This chapter summarises the key findings of the report and offers a set of recommendations to strengthen multilateral development co-operation for the achievement of the 2030 Agenda. The Chapter begins by discussing why a renewed commitment to multilateralism is needed to achieve the 2030 Agenda. It then highlights how multilateral development co-operation is evolving, including because of a growing number of actors – governments, philanthropists and others – engaging with the multilateral development system. It also describes how the funding and operations from multilateral organisations are changing and may need to further adapt to the new development agenda. Finally, the Chapter provides recommendations that can help sovereign states and other contributors to the multilateral system to provide good donorship or 'stewardship' to the multilateral development system to enhance its contribution to the 2030 Agenda. These recommendations focus on contributors': 1) policies, decision-making processes and monitoring practices, and 2) funding policies and practices.

1.1. Introduction

1.1.1. Achieving the 2030 Agenda requires renewed commitment to multilateralism

Multilateralism, as we know it today, emerged at the end of the Second World War to prevent repeating such extreme escalations and preserve peace.[1] In 1942, President Roosevelt of the United States, Prime Minister Churchill of the United Kingdom, Maxim Litvinov of the USSR, and T.V. Soong of the Republic of China signed a document that became known as the United Nations Declaration. Representatives of 22 more nations subsequently signed the Declaration. The United Nations (UN) was then officially established in October 1945.[2]

The Bretton Woods institutions too were created at the end of the Second World War to forge a post-war economic order based on consensual decision making and co-operation. The central ambition was to overcome the destabilising effects of the previous global economic depression and trade battles. The Organisation for Economic Co-operation and Development soon became part of this new system. Founded in 1948 as the Organisation for European Economic Co-operation, it was reformed in 1961 into the Organisation for Economic Co-operation and Development, with membership extended to non-European states.

Today, the multilateral system is bigger and more complex, having expanded its reach and scope. It includes institutions established during the decolonisation period, e.g. regional banks, soft windows and UN specialised agencies[3]; special purpose global vertical funds created since the 1990s; and an increasing number of institutions that are no longer dependent on traditional donors and largely owned by the global South. These institutions form a cornerstone of global development. They have supported developing countries' efforts to promote growth and development for many decades. Their strengths lie in extending the scale and reach of development finance and mobilising knowledge. They are also a major source of expertise and a powerful channel for intermediating and allocating resources.

While the world and the multilateral system have changed, the objectives of multilateralism remain valid. These include the need to avoid economic depression resulting in authoritarianism and war; and the need to establish effective global governance and order to create peaceful and just societies. Today's level of interconnectedness of our societies makes the need for multilateral co-operation even greater. Events in one part of the world can affect the lives of people on the other side of the globe, as the fortunes of countries are increasingly intertwined.

The 2030 Agenda for Sustainable Development places particular emphasis on multilateral co-operation and global actions. It recognises that the biggest challenges of our time are global in nature, including climate change, peace and security, global health, and inequality. As such, they require integrated solutions. Global interdependence creates a need for collective action and international policy co-operation to achieve fundamental global public goods, such as economic stability and development, peace and security, and environmental sustainability. A multilateral system that is effective, inclusive and accountable is essential to solving these challenges. It is needed to promote a level playing field across actors of the global economy; set high social, economic and environmental standards; and develop norms for responsible business conduct in globalised production systems, global capital and trade markets. Multilateral co-operation is needed to resolve differences peacefully; agree on common rules; establish mechanisms to better manage international flows; and create channels for exchanging ideas, experiences and practices so that countries learn from each other. Multilateralism, however, needs to address its discontents and evolve to be fit for purpose. It has been argued that the Agenda 2030 calls for integrated solutions that generate social, economic and environmental value and that extend across development, peace, and humanitarian domains, while the multilateral development system often works in siloes and lacks the necessary level of coherence and integration in its approaches and interventions (Jenks and Kharas, 2016[1]). The Agenda 2030 calls for inclusive partnerships of a wider range of stakeholders around a unified agenda, while the multilateral development system is not as inclusive and representative as it would need to be and its ability to engage with partners beyond governments remains limited. Finally, much of the current discontent and mistrust around multilateralism derives from the fact that too many people, both in the developing and developed economies, have missed out as a result of the policy prescriptions emanating from the current multilateral system.

The global economic and financial crisis laid bare some fundamental weaknesses in standard economic and financial policy frameworks. It showed that policies seeking to maximise economic growth, almost as an end in itself, did not pay off, leaving us to face a world where growing inequality, growing indebtedness, insufficient investment, and insecurity are key challenges affecting developed and developing countries alike. To rebuild confidence, multilateral organisations need to be a credible source of new thinking and policy solutions. These should reflect the increased heterogeneity of economic actors and the complexity, uncertainty and interconnectedness of the world we live in. They need to foster policies that put people at the centre, effectively bridging gaps and reducing inequalities, to avoid economic imbalances becoming so big that they bend democracy. These policies should bring economic, social and environmental value. To foster new thinking and new sustainable development solutions, a plurality of views will represent a plus and not a minus.

1.1.2. This report presents significant innovations to previous editions to contribute to forging a stronger multilateralism geared to deliver the 2030 Agenda

This report contributes to the broader international debate on why we need multilateral development co-operation and how to make it more effective, inclusive and accountable to achieve the 2030 Agenda. The report provides new evidence and recommendations for a new "pact" on multilateralism, one founded on recognition of the mutual responsibility of sovereign states and multilateral institutions to create a stronger, more effective multilateral system.

Part I of the report examines how the multilateral development co-operation landscape is evolving. In particular, Chapter 2 highlights major trends and developments in the volume and sources of funding *to* the system. Chapter 3 reviews the nature and scope of the finance and operations provided *by* the multilateral development system. As an innovation to previous editions of this report, Chapter 2 provides not only an analysis of main trends of official development assistance (ODA) flows to the multilateral development system, but also assesses the scope of funding from other sources. These sources include China and other emerging economies, philanthropy, and private sector.[4] As a second innovation to previous editions of the report, Chapter 3 delves into multilateral organisations' concessional as well as non-concessional operations and how these may need to adapt to the new development agenda. Since this year's edition of the report is not solely focused on aid flows, it is called Multilateral Development Finance.

Part II of the report focuses on how the international community can forge a more effective multilateral development co-operation system. To achieve the 2030 Agenda for Sustainable Development, the multilateral co-operation system will need to evolve and address its discontents. It can only succeed with the support – or “good donorship” and “stewardship” – of the sovereign states that created it and that continue to shape it as its members, funders and shareholders. Support from other contributors to this system will also be required. Therefore, the report introduces the concept of “good multilateral donorship” and reviews existing principles and commitments on good multilateral donorship (Chapter 4). It then builds an evidence base on two sets of building blocks of good multilateral donorship for the 2030 Agenda, on: 1) sovereign states’ policies, decision-making processes and monitoring practices vis-à-vis the multilateral system (Chapter 5); and 2) funding policies and practices (Chapter 6).

Building on such evidence, this overview chapter lays out recommendations that could form a basis for “Principles of good multilateral donorship in the era of the 2030 Agenda”. The principles will need to be discussed and ultimately endorsed through an inclusive consultative process open to Development Assistance Committee (DAC) members as well as other contributors and stakeholders in the multilateral system. The Organisation for Economic Co-operation and Development (OECD) metrics on good multilateral funding presented in this report could be expanded beyond the WHO pilot to be part of a monitoring framework for such Principles. The metrics could effectively monitor the efforts of both contributors and multilateral institutions to abide by such principles and thus contribute to a more effective multilateral development system.

1.2. Global trends in the multilateral development co-operation system

1.2.1. The funding landscape of multilateral organisations is evolving, creating a new host of challenges and opportunities for the delivery of the 2030 Agenda

ODA funding is stable but increasingly earmarked and could decline in the near future

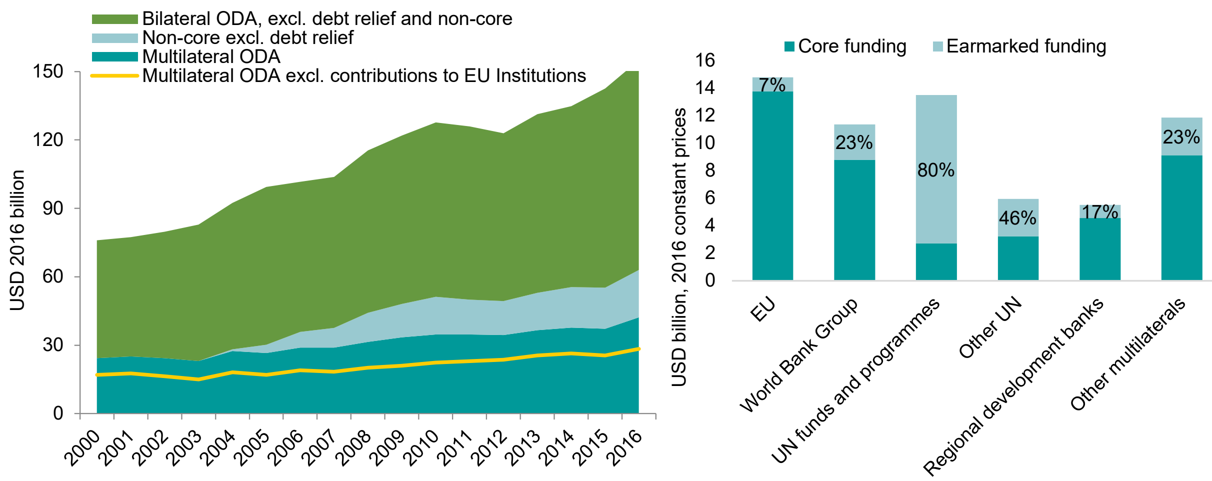
The financing landscape of multilateral development organisations is evolving. DAC countries continue to allocate a stable share of their ODA to multilateral organisations (USD 63 billion in 2016, or 41% of total ODA, Figure 1.1, left panel), signalling the strong importance placed on these organisations for fostering peace and development worldwide.

However, this funding is increasingly earmarked for specific purposes. This creates opportunities to fill gaps and innovate as well as challenges to the alignment of these resources to the strategic priorities of multilateral organisations and to their ability to operate effectively. Earmarked funding reached USD 21 billion in 2016, double its 2007 level. Its growth accelerated after 2013 due to increased humanitarian funding, which in 2016 came to account for 43% of earmarked funding. For some institutions, it represents a conspicuous part of donor funding, reaching 80% of donor funding for the UN (Figure 1.1, right panel). The UN has repeatedly called for an increase in ‘the level and predictability of core funding’ to “uphold [the UN’s] neutrality and multilateral nature” (United Nations, 2016[2]). The World Bank Group is also implementing trust fund reform to better align resources to the strategic orientations of the Group and minimise negative impacts.

In the near future, donor resources to the multilateral development system could decrease because of rising mistrust in multilateralism. Political developments in some large multilateral providers are leading governments to pursue policy goals through unilateral or ad hoc measures, rather than working together. This is detrimental to the benefits that multilateral institutions can provide for modern societies and to achieving sustainable development globally.

The multilateral development system is being called on to provide a broader and more complex development agenda. DAC members have a responsibility to maintain funding levels and ensure that resources are sufficient to achieve the 2030 Agenda for Sustainable Development.

Figure 1.1. Funding to multilateral organisations increased in 2016 but it is largely earmarked



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

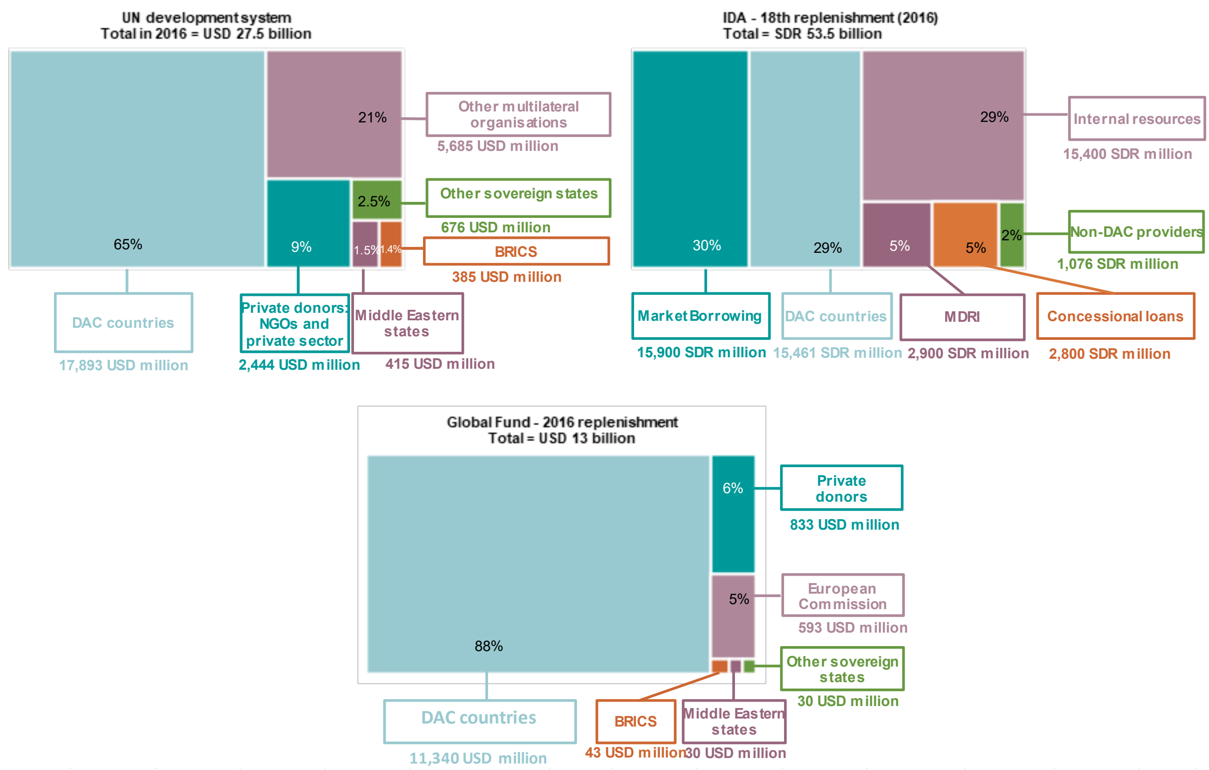
StatLink https://doi.org/10.1787/888933873953

Adequate quantity and quality of funding from all actors are needed for the well-functioning of the multilateral system and for achieving sustainable development

In addition to funding from DAC countries, other sources of funding are emerging or growing in importance. These include China and other emerging economies, the private sector and philanthropy, and other multilateral organisations. Multilateral institutions have different financing models and are able to attract resources beyond DAC donors' grants to different extents. However, both public and private resources are slowly helping to grow the pie of funding available across multilateral organisations.

Institutions that rely on sovereign states and philanthropy have experienced slow increases in resources. These are institutions such as the UN entities and vertical funds, which mostly operate a grants-in-grants-out model, with no or limited scope for receiving contributions in loan form, or for internal financial engineering. In contrast, the International Development Association (IDA) and the ADB have recorded major, transformational boosts of resources, through the IDA's debut on the capital market and the merger of the ADB's soft fund into the bank's overall balance sheet. The share of funding beyond ODA resources is lowest for the Global Fund (12%) and highest for IDA (71%, largely because of resources from market borrowing), accounting for 35% for the UN development system (Figure 1.2).

Figure 1.2. Resources beyond ODA funds from DAC countries account for between 12% (for the Global Fund) up to a maximum of 60% for IDA



Note: For IDA, internal resources include: reflows (SDR 14,200 million); carry forward of arrears clearance (SDR 800 million); IBRD transfers expected (SDR 300 million); and IFC transfers expected (SDR 100 million) (World Bank Group, 2017[4]).

Source: Data for the United Nations development system was kindly provided by UN/DESA. Data for IDA18 was drawn from (Manning, 2017[5]), Multilateral development aid, https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2017-172.pdf and (World Bank Group, 2017[4]), Report from the Executive Directors of the International Development Association to the Board of Governors, http://documents.worldbank.org/curated/en/348661486654455091/pdf/112728-correct-file-PUBLIC-Rpt-from-EDs-Additions-to-IDA-Resources-2-9-17-For-Disclosure.pdf. Data on the Global Fund was drawn from the statistical data available on the organisation's website: https://www.theglobalfund.org/media/1504/replenishment_2016conferencepledges_list_en.pdf?u=636488964230000000.

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Funding beyond ODA from DAC countries shows the following trends:

- **China is carving out a leadership role in the multilateral development system.** This was especially evident in IDA18, where the massive increase in financing from China made it the 11th largest funder to IDA. In addition, China's increased engagement with the World Bank is apparent in World Bank-hosted G20 with a strong Chinese imprint (e.g. Global Infrastructure Connectivity Alliance and the G20 Initiative in Supporting Industrialization in Africa and Least Developed Countries (LDCs). China has increased its financing to the United Nations

Development System (+80% between 2011 and 2016) to extend the reach of its international co-operation rather than to implement development projects within its own borders (as did other emerging economies over the same period).

- **Developing countries are increasing their contributions to the multilateral system but their share remains small.** Shares contributed by developing countries were 5% for the United Nations Development System[5], 2% for IDA (largely from China) and only 0.5% for the Global Fund.
- **In a more complex and differentiated multilateral system, multilateral organisations, including the EU, are becoming increasingly important funders to other multilateral institutions.** This report recognises the dual role of the European Union, which is both a multilateral organisation receiving funding from its member states and a donor (as well as being a DAC member). In 2016, the European Union accounted for almost 10% of all funding to the United Nations Development System and 5% of funding to the Global Fund. The European Union could continue to grow in importance as a financier of other multilateral organisations, especially if the EU budget proposing an increase in resources for external action is approved.
- **Private funding is expanding the lending capacity of IDA, while it has led to more earmarking for the United Nations Development System (UNDS)**. The additional lending resources that IDA will draw from bond proceeds are huge (30% of total resources for IDA18, or Special Drawing Rights (SDR) 15.9 billion). They basically come unearmarked, although IDA may need to tailor its bond content to investor preference. Its allocations across countries and the degree of concessionality of its operations may be impacted to an extent that are not yet clear. In contrast, private finance (the commercial private sector, private philanthropy and non-governmental organisations [NGOs]) remains a small part of the UNDS funding portfolio: 9% in 2016, or USD 2.4 billion, although it does contribute to some large initiatives and projects in individual UN organisations. Funding to the UN, especially from corporations, can however lead to issues common to other forms of earmarking of resources. These include: fragmentation and misalignment of resources with the priorities and strategic objectives of the UN entities involved, to the detriment of the multilateral character of UN operations and its democratic governance (Seitz and Martens, 2017[6]).

In the context of stagnating donor resources and substantial financing needs to achieve the ambitions of the 2030 Agenda, broadening the funding base and accessing additional sources of financing remains a priority for most institutions. Additional resources should, however, align with the mandates of the multilateral organisations and developing countries' needs, as identified by the 2030 Agenda. For instance, the increasing trend of both ODA funding and other sources of financing provided as scattered and piecemeal project-based interventions could further push the multilateral system to specialise in project delivery. This would jeopardise the ability of the system to provide the transformative, holistic and integrated solutions that are needed to achieve the 2030 Agenda.

Sovereign states, thus, need to ensure that the funds they provide support good multilateral co-operation (as detailed in section 1.3). They also need to support multilateral organisations so that non-ODA funding sources, such as corporate funding, are fully aligned to the institutions' mandates and the 2030 Agenda. Sovereign states could support multilateral organisations to adopt safeguards to preserve the use of resources in support of the people and the countries that most need it.

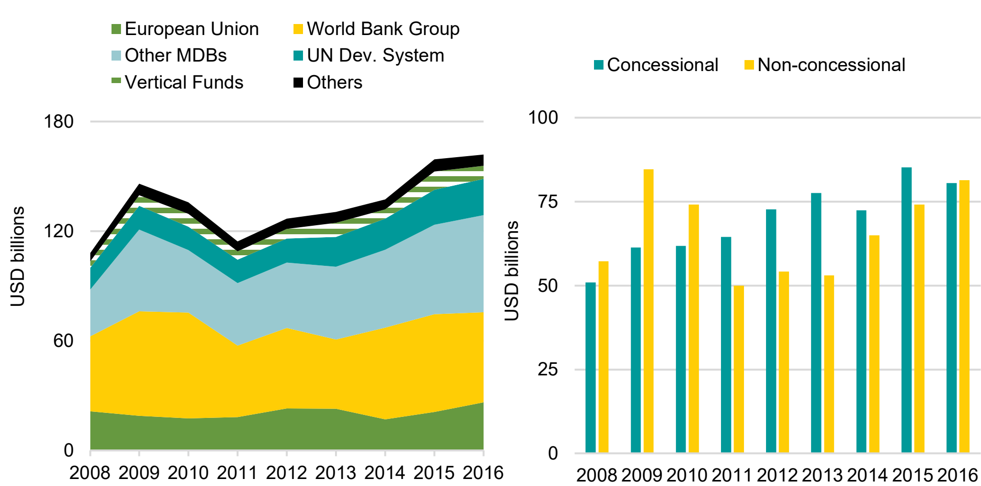
1.2.2. Finance from the multilateral system is growing but it needs to adapt to a new development agenda

Finance from multilateral organisations is increasing in volume but on harder terms, making it difficult to find appropriate concessional resources for hard-to-finance operations

The volume of resources committed to developing countries by multilateral organisations is increasing, while concessionality decreases. Funding grew from USD 127 billion in 2012 to USD 162 billion in 2016, but the share of non-concessional resources increased faster than concessional finance (see Figure 1.3) This is because the growth was mainly driven by multilateral development banks (MDBs), which account for two-thirds of the increase. They achieved this by balance sheet optimisations, increasing fundraising from capital markets (rather than donor budgets) and loan repayments, which expanded their lending capacity.

Figure 1.3. Funding from multilateral organisations is growing, largely driven by flows from multilateral development banks

USD value of concessional and non-concessional operations of multilateral development partners (2008-2016)



Note: USD commitments (2016 prices). Data includes funding earmarked from DAC countries and bilateral development partners to multilateral organisations. Amounts include estimates derived from annual reports. Data only include amounts from bilateral and multilateral development partners reporting to the DAC.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1 and annual reports.

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Concessional finance from multilateral development partners has grown slowly over the last five years, from USD 73 billion in 2012 to USD 80 billion in 2016. This represents an increase of 10% in real terms, compared to 45% for all multilateral finance in the same period. The concessional finance increase was mainly due to a boost of earmarked grants for humanitarian assistance and increased financing for health from the Global Fund and IDA.

Increased volumes of concessional and non-concessional finance from multilateral partners led to greater amounts for fragile contexts, but on harder terms. Multilateral development finance in fragile contexts grew from USD 42 billion in 2012 to USD 59 billion in 2016 (+45%). However, much of this increase was due to an increase of non-concessional loans, which reached 31% of the total, up from 14%. This change partly results from graduation trends; the opening of hard window loans to low-income countries (LICs) with a solid debt profile; and a broader trend of debt growth in the some of the poorest countries, which are also borrowing from the bond market, and on semi-concessional terms from bilateral loan agencies, notably China EXIM and the Chinese Development Bank.

Multilateral development partners need to build on comparative advantages and divide roles effectively with bilateral counterparts

With a growing number of development actors, multilateral organisations need to demonstrate their value added and build on comparative advantage to stay relevant and effectively contribute to achieve the 2030 Agenda. Data analysis and the OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" highlighted the areas where multilateral development partners are more active and what bilateral development partners expect from them. While donor perception and the amounts allocated to specific sectors do not represent a real comparative advantage, they offer a basis for discussion on the division of roles among multilateral development partners and bilateral counterparts.

Despite the evident difficulties in defining comparative advantages for a broad and diverse group of institutions, the following can be attributed to multilateral development partners:

- expertise in mobilising resources from public and private sources;
- specialised knowledge in policy reforms and specific sectors, e.g. social sectors (UN agencies and vertical funds) and infrastructure and financial services (MDBs);
- extensive country presence and political knowledge, including in fragile contexts;
- convening power for collective action in development matters;
- delivery of global public goods (GPGs) in thematic areas (e.g. peace and security, climate change, pandemics, migration, etc.) or through provision of norms, standards and principles that shape "the rules of the game" in various sectors.

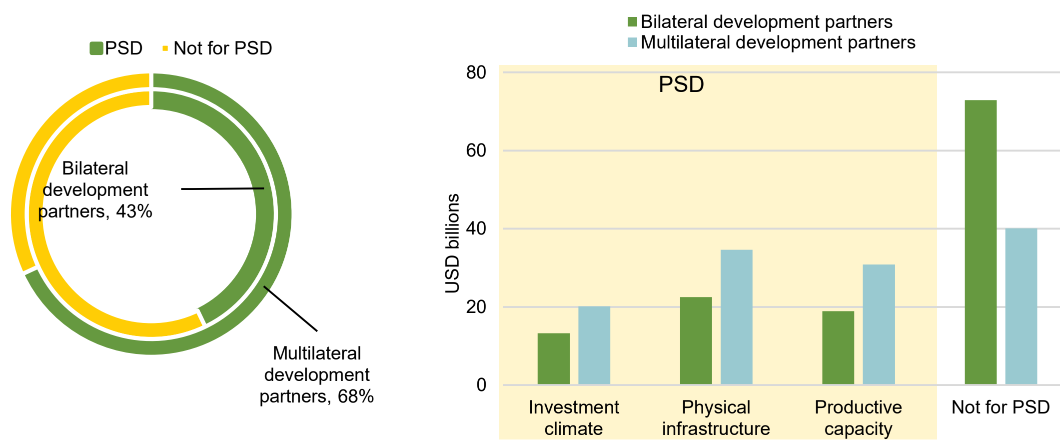
In particular, responses to the OECD/DAC 2018 Survey suggest that DAC countries believe GPGs, field presence and convening power are the most important comparative advantages of multilateral development partners. Building on these perceived comparative advantages, and in view of the new imperatives of the 2030 Agenda, DAC members believe that multilateral development partners should increasingly focus on broad crosscutting issues. The issues include peace, security and fragility, climate change, humanitarian aid, food security and inclusive growth.

Data analysis shows that multilateral development partners are already focusing on some of these thematic areas. They will need, however, to ramp up efforts and effectiveness, if they are to contribute to the 2030 Agenda. The data show that multilateral development partners:

- channel more of their financial support through country governments, compared to bilateral development partners, including funding for policy and institutional development, or budget support;
- are increasingly implementing programmes in fragile contexts delegated by bilateral development partners, particularly for humanitarian assistance;
- allocate greater shares of their portfolios to private sector development than most bilateral development partners, particularly for infrastructure (Figure 1.4)
- mobilise more private finance for development compared to bilateral development partners, at least in terms of overall volumes of financing provided.

Figure 1.4. Multilateral development partners prioritise private sector development more than bilateral development partners

Bilateral and multilateral development finance for private sector development (annual average, 2012-2016)



Note: USD commitments (2016 prices). Private sector development defined and clustered based on (Miyamoto and Chiofalo, 2017[7]).
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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Multilateral development partners need to prioritise strategic and institutional coherence, system-wide approaches and development impact to deliver on a cross-cutting and integrated development agenda

The 2030 Agenda calls for a paradigm shift in terms of financing practices and approaches. This requires moving from transaction-based approaches to system-wide approaches that build on comparative advantages of multilateral organisations and the use public and private resources for development. In particular, multilateral development partners need to:

- **Adapt operational strategies and approaches to a crosscutting and integrated development agenda** by breaking the silos and mainstreaming Sustainable Development Goals (SDGs) in country programmes based on local needs. Multilateral development partners have already started aligning with this new development paradigm through new policy strategies and results frameworks. However, they need to demonstrate results as these efforts are at early stages.

- **Support global public goods and steering discussions to ensure an appropriate division of roles and adequate resources for these functions.** Global public goods tend to be underfunded because sovereign states would not reap the whole benefits of their investments in these areas, which require collective action through the multilateral system. Moreover, in a large and expanding galaxy of multilateral organisations, the division of labour on “whom should do what” is unclear. Global governance discussions should be supported by multilateral development partners to identify a clear division of roles based on common but differentiated capacity. It is also important that adequate funding streams are available for these functions.

- **Support co-operation and build on comparative advantages to promote coherence, both within the multilateral system and in the global development finance architecture.** Multilateral development partners should collaborate to improve systemic coherence and coherence with other development partners. Multilateral development partners are carrying out institutional reforms, engaging in strategic framework partnerships, undertaking joint projects and collaborating in intergovernmental processes to improve co-operation. It will be important to ensure that these collaboration efforts produce results on the ground.

- **Increase support in fragile contexts and manage increased operational and financial risks.** Multilateral development partners are increasingly supporting fragile contexts through loans for infrastructure and production, and through earmarked funding for humanitarian assistance. Growing shares of operations in these contexts for grant providers, such as the UNDS and vertical funds, involve increasing an already high share of operations in these risky contexts. For loan providers, e.g MDBs, this will involve addressing growing sovereign risks, increased attention to debt sustainability, adapting burdensome administrate practices to these contexts, specialised skillsets and co-operation with other institutions with more political legitimacy (e.g. UNDS).

- **Boost the contribution of the private sector, while ensuring that these operations are aligned with national priorities and bring economic, social and environmental value.** Multilateral development partners, particularly the MDBs and the EU, provide large amounts to promote private sector-led growth and mobilise finance from the private sector. While increased financing is important to fill current development gaps, this is not enough to achieve the 2030 Agenda. Past trends highlight the need to ensure that these private sector development operations and blended finance efforts are tailored to local contexts; include social and environmental safeguards; and are properly monitored and evaluated to ensure development gains.

- **Improve resource mobilisation for concessional resources, including through more and better-pooled-funding mechanisms.** The slow growth of concessional resources and the increase in earmarked resources, which are piecemeal grants for specific projects can impair the funding of crosscutting and integrated development initiatives. This is evident for the UNDS, which is mostly financed through earmarked funding. Pooled-funding mechanisms can help increase the quality of earmarked funding while accommodating donors’ needs for greater accountability and visibility of funds. However, this requires the mechanisms to be well governed, adequately funded, flexible, predictable and aligned with the mandate of the multilateral organisations.

1.3. Building an evidence base on good multilateral donorship

1.3.1. Sovereign states' policies, decision-making processes and monitoring practices need to be geared towards the 2030 Agenda

Multilateral organisations are responsible for a multilateral development co-operation system that can achieve the 2030 Agenda. Multilateral organisations need to consider both long-standing inefficiencies and adapt to achieve the new challenges. A shift from funding to financing, for instance, will require strengthening and re-profiling the skill sets of multilateral organisations and the scaling-up of related resources. It will also require adjustments and improvements in the co-ordination and accountability mechanisms of these institutions, as well as in their financing models and instruments.

At the same time, the multilateral system can only succeed with the support – or "good donorship" – of the sovereign states that created and shape it as its members, funders and shareholders. Sovereign states influence multilateral organisations through their participation in multilateral governance and decision-making bodies. They also affect the policies, operations and incentive structures of multilateral organisations through their policies and practices, including their funding. Therefore, they have the opportunity – and responsibility – to adopt policies and practices that are conducive to a more effective multilateral system.

The sections below consider evidence for two sets of building blocks for good multilateral donorship in the era of the 2030 Agenda. They concern: 1) sovereign states' policies, decision-making processes and monitoring practices vis-à-vis the multilateral system, and 2) funding policies and practices.

Gearing up policies: defining the expected outcomes and modalities for engaging with multilateral organisations through inclusive whole-of-government approaches open to all relevant stakeholders

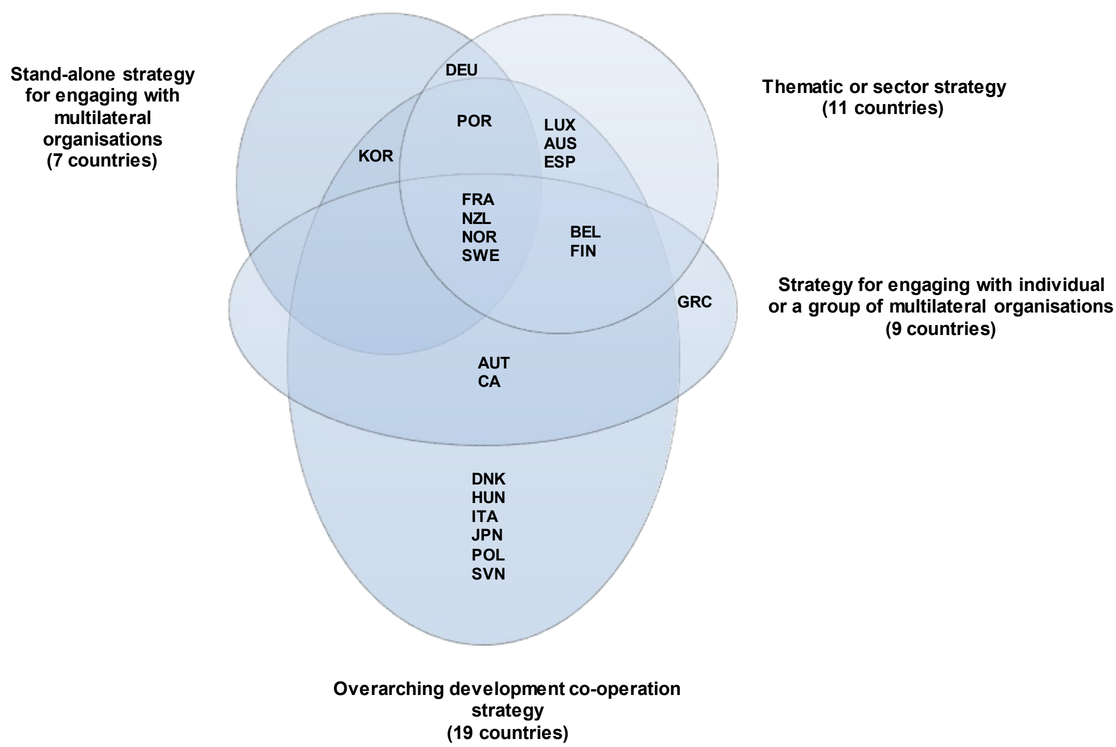
The broad and integrated nature of the 2030 Agenda requires a broader range of partners to contribute expertise and resources. While one or two ministries are responsible for engaging with multilateral institutions, line ministries could increasingly establish direct partnerships with the relevant international institutions to advance specific SDGs. Further, to manage policy trade-offs and reduce incoherence among policy areas in line with the 2030 Agenda, line ministries will need to collaborate more, including in partnership with relevant multilateral organisations. National non-state actors may also be engaged in the efforts to achieve the 2030 Agenda through multilateral partnerships.

Encouraging broad consultations and whole-of-government strategic thinking on the expected outcomes and modalities for engaging with multilateral organisations is essential for harnessing benefits from this plurality of actors and for reducing overlaps. The examples offered by some DAC members on participatory bodies and fora provide good practices that other sovereign states could adapt to their own specific context.

These discussions could explicitly tackle issues such as the balance between bilateral and multilateral ODA and the core/non-core ratio of multilateral allocations. Using information on what channels are most effective in particular contexts, discussions could clarify the objectives and scope of multilateral engagement to encourage cohesive use of the multilateral co-operation system.

These discussions could also be central to the development of clear, evidence-based policy documents and guidelines on partnerships with multilateral organisations. At present, DAC countries engage with multilateral organisations through a multitude of policy documents.[6] Almost all of these are their overarching development co-operation strategy, while several are stand-alone multilateral strategies or thematic and sector strategies (see Figure 1.5) While more policy documents do not guarantee more effective use of the multilateral development system, a comprehensive and forward-looking vision of common goals and priorities can be an important element of well-functioning partnerships with multilateral organisations. It can help providers mainstream the goals and priorities for multilateral partnerships within the administration and can help ensure that these are reflected in actual funding allocations.

Figure 1.5. DAC countries articulate their engagement with multilateral organisations in various development policy documents



Note: This illustration only includes the DAC members that responded to the questions on multilateral policies of the OECD/DAC 2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System.
Source: OECD/DAC 2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System (unpublished).

Gearing up decision-making processes: establishing adequate co-ordination and feedback mechanisms for coherence and impact

Although the main responsibility for allocations to multilateral organisations generally rests with the Ministry of Finance (for the MDBs) or the Ministry of Foreign Affairs (for all other multilateral institutions), several other ministries and institutions do extend funding to multilateral organisations. For DAC countries, this number reaches 15 ministries/institutions (for Spain), and averages 7 (data refer to core and earmarked resources together in 2013-16; Table 1.1). The allocation of earmarked resources is particularly scattered, owing to the decentralised, ad hoc nature of this kind of funding. In addition, in 2013-16, 16 DAC countries had one or more agencies/ministries extending earmarked funding only once throughout the period, in contrast to nine for core resources.

Funding from many entities is not necessarily bad and could harness expertise and resources from a range of partners. However, uncoordinated funding from many different donors can reduce overall coherence and strategic focus. It can also weaken partnerships, which require trust, transparency and continuity. Therefore, sovereign states will need to encourage effective co-ordination mechanisms that maximise the benefits of the engagement of a plurality of donor entities, while keeping fragmentation and duplication costs low. Effective co-ordination is also needed at different levels of administration, including among country offices, headquarters and the governing boards of multilateral organisations.

Gearing up monitoring and accountability practices: use existing performance assessments and board discussions, and move towards assessments that identify systemic gaps based on results

In recent years, increased public scrutiny of aid budgets coupled with budget constraints have led DAC countries to conduct a multitude of bilateral assessments on the performance of multilateral organisations as a primary tool for achieving greater transparency and accountability of funds to the multilateral development system. New data from the OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" that the number of bilateral assessments and reviews of multilateral organisations remains high, totalling 128 in 2015-18 (Table 1.2).

Bilateral assessments can vary by type (e.g. corporate vs. project, country, or thematic), scope and impact. Many are essentially desk reviews that rely heavily on secondary sources. Some, however, use primary data and impose high transaction costs on multilateral organisations, while often failing to achieve either greater performance-based donor allocations or to promote better performance. Donor reviews of multilateral organisations look at some variation of two major substantive areas: how well an organisation is performing and how well its work is aligned to national objectives, compares to bilateral interventions, or otherwise fulfils national priorities.

Table 1.1. 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 agencies	Non-core: number of extending agencies	Core: share provided by the largest agency		Non-core: share provided by the largest agency	
Australia	2	2	90%	Australian Government	99%	Australian Government
Austria	9	13	94%	Federal Ministry of Finance	46%	Federal Ministry of Finance
Belgium	6	6	55%	Directorate General for Co-operation and Development	86%	Directorate General for Co-operation and Development
Canada	5	6	58%	Global Affairs Canada	98%	Global Affairs Canada
Czech Republic	7	5	89%	Ministry of Finance	72%	Ministry of Foreign Affairs
Denmark	3	1	99%	Ministry of Foreign Affairs	100%	Ministry of Foreign Affairs
EU Institutions	2	3	56%	Commission of the European Communities	44%	European Investment Bank
Finland	2	2	74%	Ministry of Foreign Affairs	100%	Ministry of Foreign Affairs
France	5	8	34%	Government	51%	Ministry of Foreign Affairs
Germany	12	14	91%	Ministry for Economic cooperation and development	40%	Foreign Office
Greece	13	7	92%	Ministry of Finance	75%	Ministry of Finance
Hungary	7	8	43%	Ministry for National Economy	48%	Miscellaneous
Iceland	2	3	97%	Ministry of Foreign Affairs	86%	Ministry of Foreign Affairs
Ireland	4	3	40%	Miscellaneous	98%	Department of Foreign Affairs
Italy	4	6	63%	Central Administration	59%	Directorate General for Development Co-operation
Japan	5	5	64%	Other Ministries	73%	Ministry of Foreign Affairs
Korea	4	4	50%	Ministry of Strategy and Finance	63%	Ministry of Foreign Affairs and Trade
Luxembourg	1	1	100%	Ministry of Foreign Affairs	100%	Ministry of Foreign Affairs
Netherlands	2	1	84%	(Ministry of Foreign Affairs	100%	Ministry of Foreign Affairs
New Zealand	2	1	97%	Ministry of Foreign Affairs and Trade	100%	Ministry of Foreign Affairs and Trade
Norway	2	5	98%	Ministry of Foreign Affairs	84%	Ministry of Foreign Affairs
Poland	6	6	79%	(Ministry of Finance	89%	Ministry of Foreign Affairs
Portugal	2	3	100%	Government	88%	Government
Slovak Republic	6	4	91%	Ministry of Finance	50%	Ministry of Foreign and European Affairs
Slovenia	5	5	74%	Ministry of Finance	41%	Miscellaneous
Spain	11	15	74%	Ministry of Public Administration	63%	Spanish Agency for International Development Co-operation
Sweden	2	11	98%	Ministry of Foreign Affairs	92%	Swedish International Development Authority
Switzerland	4	4	87%	Swiss Agency for Development and Co-operation	61%	Swiss Agency for Development and Co-operation
United Kingdom	9	11	82%	Department for International Development	88%	Department for International Development
United States	3	13	48%	Department of Treasury	60%	Agency for International Development
Average	**5**	**6**	**77%**		**75%**	

Note: Sum of funding in 2013-2016. The "number of extending agencies" refers to the number of agencies that have extended multilateral funding at least once over the period 2013-2016.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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Sovereign states need to ensure that scarce public resources to the multilateral development system are spent effectively and accountability mechanisms, particularly when robust and independent, can help them achieve that. However, these mechanisms should not impose excessive burden on multilateral organisations and should allow constructive engagement around performance through organisations' own internal accountability mechanisms. This is especially important for large donors - who can use their influence to impose conditions linked to the outcomes of bilateral assessments - and for donors who are considering establishing new bilateral assessments, like the United States (e.g. the Multilateral Aid Review). Bilateral assessments can be powerful instruments to achieve strong multilateral engagement based on principles of transparency and effectiveness, but they should focus on where they add value and avoid duplicating work done by multilateral efforts like MOPAN. This means concentrating on the national perspective and relying heavily on secondary data collection and existing assessments for questions of organisational performance and results.

To encourage greater system-wide effectiveness, contributors to the multilateral system could support multilateral organisations develop better results frameworks that could finally be aggregated over the system. One way to achieve this may be for donors to ensure accountability exercises like MOPAN demand, not only robust results frameworks for an institution on its own, but a harmonised approach. This would allow to identify result gaps and overlaps across the system, creating an evidence base for a strategic reflection on the effective division of labour within the system and for systemic strategic guidance.

Table 1.2. The number of bilateral assessments of multilateral organisations conducted by DAC members remains high

	2011	2012	2013	2014	2015	2016	2017	2018
Number of DAC members that conducted at least one assessment *(out of the 21 respondents to the 2018 OECD DAC Survey)*	4	2	2	5	4	4	5	5
Number of bilateral assessments conducted	87	45	30	40	30	14	35	49

Source: Author's calculations based on responses to the OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" (unpublished).

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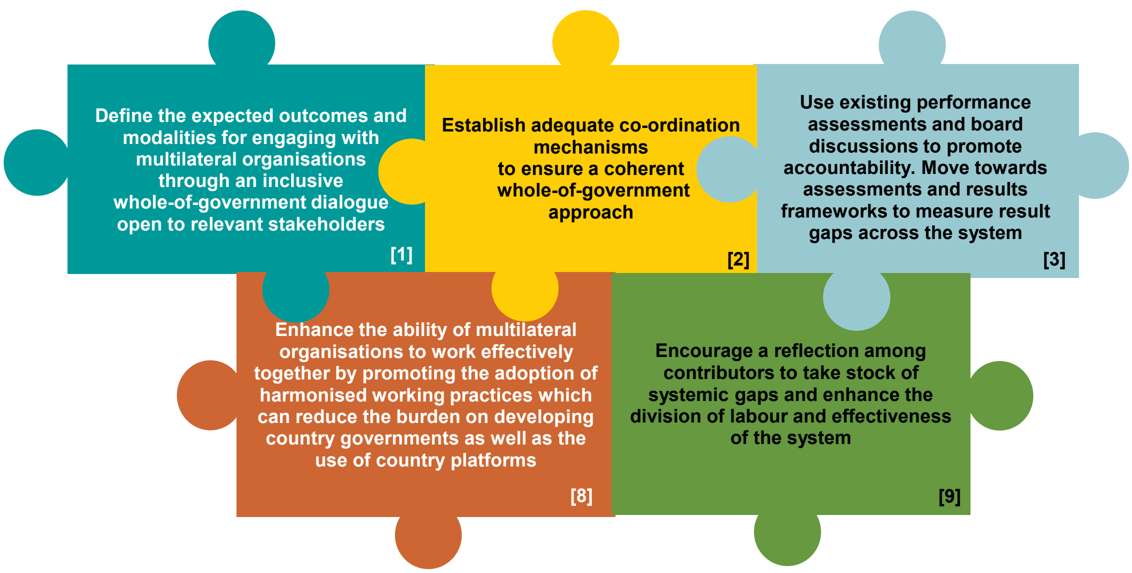
Making greater efforts to tackle systemic gaps and overlaps

Current steps to encourage groups of multilateral organisations to work better together are positive. The G20 Eminent Persons Group on global economic governance, for instance, called on the MDBs to collaborate more closely on "principles, procedures, and country platforms" and to work more "as a system". The UNDS with its reform on country teams intends to promote greater coherence across UN entities and with other partners. As part of these efforts, it will be particularly important to establish harmonised working practices (both within the UNDS and across MDBs) to effectively reduce the burden on developing country governments.

These initiatives should be extended to reflect on how the whole system, and not just parts of it, can work better together and be more effective. A reflection is needed on whether, on the basis of their mandates and relative comparative advantages, imbalances exist across multilateral institutions – in terms of their financial capacity and functions – and if gaps exist in the delivery of results for the new integrated sustainable development agenda.

In this respect, the Global Action Plan for SDG3 provides an example that could be extended to other SDGs and areas. The plan aims to align the programme budgets of institutions with a mandate on health and to encourage effective collaboration among multilateral institutions and relevant partners. It would define the strategic priorities that each institution needs to set to contribute to achieve SDG 3. This could in turn guide the distribution of donor resources across these institutions. What would matter, then, would be that each player is adequately funded to deliver on the SDGs and that, across players, the world meets the SDGs. This approach could be accompanied by monitoring frameworks that aggregate results of all institutions to identify gaps (as discussed above). Country platforms could also be established to undertake project identification and effectively pool funds and expertise from multilateral institutions and other stakeholders.

Figure 1.6. Summary of recommendations on good multilateral donorship in policies, decision-making processes, accountability practices and systemic effectiveness



Note: Numbers in the puzzle pieces indicate the corresponding recommendation in section 1.4.
Source: Authors

1.3.2. Funding practices need to be geared towards the 2030 Agenda

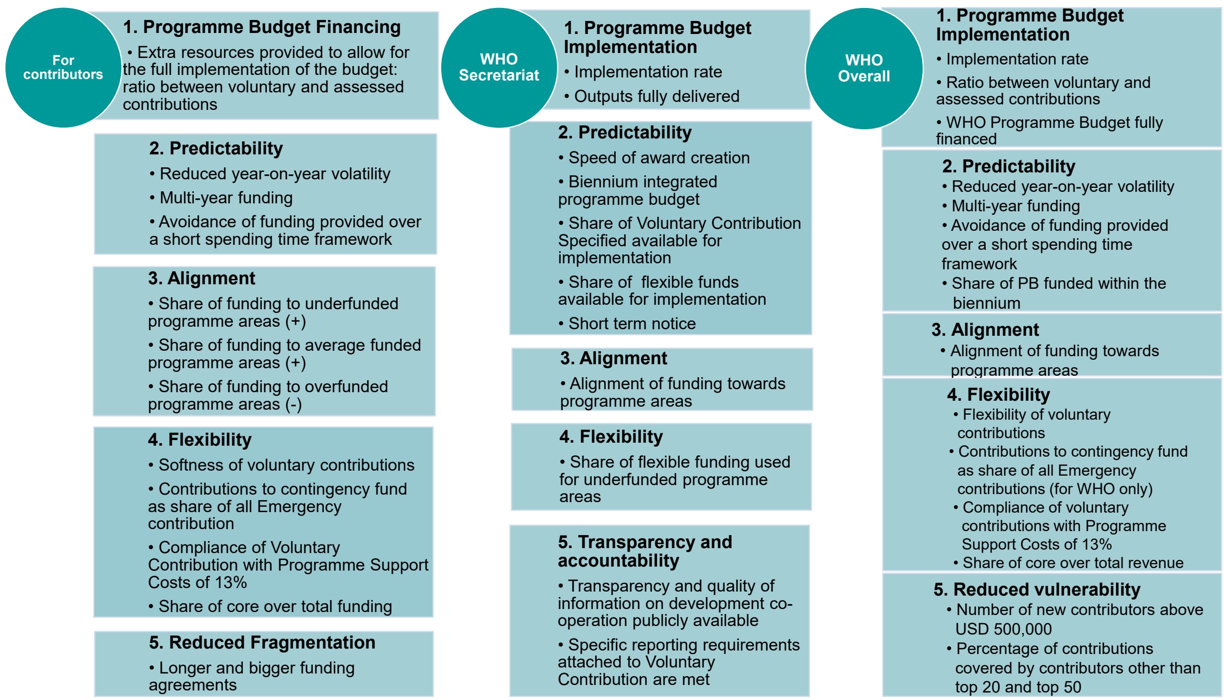
Funding practices affect the ability of multilateral organisations to deliver. The complexity and scope of the development challenges multilateral organisations work on have increased over time. In contrast, funding that is predictable and aligned to the strategic orientations of the organisations has been falling, challenging the ability of multilateral organisations to perform at their best and to deliver on their mandates. This is why both the UNDS and MDBs have acknowledged financing challenges as potential barriers to achieving the 2030 Agenda. In response, they have placed reforms to attract more and better financing at the core of the strategies they have developed to re-position themselves and be fit for purpose to contribute to the achievement of the 2030 Agenda.

For much too long, however, in international fora and domestic administrations, the discourse on providing adequate resources to the multilateral system and following good practices has been slow. In the UN context, for instance, it has remained strongly polarised between the need to supply core resources to preserve the multilateral character of the system and the freedom to earmark funds.

To contribute to overcome this impasse, an innovative multi-dimensional metrics on good multilateral funding was developed for this report.[7] This approach represents an attempt to quantify and operationalise key components of good multilateral funding, acknowledged both in the literature and in the policy discourse. These include predictability, flexibility, and alignment to the mandate and the agreed programme of work of the multilateral organisation. Figure 1.7 illustrates how each of these dimensions is defined and measured. Further details are provided in the Annex of Chapter 6 of this report.

This new OECD metrics was developed using the financing situation of the World Health Organization (WHO) as a case study, building on the granular statistical data made available by this organisation. The health sector and WHO's funding situation are considered here a "tracer" on effectiveness, offering insights and lessons for other sectors and institutions that face similar funding challenges in terms of insufficient alignment, flexibility, co-ordination, etc. The analytical framework measures the performance of both donors ("contributors" in Figure 1.7) and the multilateral organisation's Secretariat ("WHO Secretariat"), as well as the funding situation that results from the actions of both ("WHO overall") to assess the quality of funding. Inherent in the framework is the recognition that multilateral organisations and sovereign states have a common responsibility towards good multilateral funding to achieve better development results. The metrics acknowledges that contributors face different challenges and trade-offs to improving the quality of the multilateral funding they provide, due to political, structural and organisational realities. Disentangling the quality of financing over different dimensions can thus identify good practices and specific steps for improvement.

Figure 1.7. Good multilateral funding: what defines it and how it is measured in the OECD multi-dimensional metrics of good multilateral funding



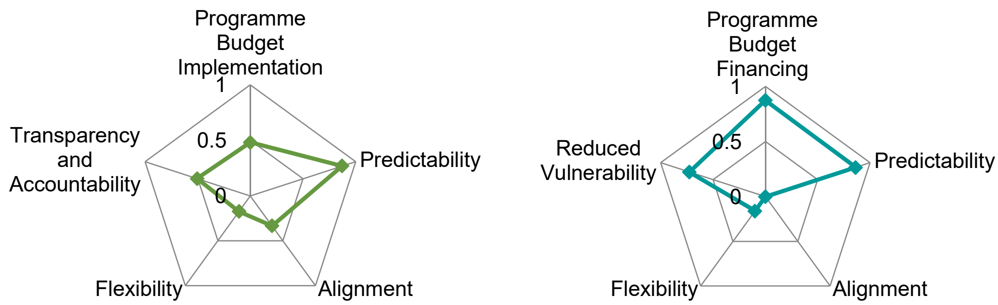
Source: Authors

Multilateral organisations and contributors share responsibility for achieving good multilateral funding

Findings from the metrics corroborate the idea that contributors and multilateral organisations both have a role to play in advancing the quality of multilateral funding. For instance, to increase the predictability of funding, contributors can make multi-annual financial commitments and reduce year-on-year volatility. Multilateral organisations can adopt integrated budget frameworks that provide a comprehensive view of the entire funding needs for the implementation of the biannual programme (Figure 1.8). At the same time, an institution's ability to achieve better results on some of the quality dimensions may be hindered by contributors' behaviour. For instance, WHO's ability to fully achieve results is constrained by the hard earmarking of resources from contributors, who designate resources for specific projects, often in already overfunded programme areas.

Figure 1.8. WHO Secretariat's contribution to good multilateral funding (left) and WHO's overall funding situation (right)

OECD metrics on good multilateral funding, 0=low performance; 1=high performance



Source: Authors based on statistical data from WHO for the 2014-2015 biennium. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933874067

Providing levels of funding that match achievement ambitions

The application of the OECD metrics on good multilateral funding to WHO's funding situation reinforces the case for adequate sovereign state funding for the multilateral development co-operation system, highlighted in Section 1.2. WHO is operating in a crowded global health architecture, with the emergence of large global funds and many additional initiatives and players. However, it has been able to maintain adequate funding levels and to fund, on average, the programme of work agreed with its membership (Figure 1.8). This was possible thanks to access to resources from a wider range of partners and to the broader membership, which allowed to fill the gap between the agreed programme budget and the sum of assessed contributions. On the contrary, the 12 contributors considered in this exercise topped up assessed contributions with voluntary funding only to a limited extent in order to allow the organisation to achieve the full implementation of the programme budget (with the exception of Norway and Sweden, whose voluntary contributions exceed their assessed contributions by multiple times).

Making multi-annual commitments to the strategic plans of multilateral organisations to increase predictability

The OECD metrics suggests that the predictability of WHO's funding has increased, mainly as a result of: 1) WHO's adoption of an integrated budget framework; 2) contributors' provision of funding agreements with longer time frames; and 3) a decrease in funding provided in the last four months of the biennium to be spent against a tight timeframe ('the end of the year rush').

Earmarked funds from some contributors provided good predictability, highlighting that, while not all funding is equally 'good', earmarked funding is not necessarily bad. For instance, voluntary contributions from the Bill and Melinda Gates Foundation (BMGF), mostly committed on a multi-year basis, to WHO provide a predictable funding stream.

Contributors acknowledge the importance of enhancing the predictability of multilateral funding and some are taking steps in this direction. For instance, Germany is working on solutions together with the Federal Ministry of Finance for more sustainable multi-year funding to WHO.[8] France is working to improve predictability by announcing when the volume and repartition of its voluntary contributions earlier. Finally, in response to the outcomes of the World Humanitarian Summit and the Grand Bargain commitments Canada is increasing its multi-year funding for humanitarian assistance. These are positive examples that need to be taken to scale.

Contributing to thematic windows and softly earmarking funds to increase flexibility and fill gaps in underfunded areas

Hard earmarking to WHO has increased steeply and is strongly associated with a misalignment of resources. It peaked at 66% of WHO's total resources in 2014-2015, being mostly provided for already highly overfunded areas of WHO's work programme. Hard earmarking left other work areas chronically underfunded, restricting WHO's ability to shift resources to where they were needed the most and to fully achieve output results. Both 'old' and new sources of funding are contributing to this hard earmarking and misalignment of resources, pointing to the need to better match resources to the areas needing financing in line with the priorities identified in the programme budget by the full membership of the organisation. For instance, funding from the Bill and Melinda Gates Foundation, albeit largely predictable, is largely targeted at overfunded areas and hard earmarked (Figure 1.9). Funding from France, in contrast, constitutes good practice; its funds are aligned with the programme budget priorities to a higher degree than those of WHO's top contributors.

Better use of existing and new multi-donor trust funds increase the softness and flexibility of earmarked funds upstream and enhance the effectiveness of emergency responses. In fact, part of the misalignment of funds to WHO stems from funds earmarked to respond to the Ebola outbreak. This funding, although necessary, would have been more effectively mobilised and deployed through a contingency fund, such as the one later established by WHO. Other multilateral organisations, such as the United Nations Population Fund (UNFPA)[9] and the United Nations Children's Fund (UNICEF), have established special windows and funds to gather softly earmarked resources. However, they are not equally successful in attracting funding to these windows.

Multilateral organisations could encourage a greater use of such multi-donor trust funds by providing greater visibility for the donors who subscribe to them. These efforts could be part of multilateral institutions' broader efforts to enhance the traceability and transparency of resources, from source to destination. WHO's Financing Dialogues represent good practice in this area.

Finally, it is important to explore additional measures to re-direct some hard-earmarked funding towards more soft earmarking or core resources. In 2018, the UNDS adopted a 1% levy on hard-earmarked resources as part of the funding arrangement for the new resident co-ordinator system. It is important to monitor this measure's impact on hard earmarking and global multilateral funding levels and to explore how it can be replicated in other multilateral contexts.

Centralising information on earmarked funding to assess its impact and suitability

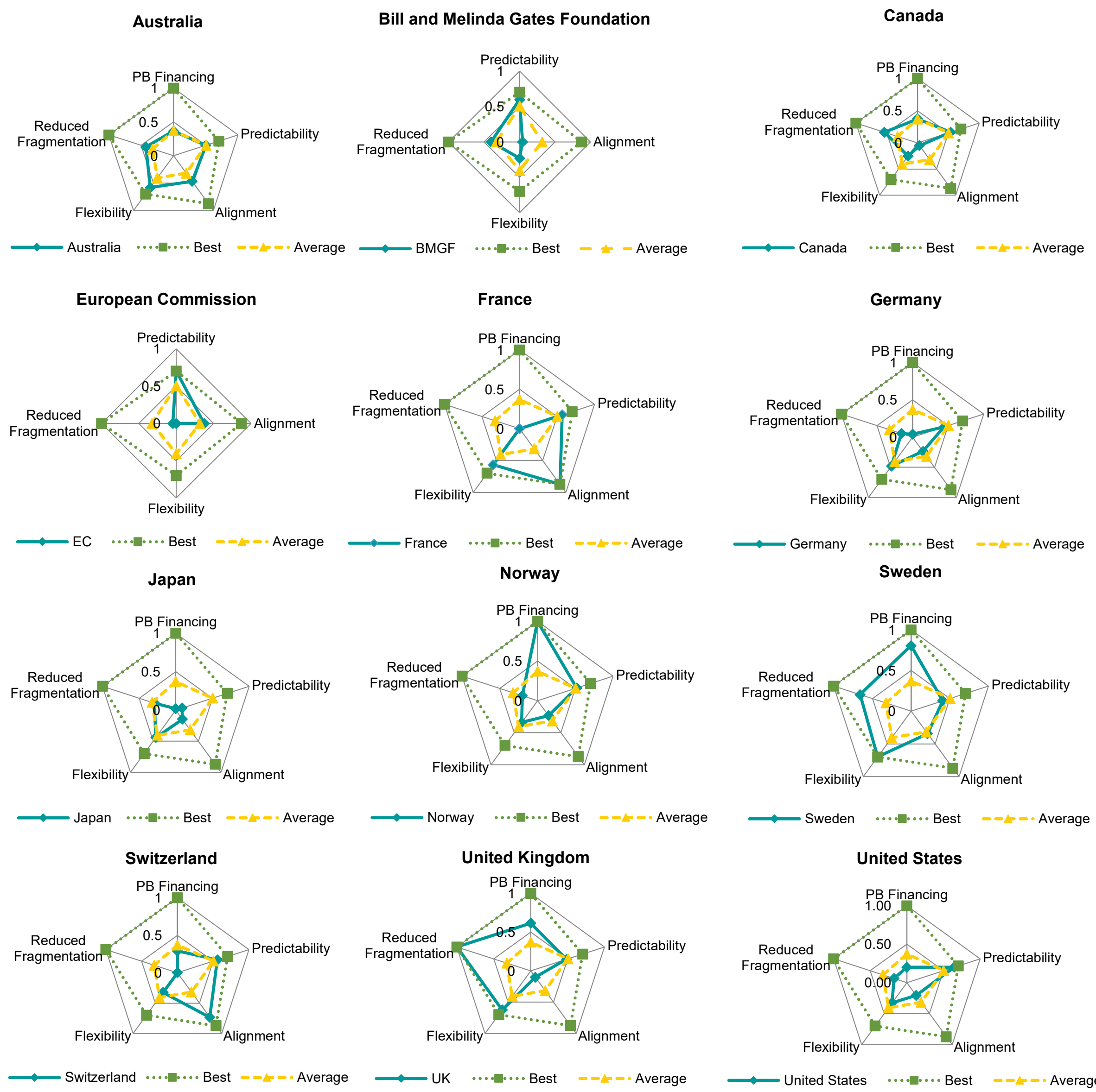
The analysis based on the OECD metrics on good multilateral funding suggests that widespread hard earmarking of resources is associated with highly fragmented funding to WHO. Most voluntary funds designated for specific purposes are, in fact, provided in small, piecemeal amounts, increasing fragmentation. Fragmentation is measured as the total USD volume of voluntary contributions divided by the number of agreements. It is above average for all but five contributors (i.e. Australia, Bill and Melinda Gates Foundation, Canada, Sweden and Japan).

Fragmentation of funding can be a direct consequence of a complex internal architecture of entities extending voluntary contributions to WHO. This is because each entity exclusively targets priorities and projects that are specifically relevant to its remit. Therefore, it could be helpful to centralise the information on the use and impact of earmarked funding within a specific unit, through an IT system. Voluntary contributions from all state actors could be traced, providing an evidence base on when earmarked funding is the most suitable funding option.

Regularly reviewing the balance between core and earmarked funding to assess whether some earmarked funding can be allocated as core resources

Contributors often face the choice between earmarking funds for multilateral organisations or spending those resources bilaterally, or through another implementing agent. However, persistent levels of earmarked funding for the same overfunded programme areas and for the same multilateral organisations suggest some flexibility for contributors to re-direct hard-earmarked funds upstream. This could be achieved through more core funding or through more softly earmarking.

Figure 1.9. Donors experience different trade-offs in funding WHO, but large misalignment and hard-earmarking of funds is an increasing challenge for most of them

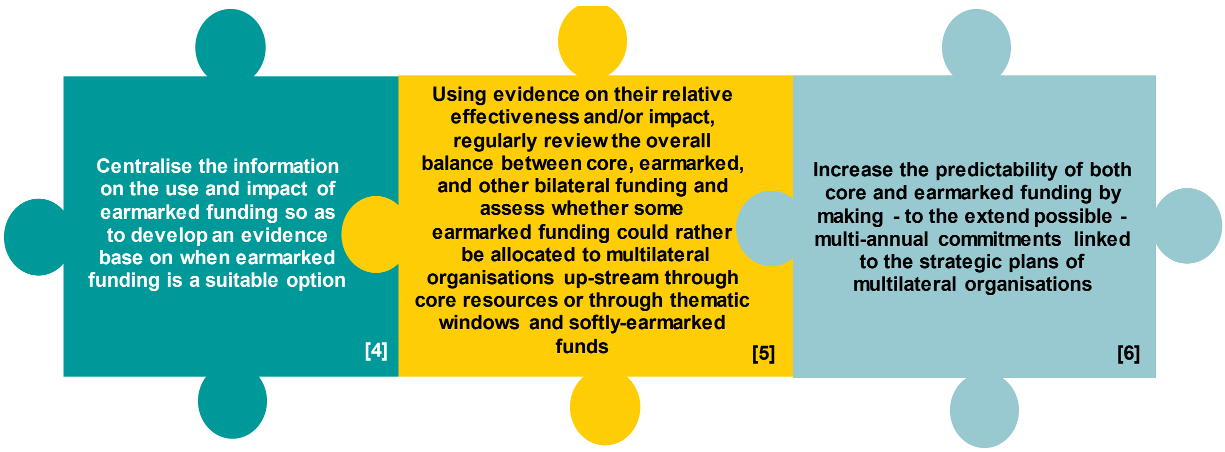


Note: Since there are no assessed contributions for the European Commission and the Bill and Melinda Gates Foundation, it was not possible to compute the "Programme Budget financing" indicator for these two providers. This is why, for these two providers, the metrics comprises four indicators rather than five, and the chart illustrating it is thus a quadrangle and not a pentagon.
Source: Authors based on statistical data from WHO for the 2014-15 biennium.

StatLink https://doi.org/10.1787/888933874086

Overall, scattered and highly decentralised decision making on earmarked funding has hampered a comprehensive assessment of when it is the best funding option. This information and analysis is critical to inform regular discussions on the balance between core and earmarked funding. Similar discussions are already held among DAC countries to improve the overall impact of resources deployed.

Figure 1.10. Summary of recommendations on good multilateral donorship in the area of good multilateral funding



Note: Numbers in the puzzle pieces indicate the related recommendation in Section 1.4
Source: Authors.

1.4. Assembling evidence: towards principles of good multilateral donorship in the era of the 2030 Agenda

The 2030 Agenda for Sustainable Development and the SDGs call for more and better multilateral development co-operation. Multilateral organisations and contributors – i.e. founders, shareholders and funders – hold the responsibility for achieving it. A new pact on multilateralism, one founded on the recognition of this mutual responsibility, is critical to move towards a stronger and more effective multilateral system that is fit -for - purpose for achieving the 2030 Agenda.

A crucial part of this new pact is a new commitment to multilateralism, founded on a set of evidence-based principles of good multilateral donorship. Building on the evidence presented so far, this section outlines recommendations for good multilateral development co-operation. This provides a basis for an inclusive multi-stakeholder dialogue on multilateral effectiveness. Dialogue should be inclusive: while sovereign states are the main founders and stakeholders of the current multilateral development system, the greater role that other contributors are playing suggests that non-state actors could also reflect on how they could embrace such principles.

The OECD metrics on good multilateral funding presented in this report could be expanded beyond the WHO pilot to be part of the monitoring framework needed for holding both contributors and multilateral institutions accountable for such principles and forge a more effective multilateral development system. The OECD metrics could be integrated into the OECD DAC Peer Review methodology (to review donor performance) and into multilateral assessments such as MOPAN (to review multilateral organisations' performance).

Below are nine recommandations for principles of good multilateral donorship. These are further summarised in six points at the end of the executive summary and in the inforgrafics for the report.

Towards principles of good multilateral donorship

1. Define the objectives and modalities for engaging with multilateral organisations in light of an inclusive whole-of-government dialogue open to non-state actors and all relevant stakeholders.
2. Establish adequate co-ordination and accountability mechanisms in the administration to ensure a responsible and coherent whole-of-government approach to engagement with multilateral organisations. It will also increase the strategic focus of partnerships, which require trust, transparency and continuity.
3. Reduce the collection of primary data on the performance of multilateral organisations and instead strengthen multilateral organisations' evaluation units as well as collective initiatives and efforts to systematically assess multilateral organisations' performance. Use board discussions as the key platform for promoting institutional change and greater performance of multilateral organisations. Move towards assessments and results frameworks that could ultimately be aggregated over the multilateral system to identify gaps based on results.
4. Centralise information on the use and impact of earmarked funding to develop an evidence base on when and why earmarked funding may be the most suitable funding option to avoid earmarking resources for overfunded areas.
5. Using evidence on their relative effectiveness, regularly review the overall balance between core, earmarked and other bilateral funding. Assess whether some earmarked funding could be allocated to multilateral organisations upstream through core resources or through thematic windows and softly earmarked funds.
6. Increase the predictability of both core and earmarked funding by making – to the extent possible – multi-annual commitments linked to the strategic plans of multilateral organisations.
7. Support multilateral organisations to adopt measures and safeguards to ensure resources are aligned with the institutions' mandates and the priorities of the 2030 Agenda.
8. Enhance the ability of multilateral organisations to work together effectively by promoting harmonised working practices. These can reduce the burden on developing country governments. Country platforms can identify projects and pool funds and expertise from multilateral institutions and other stakeholders.
9. Encourage contributors to investigate systemic gaps and identify imbalances in the financial capacity and functions of multilateral organisations. This will enhance the division of labour and effectiveness of the system.

Notes

[1] For a historical perspective, see Box 4.1.

[2] As shown in the Charter of the United Nations, the United Nations was created: "1) To maintain international peace and security […]; 2) To develop friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, and to take other appropriate measures to strengthen universal peace; 3) To achieve international co-operation in solving international problems of an economic, social, cultural or humanitarian character, and in promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language, or religion; and 4) to be a centre for harmonising the actions of nations in the attainment of these common ends."

[3] These included: the Inter-American Development Bank in 1959; the World Bank's soft loan arm, the International Development Association in 1960; the African Development Bank in 1963; and the United Nations Development Programme in 1965.

[4] These are the United Nations Development System, the International Development Association through the outcome of the 18th replenishment, and the Global Fund.

[5] This percentage refers excludes local resources.

[6] This finding is based on responses to the OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System". It therefore includes only respondents to the survey.

[7] While the OECD metric presented here constitute the first attempt to use a multi-dimensional approach to measure the quality of funding provided to multilateral organisations, different multi-dimensional metrics were developed by (Birdsall and Kharas, 2010[9]) to measure the quality of ODA: QuODA. This measure provided an assessment of the quality of concessional finance provided by 35 donor countries and more than 100 aid agencies using 31 indicators grouped in 4 dimensions that reflected what was, at the time, the international consensus on high-quality aid: 1) maximising efficiency; 2) fostering institutions; 3) reducing burden; 4) transparency and learning. Another multi-dimensional metric was developed by Piera Tortora to measure delegation of authority of development aid agencies (OECD, 2013[8]).

[8] This is evidence collected through the responses to the 2018 OECD Survey.

[9] The Global Programme to Enhance Reproductive Health Commodity Security and the Maternal Health Thematic Fund.

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Part I. Key funding trends in the multilateral development system

Chapter 2. Funding *to* the multilateral development system

The 2030 Agenda for Sustainable Development and the interconnected nature of the development challenges of our time call for a stronger and renewed role of multilateral co-operation to foster a new era of reduced poverty, economic and social progress, environmental sustainability and peaceful and inclusive societies. But how are current funding patterns supporting this greater need for multilateral co-operation? Are they holding the system together or are they pulling it apart? This chapter attempts to answer these questions by providing an overview of the main trends of official development assistance (ODA) financing to the multilateral system. As an innovation to previous editions of this report, the second part of the chapter examines what the "beyond ODA", broader funding landscape of multilateral organisations looks like to discuss the implications of efforts to attract funding from a wider range of sources: China and other emerging economies, philanthropy and the private sector.

Chapter highlights

This chapter focuses on funding to the multilateral development system, recognising the role that the scope and nature of funding plays in enabling multilateral organisations to function effectively and the incentives it creates for individual institutions and for systemic collaboration. The chapter first examines the main trends and features of ODA resources channelled to the multilateral development system. This analysis provides transparency and accountability for the ODA spending of members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD DAC), showing aggregate outcomes of individual funding practices. Then, as an innovation to previous editions of this report, the chapter quantifies and discusses the sources of funding available to multilateral organisations beyond ODA resources. It considers how they vary in their range and importance for different groups of multilateral organisations. The chapter then considers what the implications of this new funding landscape are for the multilateral development system and its ability to achieve the 2030 Agenda. Key messages from this analysis include:

Funding to the multilateral development co-operation system is increasing, signalling strong support. DAC countries continue to allocate a stable share of their ODA resources to the multilateral development system. This demonstrates the importance they place on multilateral institutions for fostering peace and development worldwide. Financial support from other sources is increasing too, including from: South-South providers, corporations and private philanthropy, as well as other multilateral institutions. While there are variations among institutions in terms of how much funding they mobilise from these other sources, these account collectively for between 12% (for the Global Fund) to a maximum of 71% for IDA.

Increased volumes of funding are not enough for the multilateral development co-operation system to work effectively, quality of multilateral funding also needs to be ensured. Chapter 6 provides discussion on effective multilateral funding, but this chapter considers some findings at the global level. Both ODA funding and new sources of financing to the multilateral system are increasingly scattered. This incentivises project-based interventions and jeopardises the provision of transformative, integrated solutions that are needed to achieve the 2030 Agenda. Therefore, sovereign states should counter anti-multilateralism, ensure adequate financial support for multilateral institutions and provide funding in ways that enable the effective functioning of the system.

Broadening the funding base and accessing alternative sources of financing remains a priority for most institutions, but resources must be aligned with the mandates of multilateral organisations. A balance must be struck between obtaining more funding and the need to ensure that this funding will not skew allocations away from key priorities. Sovereign states must support multilateral organisations in ensuring public resources target those who need them the most and that these resources are in line with the mandates of these organisations.

Key facts:

- **Support for the multilateral development co-operation system remains strong in financial terms.** ODA resources for multilateral institutions increased to USD 63 billion in 2016 – a 14% increase in real terms compared to 2015 levels – continuing to account for a stable share of DAC members' ODA (41%).

- **China is establishing a leadership role in the multilateral system, through greater funding to and influence on 'traditional' multilateral institutions**. China more than doubled its contribution to IDA18 (SDR 428 million), becoming the 11th largest funder to International Development Association (IDA). Its funding to United Nations Development System (UNDS) also increased significantly (+80% between 2011 and 2016) extending the reach of its international co-operation and the influence of its global action.
- **Funding from sovereign states excluding DAC members was the fastest-growing component of the financing to the UNDS** (+52% in 2011-16, reaching USD 1.5 billion in 2016). It increased by **22% between IDA17 and IDA18**, at SDR 1.08 billion. In total, however, it accounts for 5% for the UNDS and for 2% for IDA.
- Because of IDA's debut on the capital market, **private finance** in the form of market borrowing **accounts for 30% of total resources for IDA18**. For the UNDS, private finance (commercial private sector, private philanthropy and non-governmental organisations [NGOs]) is an important component of the funding model of some organisations (e.g. the United Nations Children's Fund [UNICEF], World Intellectual Property Organisation [WIPO], etc.). However, this remains **a small part of the UN funding portfolio: 9% in 2016** or USD 2.4 billion, despite it increased by 22% between 2011 and 2016.

2.1. Global trends of ODA financing to multilateral organisations

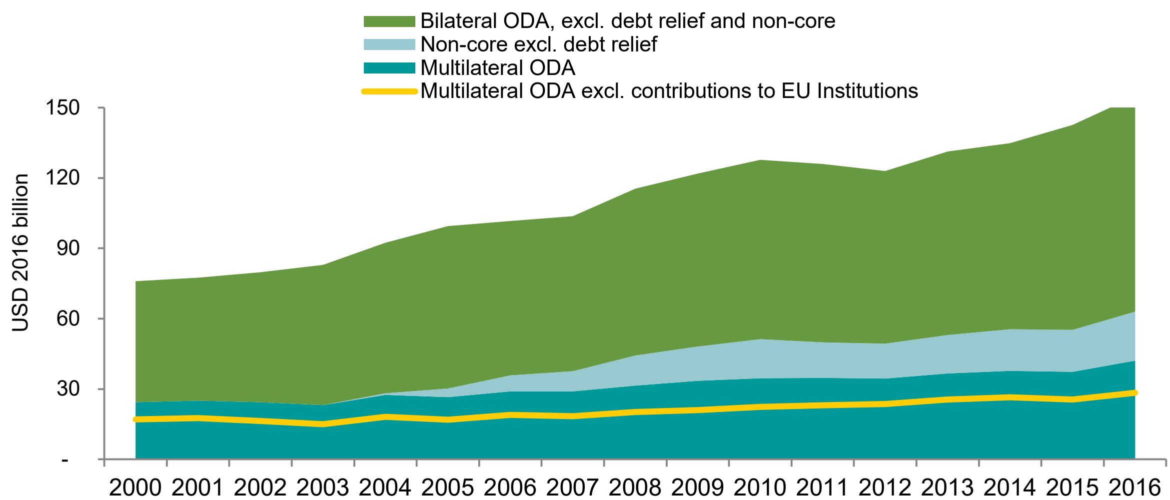
DAC countries place great importance on the multilateral development system as a prime channel for development co-operation. This system comprises over 200 multilateral agencies and institutions, including the United Nations, the World Bank, global funds and other institutions mandated to promote development worldwide.[1] Although these institutions are – for brevity – referred here to as part of the 'multilateral development system', they are far from representing a perfectly cohesive and coherent system, which develops through an orderly process guided by simple principles. Thus they have also been collectively referred to as an 'ecosystem' or even a 'non-system', see (OECD, 2008[1]); (Reisen, 2009[2]). This section examines the scale at which the multilateral development system is used as a channel for development co-operation and the main patterns relating to the ODA resources to these organisations.

Trend 1: ODA funding to multilateral development organisations has increased but rising mistrust in multilateralism could lead to a downturn in the near future

Funding to multilateral organisations reached an all-time high at USD 63 billion

The prospects of ODA funding for multilateral organisations did not seem too rosy in 2015. Both core contributions (-1%) and overall funding (-0.4%) to multilateral organisations had contracted compared to the previous year. However, ODA funding to multilateral organisations saw a record increase to USD 63 billion in 2016 (+14% in real terms compared to 2015 levels), or an additional USD 7.7 billion compared to 2015 (Figure 2.1).

Figure 2.1. Funding to multilateral organisations increased in 2016



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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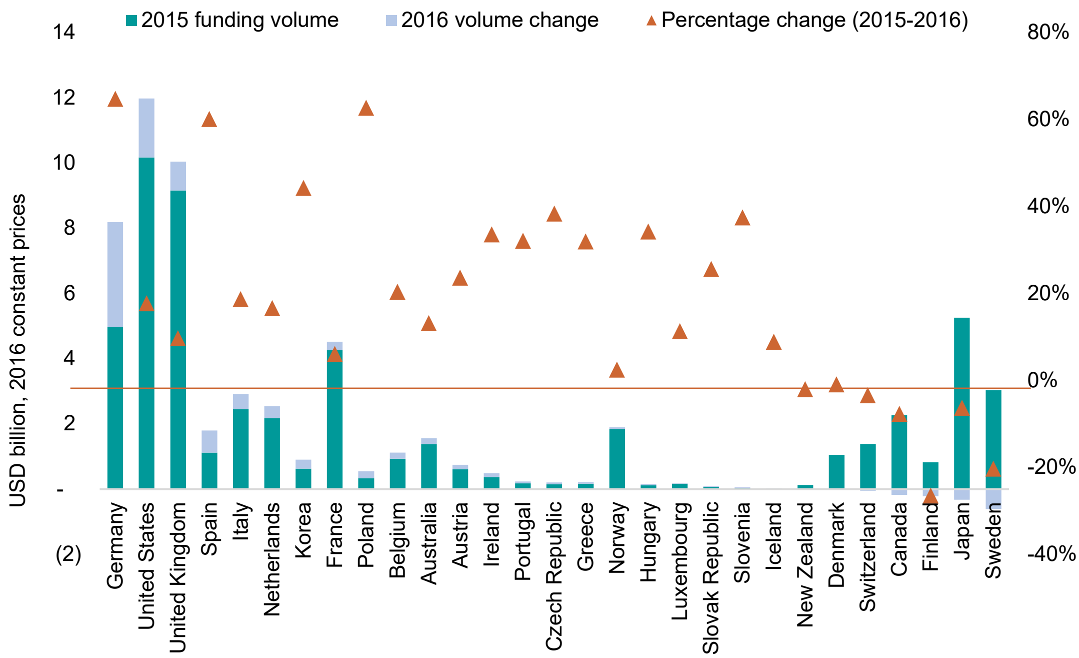
This increase was mainly due to a rise in multilateral funding by Germany, which accounted for 40% of this change, having almost doubled its multilateral allocations (from USD 5 billion in 2015 to USD 8.2 billion in 2016). Germany's considerable increase in funding was mainly through greater earmarked funding to several UN organisations. Large shares of the 2016 aggregate increase in multilateral funding were from the United States, providing USD 1.8 billion, and the United Kingdom, providing USD 887 million of ODA to the multilateral development system, as illustrated in Figure 2.2. Although with a milder impact on overall volumes, other countries also significantly increased their share of multilateral funding between 2015 and 2016. For example, Poland recorded a smaller increase in volume, accounting only for 3% of the aggregate change, but in relative terms its multilateral portfolio increased considerably (by 63%). Similarly, Spain's contribution was 8% of the aggregate volume change or 60% in terms of its portfolio (triangles in Figure 2.2). Seven DAC countries decreased funding to multilateral organisations between 2015 and 2016, and the most significant decreases, in absolute volume terms, were recorded by Sweden and Japan.

Political and economic developments in some large multilateral providers and increasing mistrust in the shared benefits of international co-operation could reduce volumes of ODA in the near future. This puts the benefits that multilateral institutions can achieve at risk. Further, the articulation of the multilateral engagement of some large multilateral providers may also change in the near future. For instance, the exit of the United Kingdom from the European Union (EU) (i.e. Brexit) could affect the United Kingdom's overall volumes of multilateral support and their distribution. The possible implications of Brexit are discussed in Box 2.1.

Figure 2.2. Few countries account for most of the 2016 volume increase in ODA funding to multilateral organisations

Countries are sorted by volume increase to the multilateral system



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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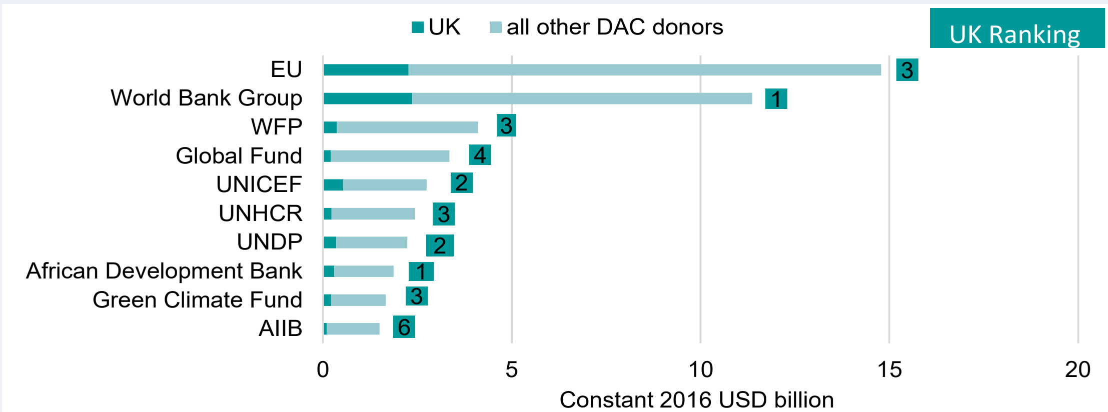
Box 2.1. Potential impacts of Brexit on development co-operation

Uncertainty still prevails in the current debate on Brexit. Discussions on its implications are mostly centred on issues such as trade, security and migration, but Brexit will potentially have a considerable impact also on development co-operation. It will affect the bilateral programme of the United Kingdom and its financial support and co-operation with the European Union and the rest of the global development co-operation system.

The United Kingdom is one of the largest providers of development co-operation. It was the third largest donor among the members of DAC in 2017, providing USD 17.9 billion of ODA. It has consistently met the UN target of allocating 0.7% of gross national income (GNI) as ODA since 2013. The United Kingdom is also the second-largest provider of ODA resources to the multilateral development system, to which it directs 36% of its ODA, 55% if earmarked funding is also taken into account. The United Kingdom is one of the most generous contributors to the EU's development budget, the extra-budgetary European Development Fund (EDF), trust funds and the European Investment Bank (EIB). Only Germany and France provide larger volumes – and EU institutions represent the main recipient of the United Kingdom's core funding (USD 2 billion in 2016). The United Kingdom is a top provider for several more multilateral institutions, including the World Bank, several UN entities and various global funds (Figure 2.3).

Figure 2.3. The United Kingdom ranks among the top providers of finance for many multilateral institutions

Total contributions to multilateral organisations (core and non-core), 2016



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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Brexit is likely to affect the development co-operation system through three channels: the overall size of United Kingdom's ODA budget; the re-orientation of British funding from the European Union to different development co-operation delivery channels; and the long-term realignment of the EU development policy following Brexit.

The United Kingdom has recently reaffirmed its future commitment to the 0.7% ODA/GNI target, which has been enshrined in United Kingdom legislation in 2015 (Government of the United Kingdom, 2015[4]). The United Kingdom has also signalled a commitment to multilateralism in its 2016 Multilateral Development Review. It explicitly states that reinforced engagement with the multilateral system is "vital to the United Kingdom", following the decision to leave the European Union (Department for International Development, 2016[5]).

Nevertheless, the post-Brexit slump in the sterling against the euro and slower economic growth could put pressure on United Kingdom's ODA budget. Combined with a gradual shift within its 0.7% target away from Department for International Development (DFID)-led programmes, this could reduce the United Kingdom's contributions to the multilateral development co-operation system (Manning, 2017[6]). Brexit has already produced direct negative effects on the value of United Kingdom's ODA abroad, through the post-Brexit depreciation of the sterling (Henökl, 2018[7]). (Mendez-Parra, Papadavid and Willem Te Velde, 2016[8]) have estimated that the combined cost of the devaluation (through aid, trade and remittances) for developing countries could be USD 3.8 billion.

Uncertainty looms over the future of United Kingdom's contributions to EU-based programmes. If discontinued, this could result in a re-allocation of funds to other multilateral partnerships or its bilateral programme. (Henökl, 2018[7]) proposed three possible scenarios:

- Scenario 1: Total rupture and no United Kingdom engagement in European external relations at all (“un-differentiated disintegration”).
- Scenario 2: Selective participation and “muddling-through, creation of new flexible approaches and ad hoc instruments”.
- Scenario 3: Continued close United Kingdom involvement in a reformed partnership, strengthening Europe’s role in the world.

The same author suggests that most likely Brexit could result in a “loose and unstructured European Union-United Kingdom co-operation on a case-by-case basis, reducing the influence of both the European Union and the UK” (Henökl, 2018[7]). For instance, the United Kingdom may want to remain engaged with EU-ACP[2] relations after Brexit, especially since 41 out of the 78 ACP countries are members of the Commonwealth. For now, the United Kingdom has shown interest in participating in some of the EU budgetary programmes of the new 2021-2027 Multiannual Financial Framework (MFF) as a non-Member State (European Commission, 2017[9]). (Gavas, 2018[10]) argues that additional resources from non-Members will be welcomed by the EU, but potential governance requests from the United Kingdom might be less attractive.

How will the United Kingdom use the resources freed up from the withdrawal from European Union development programmes? According to the joint report on Phase One of Brexit negotiations (European Commission, 2017[9]), the United Kingdom will be reimbursed its 16% share of paid-in capital in EIB, since it will no longer be able to continue its membership of the EIB. The United Kingdom could re-direct these resources, together with the share of contributions that the United Kingdom withdraws from current EU development programmes, either to its own bilateral channels or to multilateral funding mechanisms. (Price, 2016[11]) argues that a shift of United Kingdom’s aid from multilateral to bilateral channels might challenge the United Kingdom’s positioning in the global development arena and require an increase in the national administrative capacity and costly bureaucratic reforms. The United Kingdom could set up a new national development bank-like institution, further expand the Commonwealth Development Corporation (CDC) or support existing multilateral channels, such as the World Bank (Anderson, Juden and Rogerson, 2016[12]).

(Lightfoot, Mawdsley and Szent-Ivani Balazs, 2017[13]) expect that Brexit will accelerate existing trends within United Kingdom’s development policy of channelling resources towards the private sector, including through blended finance instruments. These ideas seem to be confirmed by DFID’s first-ever “economic development strategy”. In this, three major trends in the United Kingdom’s post-Brexit commitments to financing for development emerge. First, a stronger reliance by on the CDC to provide private investment to poor countries, using innovative financing mechanisms. This signals a shift away from “recent traditional aid”. Second, a willingness to take a leading role in reshaping the international system. Third, and more broadly, an enhanced focus on private-sector-led development and trade and on economic growth to reduce poverty (Department for International Development, 2017[14]). These elements are reflected in the shift of a large share of

British ODA spending away from DFID to other departments. Overall, there is a growing narrative that United Kingdom's aid allocations need to benefit the United Kingdom's national interests, and Brexit could reinforce a more explicit and expanded focus of aid spending on British economic and geopolitical interests.

Finally, Brexit could have impacts on the global positioning of both the United Kingdom and EU, as well as on their operations on the ground. (Barder, 2016[15]) claims that both the European Union and the United Kingdom will suffer from reduced co-ordination and common positioning in key global fora, weakening the influence and voice of both in the multilateral development co-operation space. Brexit could also diminish the efficiency and co-ordination gains stemming from joint planning and joint programming among EU donors, which are critical for the achievement of the 2030 Agenda (Watkins, 2016[16]). While there might be few short-term impacts from Brexit for developing countries, more serious economic and relational changes could emerge in the long term (Westcott, 2018[17]).

Several factors have influenced the United Kingdom's foreign development policy in recent years: greater security challenges; a more complex global geography of poverty; emerging market economies as more influential development partners; and the consequences of the global financial crisis, both in the United Kingdom and abroad. Brexit is one of many issues reshaping British foreign aid, but one with possibly considerable and long-term consequences.

The multilateral development system and the refugee crisis

Refugee crises have had a significant impact on ODA spending in recent years. When the Syrian refugee crisis hit its peak, ODA spending in support of refugees within donor countries increased five-fold, driving upwards overall ODA volumes. Consequently, resources spent by donor countries on hosting refugees reached 11% of total net ODA in 2016 and decreased slightly in 2017 (representing 9.7% of net ODA, or USD 14.2 billion).

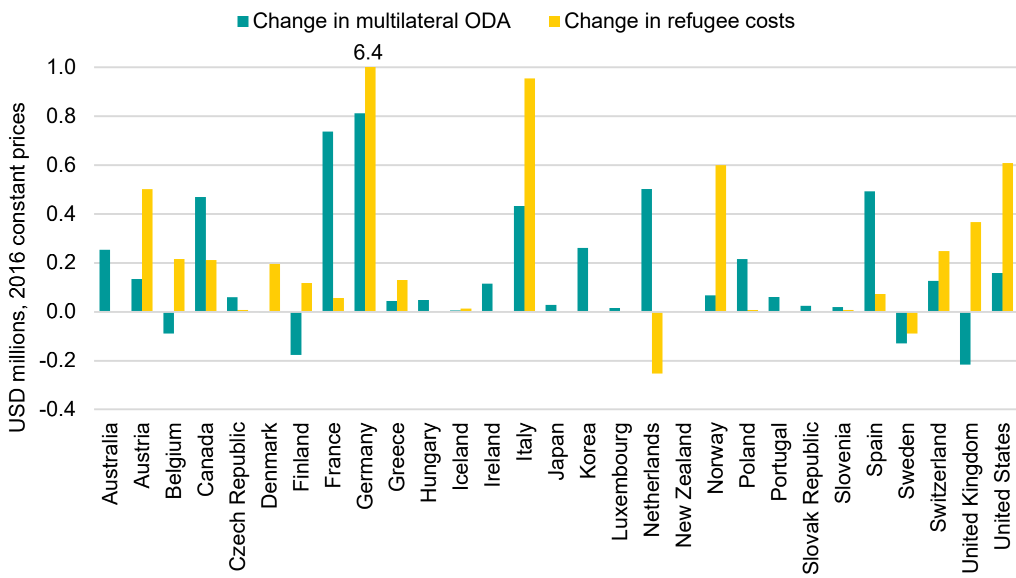
The impact of refugee crises on ODA funding to multilateral organisations is, however, less clear. The OECD DAC Peer Reviews of a few DAC members [(OECD, 2016[18]); (OECD, forthcoming[19])] highlighted decreases in ODA funding to multilateral organisations during the crises. It recommended that providers avoid reallocating ODA to manage refugee costs. Increased spending on in-donor refugee costs did not reduce ODA funding to the multilateral system as a whole. Countries with the largest inflows of refugees, and thus greater ODA in-donor refugee costs – such as Italy, Germany and Slovenia – have still recorded increases in multilateral ODA (

Figure 2.4). Further, as discussed later, EU DAC countries have increased funding to multilateral organisations, including new EU trust funds, as a way to contain migration flows.

Therefore, while overall funding levels to the multilateral development system may not have been affected, the refugee crisis could have impacted: 1) allocations among institutions; and 2) the composition of funding to the multilateral system in favour of greater earmarking of funds. For instance, Germany's increased ODA funding in 2016 was mainly earmarked for UN entities (UN Refugee Agency (UNHCR) and UNICEF) to ease the refugee crisis.

Figure 2.4. Refugee crises does not seem to have caused a diversion of funds away from the multilateral development system

Volume changes between 2014 and 2016



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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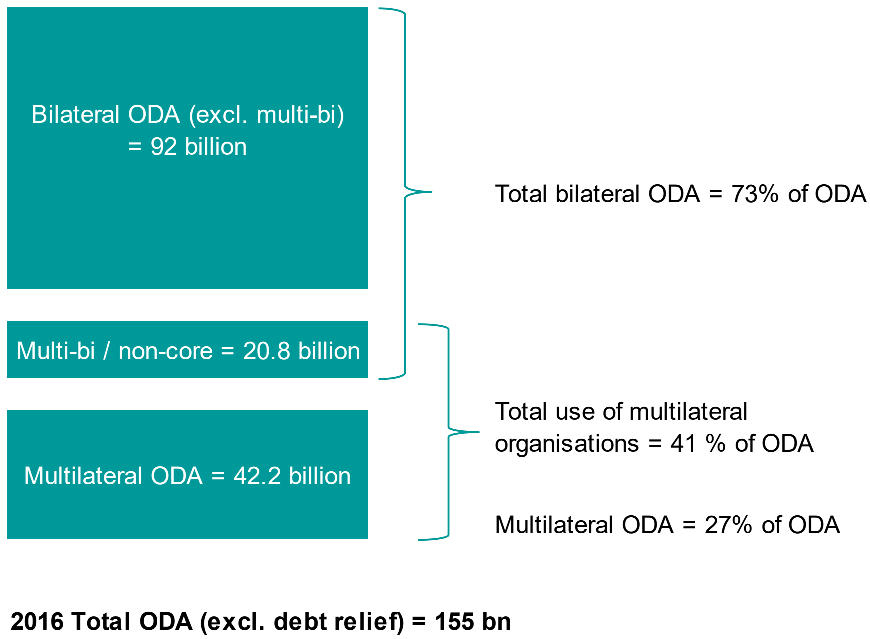
The share of official development assistance allocated to and through multilateral organisations, however, remains levelled-off

Despite the 2016 volume increase in ODA resources to multilateral organisations, the share of these resources in total ODA remains stable. In 2016, core contributions were 27% of gross ODA (Figure 2.5), while the total use of the multilateral co-operation system stood at 41% of total gross ODA. As illustrated in Figure 2.1, core contributions have remained a constant share of total ODA for several decades.

Figure 2.5. The share of official development assistance allocated to and through multilateral organisations, however, remains levelled-off

DAC countries' bilateral, non-core and core multilateral ODA in 2016, disbursements (current USD), excluding debt relief



Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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Trend 2: ODA funding practices continue to deepen a "bilateralisation" of multilateralism

Sovereign states can provide funding to multilateral organisations in the form of core resources, whether negotiated, assessed or voluntary. These are resources that the governing boards of multilateral organisations have the unqualified right to allocate within the organisation's charter. Furthermore, sovereign states can provide non-core or earmarked resources to multilateral agencies. These are resources earmarked for a specific country, project, region, sector or theme, over which the sovereign state retains some degree of control. These resources can be administered through single or multi-donor trust funds.

Previous editions of this report have been at the forefront of investigating hard facts and policy implications of the increase in earmarked funding in the multilateral development system. In particular, the last edition provided an in-depth analysis of why donors earmark resources to the multilateral development system. Findings indicated that the increase corresponds to growing domestic scrutiny over ODA spending in many DAC countries, which - coupled with perceptions over the inefficiencies of the multilateral development system - required greater traceability and visibility of how ODA resources are spent. Data presented here (see Trend 3 and Chapter 3) suggest that the increase in earmarked funding is also due to a rise in (earmarked) humanitarian aid. This is especially true for some large providers of earmarked funding that are significant humanitarian donors, such as the United States.

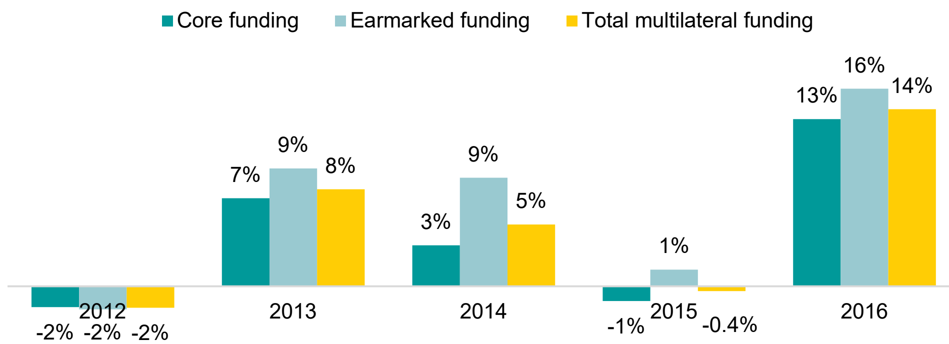
Earmarked resources are a powerful means to mobilise resources, engage in partnerships and fill co-operation gaps [see, for example, (OECD , 2012[20]); (OECD, 2015[21]); (Thalwitz, 2013[22])]. They can help respond to specific needs, such as humanitarian crises and evolving development challenges. They can also enable partnerships that can access a variety of public and private resources. However, these resources bypass "purely multilateral" governance, whereby decisions on spending priorities and the overall size of the portfolio are made by all members according to collectively endorsed rules. This is why the rise of earmarked funding creates a "bilateralisation" of the multilateral development system. Through earmarked funding, donors can extend activities beyond the amounts decided through full-membership processes (e.g. replenishments or the institution's budget cycle) increasing their influence on specific priorities. Further, a wide variety of financial arrangements is used to channel earmarked funding. This adds 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. For individual multilateral organisations and bilateral providers, it has sometimes reduced coherence and impact of allocations. The previous report recognised the need for reforms, both from donors and multilateral organisations to enable resources to be used more effectively. The report presented a set of recommendations for the donor community to maximise the benefits of these resources and minimise costs. Chapter 6 furthers the evidence on earmarked funding through a multi-dimensional approach that assesses the quality of earmarked and core funding. This approach allows the quantification of "quality dimensions" of multilateral funding, such as predictability, flexibility, and alignment with multilateral organisations' mandates and activities.

Financing that is earmarked for specific purposes continues to be the fastest-growing component of multilateral financing

Both core and earmarked funding increased between 2015 and 2016. However, earmarked funding continues to grow the fastest. As shown in Figure 2.6, it is the funding component that increased the most in 2016 (16% vs. 13% of core funding). Over a longer time period, between 2007 and 2016, earmarked funding more than doubled, from USD 9 billion to USD 21 billion. Core contributions grew by a more modest 45% in the same period, from USD 29 billion to USD 42 billion. Consequently, the share of earmarked funding in total multilateral funding has grown, from 23% in 2007 to 33% in 2016. This is partly due to an increase in humanitarian funding. Resources earmarked for humanitarian purposes almost doubled between 2011 and 2016, reaching USD 8.9 billion in 2016, equivalent to 43% of earmarked funds (up from 35% in 2011).

Figure 2.6. Earmarked resources continue to increase the most across the components of multilateral funding

Year-on-year percentage variations



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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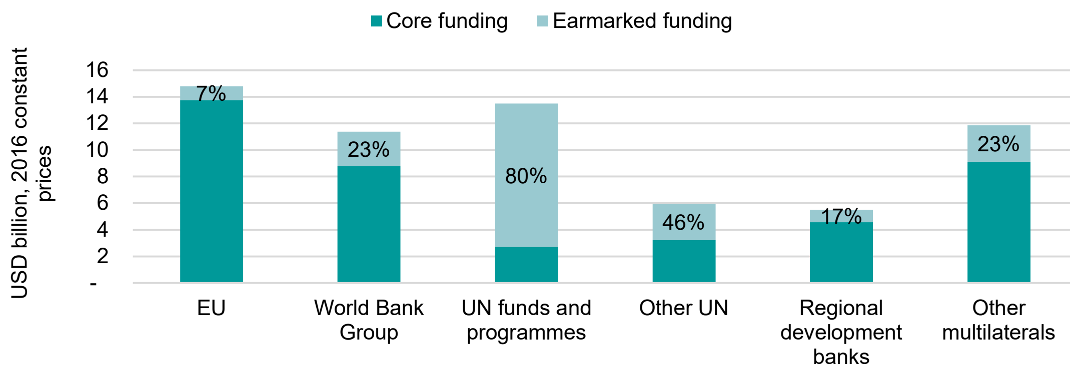
Multilateral organisations rely on earmarked funding to different extents

The European Union (see Box 2.2), the World Bank Group, and UN funds and programmes receive similar volumes of ODA funding. These ranged between USD 11.3 for the World Bank and USD 14.8 billion for the European Union in 2016. The composition of this funding, however, remains different among the three.

UN funds and programmes continue to be the most reliant on earmarked funding. As shown in Figure 2.7, earmarked funding reached 80% of total funding to the UN funds and programmes in 2016, up from 72% in 2011. Earmarked funding underlies the overall upwards trend of total ODA funding to UN funds and programmes (+33% between 2011 and 2016). Over the same period, core resources stagnated, averaging USD 2.9 billion. The UN funds and programmes receive one of the largest shares of total ODA funding among clusters of multilateral organisations. However, they receive the smallest share of core funding, only 6% of the total. These trends have prompted repeated calls from the UN to increase "the level and predictability of core funding" to "uphold [the UN's] neutrality and multilateral nature" (United Nations, 2016[23]). Most recently, the UN Secretary-General reiterated these calls in a proposal to reposition the UNDS to work towards the 2030 Agenda (United Nations, 2017[24]). The associated Funding Compact between member states and the UNDS calls for core resources for the UNDS to be increased to at least 30% (from the current 15%) in the next 5 years. This represents a doubling of interagency pooled funds to USD 3.4 billion and entity-specific thematic funds to USD 800 million by 2023 (United Nations, 2018[25]). The UN repositioning and the Funding Compact are discussed further in Chapter 6.

Figure 2.7. UN funds and programmes rely on earmarked funding the most, 2016



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874219

Box 2.2. The European Union, a special case

The European Union is unique among DAC members in that it plays a dual role in development assistance. The European Union is a full DAC member and a donor of ODA in its own right, with its own development policy and own resources. However, it is also partly an intergovernmental organisation and partly a supranational organisation, operating through a set of multilateral institutions. For analytical and statistical purposes, the European Union is often presented as a multilateral organisation in DAC publications, including in this report. This report, however, also reflects, to the extent possible, this dichotomy.

The EU funds its "external action" from several sources, including:

- The EU budget: The Council lays down and, with the consent of the European Parliament, adopts a seven-year Multiannual Financial Framework (MFF) – the long-term EU budget. This sets annual ceilings for each broad category of spending, including development co-operation, which is usually referred to as "external action". Then, 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.
- European Development Fund (EDF): This is financed through extra-budgetary contributions from EU member states. It is the EU's main instrument for providing development aid to ACP countries and to Overseas Countries and Territories.
- European Investment Bank (EIB): The shareholders of this institution are the 28 EU member states. It provides long-term

finance, by borrowing in capital markets, in support of EU external co-operation and development objectives, both within the European Union and outside, either through its own resources or the EDF's. It is covered by a specific guarantee from the European Union member states.

- European Trust Funds: Since 2013, the Commission can establish Trust Funds for external action. Four have been created so far (the EU Trust Fund for Colombia, the EU Emergency Trust Fund for Africa, the EU Trust Fund in Response to the Syrian Crisis and the EU Trust Fund for the Central African Republic). They operate outside of the EU budget and are funded by contributions from member states and donors of non-member countries.
- Facility for Refugees in Turkey: This operates within the EU budget but with faster and more flexible procedures. It is not a funding instrument, but rather a co-ordination mechanism that allows mobilisation of funds.
- Regional blending facilities: These combine grants from the EU budget and the EDF with other public or private resources, such as loans from financial institutions, in order to mobilise additional funding to meet investment needs.
- European Fund for Sustainable Development (EFSD): This is a financing mechanism created in 2016 under the EU External Investment Plan (EIP). It supports investments by public financial institutions and the private sector in the European Union and Africa. It is funded by the EU budget and other sources, in particular the EDF.
- Loans and guarantees covered by the Guarantee Fund for External Actions (GFEA): GFEA was set up in 1994 to cover defaults on loans and loan guarantees granted to non-EU countries from the EIB, the EU's Macro-Financial Assistance and Euratom loans.

Earmarked funding is a valuable resource for the World Bank Group but represents a less prominent share of total financing than for the UN. At USD 2.6 billion, earmarked funding represented 23% of the ODA financing of the World Bank Group in 2016 (Figure 2.7). The World Bank Group recognises earmarked funds as an important source of funding to expand activities in fragile contexts, fill gaps and promote innovation. However, despite this lower reliance on earmarked funding as compared to the UN funds and programmes, the World Bank Group too has highlighted the challenges earmarking funds presents. It highlighted concerns that fragmentation challenges strategic priorities and adds to transaction costs (World Bank Group, 2018[26]). Therefore, to enhance the net benefits of earmarked funding, the World Bank Group has implemented a comprehensive trust funds reform package.

Earmarked funding to the World Bank Group has shown several swings, causing volatility in the Group's total funding levels. Although core resources have been fairly stable, averaging USD 8.5 billion per year in 2011-16, overall ODA funding dipped by 5% in 2016 compared to 2011 (Figure 2.8). The outcomes of IDA's 2016 replenishment and of the capital increases to International Bank for Reconstruction and Development (IBRD) and International Finance Corporation (IFC) are not yet visible in OECD statistical data, but point to a substantial increase in resources to the World Bank [for IDA, see (Manning, 2017[6])]. IDA's 18th replenishment, marked the largest in IDA's 56-year history, although only marginally attributable to donor resources, as discussed in Section 2.2.2. Months later, in 2018, stakeholders also agreed a USD 13 billion paid-in capital increase (consisting of a USD 7.5 billion paid-in capital for IBRD and USD 5.5 billion paid-in capital for IFC) as well as a USD 52.6 billion callable capital increase for IBRD.

Figure 2.8. Clusters of multilateral organisations display different funding patters

Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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The funding model of the European Union has so far comprised minimal volumes of earmarked funding, but things are changing. The European Union has traditionally received most of its ODA funding as core contributions from its member states. While this is still the case, with core resources at USD 13.8 billion in 2016 accounting for 93% of the total, earmarked resources increased dramatically in 2016. They recorded a four-fold spike, reaching USD 1.02 billion in 2016, up from USD 240 million in 2015 (Figure 2.8). The increase in trust fund resources to the European Union took place against the backdrop of rising core funding, with total financing recording a 28% increase between 2011-16.

The increase in earmarked funding was the result of a deliberate choice by the EU. In 2012, it modified its financial regulations to allow the European Commission to set up and manage European trust funds. These funds can mobilise financing from and beyond member states.[3.] EU trust funds are the most recent development in EU aid.[4] They are designed to be used in specific circumstances, namely for emergency, post-emergency or thematic measures, drawing on voluntary contributions of different donors. EU trust funds allow for more rapid decision making. They are an instrument to provide faster, more flexible and more co-ordinated EU support in challenging environments, compared to other EU aid delivery methods.

To date, the Commission has established four trust funds[5] to operate in emergency and post-emergency situations and as part of its response to the refugee crisis. Strongly concerned about the flows of refugees into their countries and the need to address the root causes of irregular migration and displacement, EU members and other European countries have provided massive support for such trust funds. While still a small share of its overall financing, earmarked funding to the European Union increased from around USD 202 million in 2011-15 to USD 1.02 billion in 2016 (Figure 2.8). EU sources point out that by the end of 2017, resources allocated to the EU Emergency Trust Fund for Africa alone amounted to EUR 3.3 billion (European Commission, 2017[27]). Some authors have argued – based on country studies on Libya, Niger and Ethiopia (CONCORD, 2017[28]) – that EU trust funds are mainly motivated by EU's migration policy rather than developmental objectives. The DAC discussed whether resources to the EU Facility for Refugees in Turkey could qualify as ODA. Then, in 2018, based on an analysis of the fund's activities, decided to set the ODA at 100% of the Fund's operations for 2017 flows.

If the proposal presented in May 2018 by the European Commission for the 7-year budget goes through, the EU's existing instruments will be merged into a single Neighbourhood, Development and International Co-operation Instrument (Box 2.3; (European Commission, 2018[29])). The European Commission argues that this merger will create more coherence. However, critics worry that it could detract attention away from priorities such as the SDGs, in favour of EU foreign policy issues such as preventing migration (Igoe, 2018[30]). The budget proposes spending EUR 123 billion on the EU's work outside its borders between 2021-2027. This is a 26% increase from the period ending in 2020, but still below the volume that would allow EU countries to reach the 0.7% ODA-to-GNI target (Box 2.3).

For other **UN agencies**, earmarked funding represents a significant source of financing at 46% of their total. Its weight is lower for **regional development banks** (17%) and other **multilateral organisations** (23%). All three clusters of organisations have recorded increases in overall financing, with other multilateral organisations recording by far the strongest growth (+42% in 2011-16), mainly through core allocations (Figure 2.8).

Box 2.3. The implications of the new EU budget for development policy

In May 2018, the European Union announced a proposal for the external action spending within the 2021-2027 MFF. This proposal marks a significant increase in the resources the European Union allocates to external action, with a new portfolio of EUR 123 billion, a 26% increase from the previous MFF.

The proposal also marks an important shift in the internal architecture of the EU external action, entailing a profound restructuring of its instruments. Most of the existing instruments will be merged into a single Neighbourhood, Development and International Co-operation Instrument (NDICI) with worldwide coverage. The EDF, currently an extra-budgetary instrument, will be integrated into the EU budget. The "external action" section of the 2021-2027 MFF will comprise only four instruments (the broad NDICI, Humanitarian Aid, Cooperation with Greenland and Overseas Countries and Territories, and Common Foreign and Security Policy), whereas the 2014-2020 MFF was made up of 17 instruments. Moreover, the new NDICI will include an investment framework for external action, which, building on the External Investment Plan (EIP) and the EFSD, will crowd-in funding from the private sector and additional donors.

The European Union argues that the restructuring will simplify the financing architecture and allows greater coherence and impact. Indeed, the proposal bears several implications for the EU's development policy and the role of the European Union in the international development co-operation architecture. First, with the proposed increase in the external action budget to EUR 123 billion over 2021-2027, the prominence of the external action in the overall EU budget would become greater, as the external action would come to account for 10% of the EU budget. Second, although the European Union will no longer be able to count on United Kingdom's funding following Brexit (or at least not in its totality), the increase to EUR 123 billion would make of the European Union one of the largest DAC donors. As examined in the second part of this chapter and in Chapter 3, the European Union is already an important funder to other multilateral organisations and to developing countries. With this new, larger portfolio, its spending capacity and influence in the international co-operation architecture would further increase.

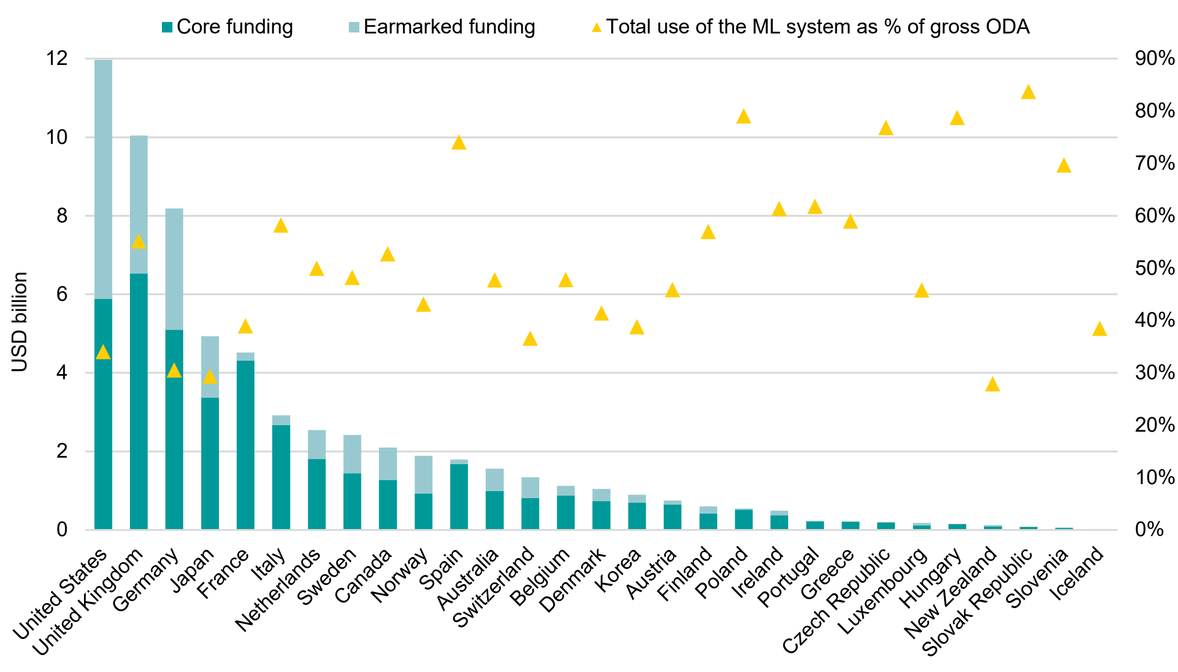
Doubts and concerns also loom over the proposal for external action spending within the 2021-2027 MFF. As noted by (Gavas, 2018[10]), past experience shows that as negotiations progress, compromises are made and development is an area that generally suffers disproportionately from competing priorities. However, preoccupations do not solely concern the size of the spending envelope that will be finally agreed. Critics fear that the proposal to merge 12 existing instruments into one could detract from priorities such as the SDGs. Instead, EU foreign policy issues, such as preventing migration, would be favoured [see for example (Igoe, 2018[30]), (Chadwick, 2018[31])]. Indeed, bringing most of the EU foreign spending, including development assistance, under one instrument, could lead to ODA being used to promote the EU's political priorities. For instance, an Oxfam analysis of projects approved under the "EU Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa" highlighted that the instrument's flexible nature has generated both opportunities and risks, and that it lacks sufficient checks and balances to ensure that European interests do not take precedence over the needs of the people that aid is intended to help (OXFAM , 2017[32]).

Trend 3: Individual DAC countries fund the multilateral development system to different extents and in different ways

DAC countries display strong heterogeneity in terms of both the size of their multilateral portfolio and its contribution to the overall ODA budget

Large heterogeneity exists across DAC countries in terms of the ODA volumes they channel to and through the multilateral development system. In 2016, the United States, which is by far the largest ODA provider, was also the largest multilateral donor. It contributed USD 5.9 billion of core resources and USD 6.1 billion of earmarked funding. This volume of core and earmarked resources is almost seven times larger than the total ODA resources contributed by the ten smallest multilateral donors. They collectively allocated about USD 1.8 billion. Overall, the sum of core and earmarked contributions in 2016 ranged from USD 12 billion from the United States to USD 23 million from Iceland (Figure 2.9). Despite being the largest ODA provider, the United States was not always the largest multilateral provider: the United Kingdom held that position for two consecutive years, in 2014-15.

Figure 2.9. Funding to multilateral organisations from individual DAC members varies widely, 2016



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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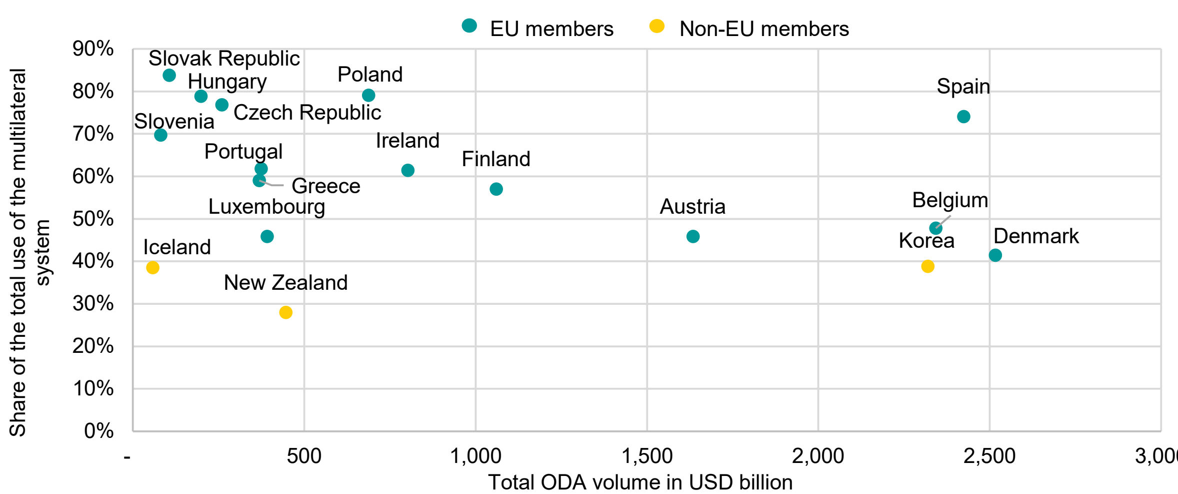
The weight of multilateral support in the overall ODA portfolio of DAC members also varies significantly. As illustrated by the triangles in Figure 2.9, the use of the multilateral development system as a share of gross ODA ranged from 84% for the Slovak Republic to

28% for New Zealand. It averaged 41% for DAC countries as a whole in 2016. Small European Union members, such as Czech Republic, Poland, Slovenia and the Slovak Republic, rely the most on the multilateral system as a key channel for their development co-operation. The use of the multilateral development system as a share of gross ODA stands above 70% for each of them. This is mainly accounted for by assessed contributions to the European Union.

Further, as suggested by Figure 2.10 for DAC members with ODA portfolios below USD 3 billion in 2016, smaller ODA portfolios (horizontal axis) tend to be associated with larger shares of ODA channelled through the multilateral system (vertical axis), with the exception of two non-EU members – New Zealand and Iceland. These two countries both have an ODA portfolio below USD 500 million, and yet New Zealand channels only 28% and Iceland 38%, of development co-operation flows through the multilateral development system (below the DAC average of 41%).

Figure 2.10. For small EU members the multilateral system represents a main channel for delivering development co-operation



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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DAC countries prioritise different clusters of multilateral organisations

DAC members determine their ODA allocations to multilateral organisations by considering several factors. The alignment of these institutions to the priorities of their bilateral aid programme is the most critical determinant (see Chapter 5). The actual distribution of ODA resources reveals that indeed DAC members prioritise different clusters of multilateral organisations to different extents, as shown in Figure 2.11.

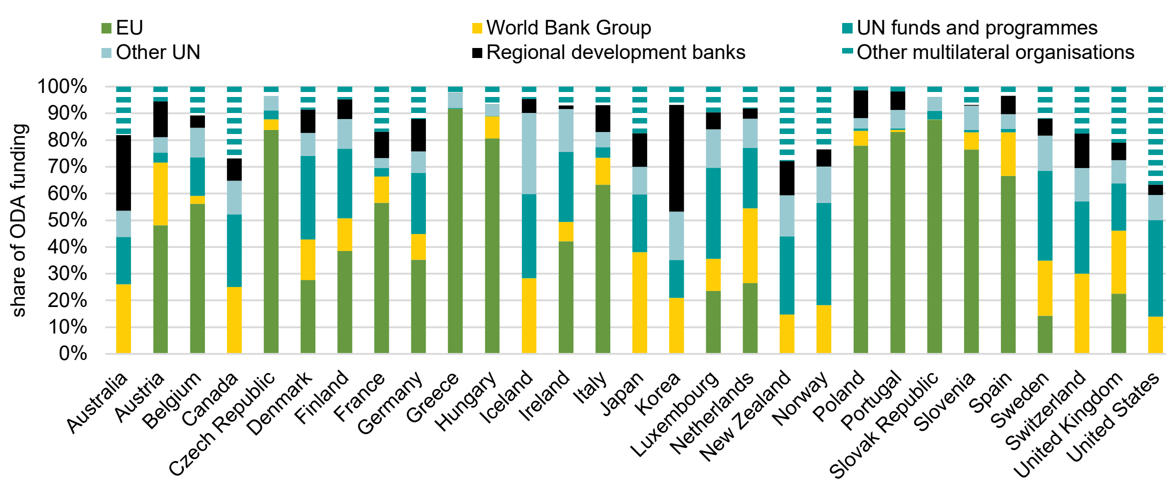
In addition, the actual distribution of ODA funds among clusters of multilateral organisations seems to suggest that three patterns, or models, prevail, as depicted in Figure 2.12:

- ***Highly polarised***: Thirteen DAC members allocate over half of all their multilateral funds to just one cluster of multilateral organisations. This is the case for small EU members that direct the vast majority of their multilateral funding to the European Union. It is also the case for larger EU members, such as France, Italy and Spain. Two non-EU members also fall into this group: Iceland and Norway. They both target the UN as the main recipient of their ODA contributions to the multilateral development system.

- ***Polarised*****:** Thirteen DAC members have a polarised multilateral portfolio. They direct 35% to 49% of their ODA funds to only one cluster of multilateral organisations. In this case, there is more variety in terms of the top recipient cluster. Mostly it is the UN, but the EU, the World Bank Group and also the regional development banks feature among the top recipients for one or more DAC countries.
- ***Evenly distributed:*** Finally, three DAC countries – the Netherlands, Australia and United Kingdom – have a multilateral portfolio that is fairly evenly distributed among clusters of multilateral organisations. No cluster emerges as an obvious preference. For these DAC countries, the largest recipient cluster receives less than 35% of their total portfolio allocations. This top recipient cluster is the UN for the Netherlands and the United Kingdom. Australia allocates an equal share of ODA resources to the two top recipient clusters, namely the regional development banks and to the UN.

Figure 2.11. DAC countries prioritise different clusters of multilateral organisations

Shares of ODA funding (core + earmarked) among clusters of multilateral organisations in 2016



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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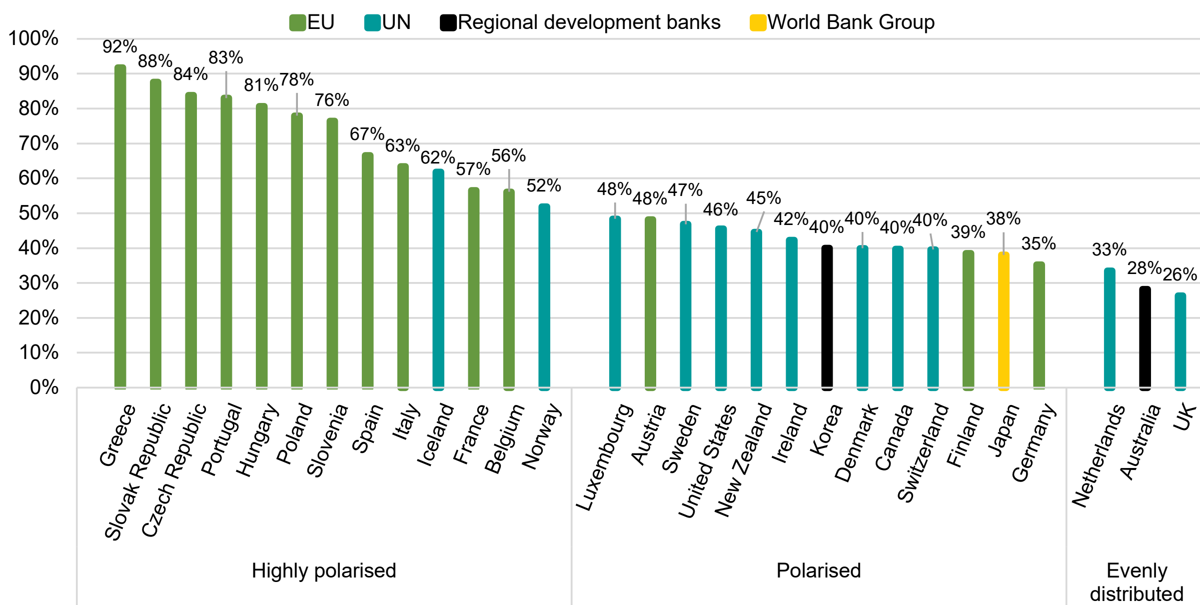
This analysis does not show how thinly multilateral allocations are allocated among institutions, since it does not capture the distribution of resources within each cluster of multilateral organisations. Indeed, even if a DAC country allocates most of its portfolio to one cluster – let's say the UN – this could be either a concentrated portfolio targeting a limited number of UN entities or a much more far-reaching portfolio that provides resources to a broad number of organisations. Therefore, this analysis clarifies the preferences of DAC members among groups of multilateral organisations but has no pretence to elucidate the degree of fragmentation, or the overall effectiveness, of sovereign states' multilateral portfolios.

Figure 2.12. 'Highly polarised', 'polarised', or 'evenly distributed': what DAC countries' multilateral portfolios look like across groups of multilateral organisations

Share of gross ODA received by top recipient cluster of multilateral organisations, (core and earmarked), by DAC country in 2016



Note: Disbursements, excluding debt relief and contributions from the European Union.
Note: Australia directs 28% of ODA funds to regional development banks and 28% to the UN.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

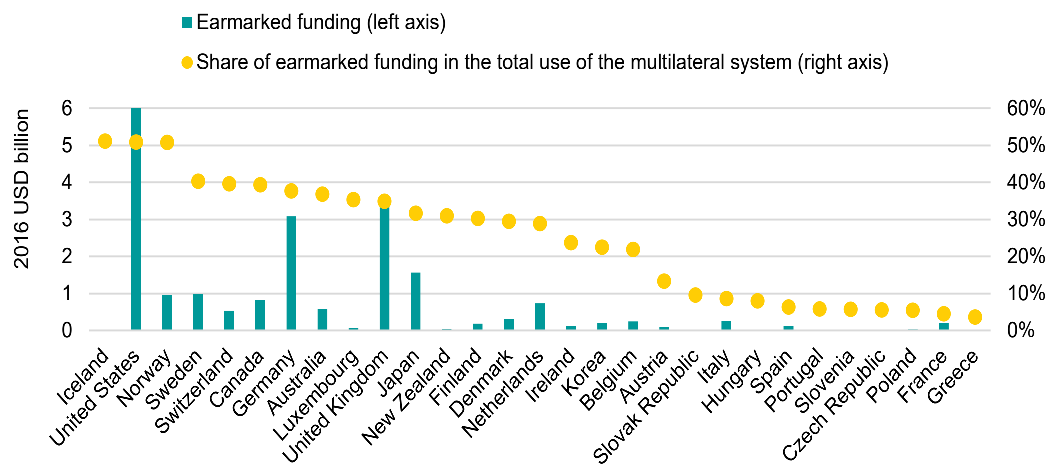
StatLink https://doi.org/10.1787/888933874314

The use of earmarked funding varies greatly among DAC members

Three DAC members – the United States, United Kingdom and Germany – collectively accounted for 61% of all the earmarked funding provided in 2016 (Figure 2.13). This suggests that a change in earmarked funding provision from even only these three DAC members would have a dramatic impact on the whole multilateral development system.

Figure 2.13 also shows that even if some DAC members provide fairly small volumes of earmarked funding, these can represent a significant share of their total ODA financing to multilateral organisations (e.g. Australia, Norway, Luxemburg, Iceland). Since not all earmarking is the same, this analysis should be complemented with a discussion on the quality of these earmarked resources, as Chapter 6 attempts to do.

Figure 2.13. Earmarked funding represents more than 30% of total multilateral funding for two in five DAC countries



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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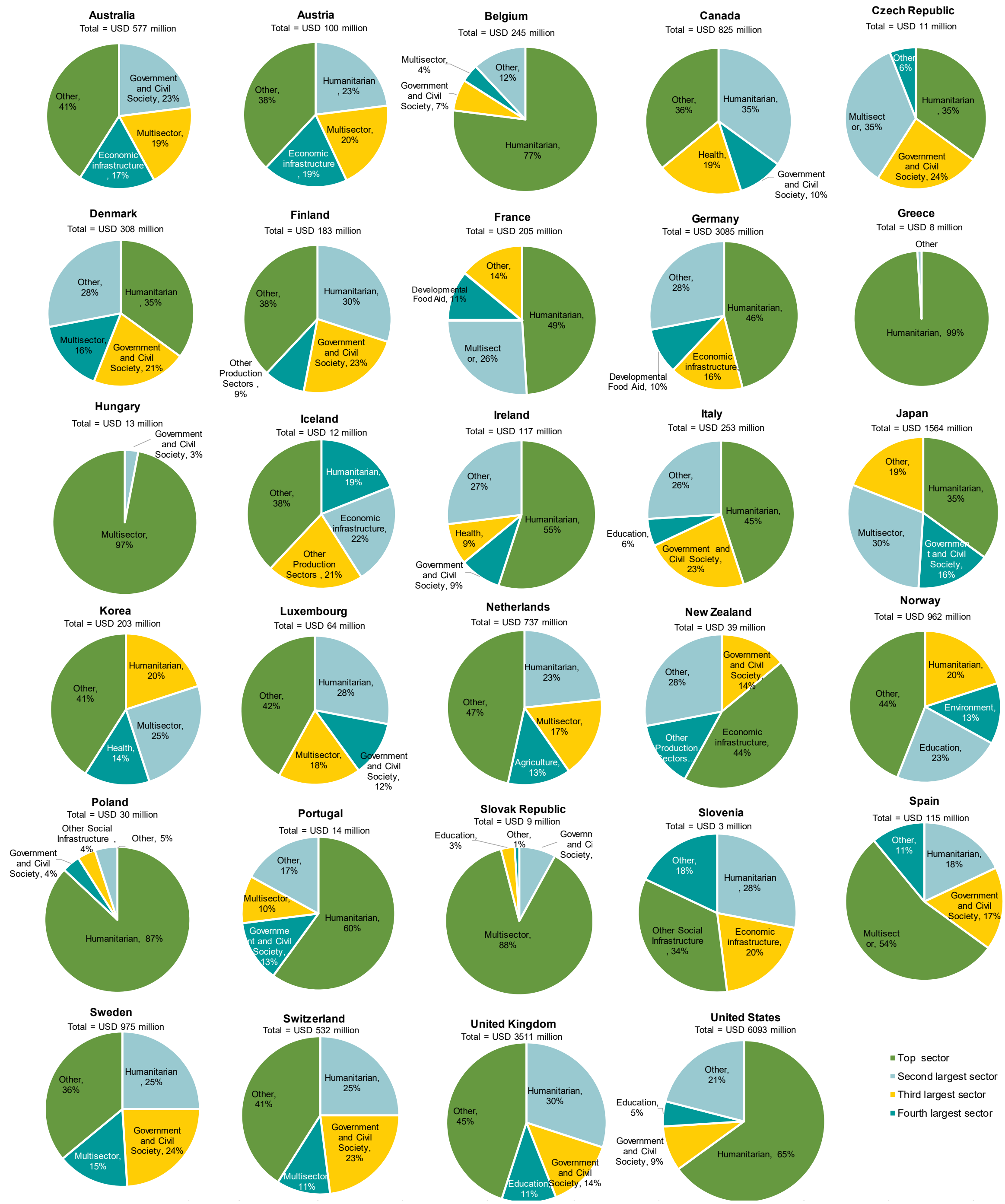
For the United States, the large volume of earmarked funding is closely linked to the prominent role that the country plays in humanitarian responses. Humanitarian assistance represented 62% of United States' earmarked funding in 2016. Humanitarian assistance accounted for 46% of Germany's earmarked funding and for a smaller part of United Kingdom's earmarked resources (30%). DAC members earmark resources for a multitude of purposes, and humanitarian assistance represents the bulk (i.e. more than 50%) of earmarked funds for only six DAC members (e.g. Belgium, Ireland, Greece, Poland, Portugal and the United States; (Figure 2.14).

Figure 2.14. Humanitarian assistance represents more than 50% of earmarked funds only for six DAC members

Earmarked funding in 2016: top three sectors



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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Trend 4: ODA financing concentrates on three clusters of multilateral organisations, but the multilateral system continues to expand and grow in complexity

The bulk of core and earmarked contributions from DAC countries continues to concentrate on three clusters of multilateral organisations. These are the European Union (see Box 2.3), the UN funds and programmes and the World Bank Group. Together, they comprised 63% of the total ODA funding to the multilateral development system in 2016. At the same time, the share of ODA financing to "other multilateral organisations" has increased, reaching 19% in 2016. "Other multilateral organisations" comprise a variety of organisations and global vertical funds, including the Global Alliance for Vaccines and Immunisation (GAVI), the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) and the Asian Infrastructure Investment Bank. The reminder of ODA financing was directed to other UN entities (9%) and regional development banks (9%). The UN as a whole was the largest recipient, receiving 30% of ODA funding to and through multilateral organisations (or USD 19.5 billion in 2016) (Figure 2.15).

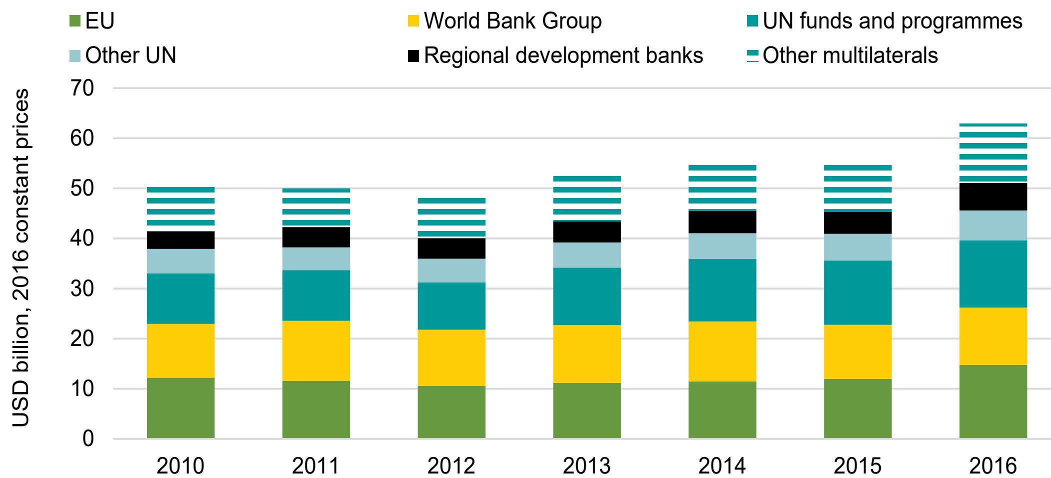
The evolution in the distribution of ODA funding across multilateral organisations reflects the continued expansion in the number of international organisations contributing to global development. It was estimated that, since 1945, the number of multilateral development banks has increased at a linear rate, with approximately one new MDB created every three years (Kellerman, 2018[33]). Thus, this figure provides only a lower bound for an overall proliferation in the multilateral development system that, most probably, has a larger scale. Further, several of the new institutions embody new partnerships and business models, contributing to a more diverse and complex ecosystem of multilateral development organisations.

Since the 1990s, there has been a proliferation of "special purpose funds". This started with the creation of the Global Environment Facility in 1991 and accelerated in the years 2000, with the establishment of GAVI and the Global Fund (Manning, 2017[6]). The most recently established of these vertical funds, the Green Climate Fund, was officially launched in 2010. It is intended to be the primary vehicle for channelling the USD 100 billion pledged to developing countries under the United Nations Framework Convention on Climate Finance (UNFCCC). Following its first pledging conference in 2014, it became one of the largest vertical funds and, in 2016, received USD 1.66 billion of ODA financing.

Besides vertical funds, the rising economic power of China and emerging economies has favoured the establishment of new multilateral organisations that are not dependent on traditional donors. For instance, the Development Bank of Latin America (CAF), whose member states are all ODA recipients, except for two,[6] has steadily expanded its membership and the scale of its lending. It is now a critical player in the region. But the most notable innovations are the Asian Infrastructure Investment Bank (AIIB), created in 2015 under the leadership of China with members from both developed and developing economies and the New Development Bank established in 2015 by the BRICS states (Brazil, Russia, India, China and South Africa). The AIIB received its first contributions, a total of USD 1.5 billion, from DAC members in 2016.

Figure 2.15. ODA volumes to the multilateral development system increase, and so does the number of multilateral organisations that are part of it

Core and non-core contributions to multilateral organisations



Note: Disbursements, excluding debt relief and contributions from the European Union.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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2.2. The funding landscape of multilateral development organisations beyond ODA: China, the private sector and philanthropy

2.2.1. How big is the financing available to multilateral organisations beyond ODA resources, and what can we learn from it?

The funding landscape of multilateral organisations is evolving, the sources of funding available to multilateral organisations and their relative importance changing. ODA financing from DAC members still represents the bulk of funding for most multilateral development organisations. Many rely on a few DAC members for the vast majority of their financing. At the same time, other sources are emerging or growing in importance, such as: China and other emerging economies, the private sector, philanthropy and other multilateral organisations. How large these resources are, and how they are evolving, however, have largely remained unanswered questions. The reminder of this chapter identifies what the other sources of funding are and how they vary in their range and importance to different groups of multilateral organisations. Then the chapter considers the implications of this new funding landscape for the multilateral development system and its ability to achieve the ambitions of the 2030 Agenda.

Indeed, focusing on ODA spending will remain critical to providing transparency and accountability for donors' development co-operation flows. Increasingly, however, this may need to be complemented with additional information of the kind presented below. This will provide a comprehensive picture of the challenges and opportunities that multilateral organisations face in their financing and the impacts of these. In this regard, the broader scope of the new statistical framework that the OECD is developing to track and incentivise resources in support of sustainable development, the total official support for sustainable Development (TOSSD), could provide useful in the near future.

This section uses statistical sources drawn from individual multilateral organisations[7] to assesses the overall funding landscape of three groups of organisations: 1) the United Nations Development System; 2) the MDBs (by focusing on the World Bank concessional finance window, IDA); and 3) vertical funds (by focusing on the Global Fund to Fight AIDS, Tuberculosis and Malaria). While the focus on these institutions does not cover all developments in the multilateral development system, it does offer insights into diverse situations. Further, these institutions account for over half of the multilateral development system in ODA financing terms, collectively receiving 54% of ODA resources channelled to the system in 2016.

The evolution of China's role in the multilateral development system is discussed in Annex 2.A. A global overview of funding trends of the non-DAC providers that report statistical data to the OECD Creditor Reporting System is offered in Annex 2.B.

Key aggregate findings from this analysis are listed below and then developed in the next section. More detailed findings by groups of organisations follow. The key aggregate findings from this analysis are:

- **ODA by DAC countries remains the largest source of funding for the multilateral development system**, even when all other sources are considered. ODA accounts for 65% of total funding for the United Nations development system, 29% for IDA in the 2016 replenishment and for 88% for the Global Fund.[8]
- **Other sources are slowly helping to grow the pie of resources available to multilateral organisations but not enough to curb the pervasive dependence on top providers**. Dependence on the top donors is the highest for the Global Fund, where the top ten providers account for 91% of resources. For the UNDS it is 58%. It is lowest for IDA, where it fell to below 30% following the financial innovations introduced in IDA18. For all institutions considered but the Global Fund, the top ten providers comprise only DAC countries. For the Global Fund, the Bill and Melinda Gates Foundation is among the top 10 donors.
- **The financing innovations implemented in IDA18 make IDA an exception, even among multilateral development banks**. Financing innovations, such as considering future loan repayments as "hidden" capital against which IDA can borrow on the capital market, has allowed IDA to augment its resources. It has also drastically reduced its dependence on the top 10 providers, which in the previous replenishment accounted for 40% of the resources. While private finance also plays an important financing role through market borrowing for other MDBs, they have not achieved the same results as IDA.
- **Private funding is expanding the lending capacity of IDA, while it has led to more earmarking for the United Nations Development System (UNDS)**. The additional lending resources that IDA will draw from bond proceeds are huge (30% of total resources for IDA18, or Special Drawing Rights (SDR) 15.9 billion). They basically come unearmarked, although IDA may need to tailor its bond content to investor preference. Its allocations across countries and the degree of concessionality of its operations may be impacted to an extent that is not yet clear. In contrast, private finance (the commercial private sector, private philanthropy and non-governmental organisations [NGOs]) remains a small part of the UNDS funding portfolio: 9% in 2016, or USD 2.4 billion, although it does contribute to

some large initiatives and projects in individual UN organisations. Funding to the UN, especially from corporations, can however lead to issues common to other forms of earmarking of resources. These include: fragmentation and misalignment of resources with the priorities and strategic objectives of the UN entities involved, to the detriment of the multilateral character of UN operations and its democratic governance (Seitz and Martens, 2017[34]).

- **Developing countries are increasing contributions to the multilateral system but their share remains small**. Funding from all sovereign states, excluding DAC countries, increased in volume for the institution considered. However, it did not necessarily increase as a share of total funding. It increased in volume for the United Nations development system where it stands at 5% of the total.[9] It accounts for 2% for IDA, largely because of the large funding increase by China. It accounts for only 0.5% for the Global Fund, where 18 countries beyond the DAC provided funding.

- **China is carving out a leadership role in the traditional multilateral development system**. This was especially evident in IDA18, where the massive increase in financing from China made it the 11th largest funder to IDA. Besides the IDA18 replenishment, China's increased engagement with and influence on the World Bank is apparent in the establishment of initiatives such as the G20 Global Infrastructure Connectivity Alliance and the G20 Initiative in Supporting Industrialization in Africa and LDCs. These are hosted or supported by the World Bank and strongly reflect China's influence and experience. China has also increased its funding to the United Nations development system (+80% between 2011 and 2016). Unlike other BRICS that have increased funding partly to have the UN implement development projects in their own countries (i.e. cost-sharing), China's main aim is to extend the reach of its international co-operation.

- **Multilateral organisations, including the EU, are becoming increasingly important funders to the multilateral development system**. The increased number of multilateral organisations involved in development, together with greater differentiation among multilateral actors, has led to funding increasingly being provided to multilateral organisations by other multilateral organisations. This is particularly true for vertical funds or large global trust funds. In addition, the European Union is also becoming a more prominent donor to other multilateral organisations. This report recognises the dual role of the EU, which is both a multilateral organisation receiving funding from its member states and a donor in its own right (as well as a DAC member). In 2016, it accounted for almost 10% of all funding to the United Nations Development System and 5% of funding to the Global Fund. The European Union could continue to grow in importance as a financier of other multilateral organisations, especially if the EU budget approves the proposed increase in resources for external action (see Box 2.3).

- **Some new (or growing) sources of funding represent new forms of earmarking and could challenge the ability of the multilateral development system to deliver a unified development agenda**. In the context of stagnating donor resources and substantial financing needs to achieve the ambitions of the 2030 Agenda, broadening the funding base and accessing alternative sources of financing remains a priority for most institutions. Additional resources should, however, align with the mandates of the multilateral organisations and developing countries' needs, as identified by the 2030 Agenda. Safeguards may be needed, especially in the context of funding from private corporations.

2.2.2. United Nations Development System

Diverse memberships, mandates and financing models imply different opportunities to attract sources of financing

The UN Development System includes the UN Secretariat as well as UN programmes, funds and specialised agencies, each with their own membership, leadership and budget. Financing models can vary greatly within the UN Development System, but most UN entities operate a grants-in-grants-out model. With no scope for taking contributions in loan form or for internal financial engineering, UN entities largely rely on securing, on a regular basis, grants from sovereign member states. Three notable exceptions are: UNICEF, WIPO, and the International Fund for Agricultural Development (IFAD). UNICEF has a long and successful history of attracting non-state resources from a large number of individual private sources. Currently 30% of its total revenue is provided by individual private donors (UNICEF, 2016[35]). WIPO relies almost entirely on private financing, with fees being paid by users of its intellectual property services for patents, trademarks and industrial designs representing about 92% of its total revenue (WIPO, 2016[36]). Lastly, among UN specialised agencies, IFAD is the only international financial institution. As such, it draws its financing from investment income and loan reflows, in addition to member states' contributions pledged through regular replenishments. In addition, in order to meet the increased need for investments in agricultural development, IFAD has implemented an innovative financial policy tool, which allows to borrow from sovereign states. IFAD received a EUR 300 million loan from the German development bank KfW in 2015. This was used to finance ten projects, equivalent to 19% of the total value of IFAD's loans and grants approved in 2015. A second loan agreement with KfW was signed in the same year (IFAD, 2016[37]).

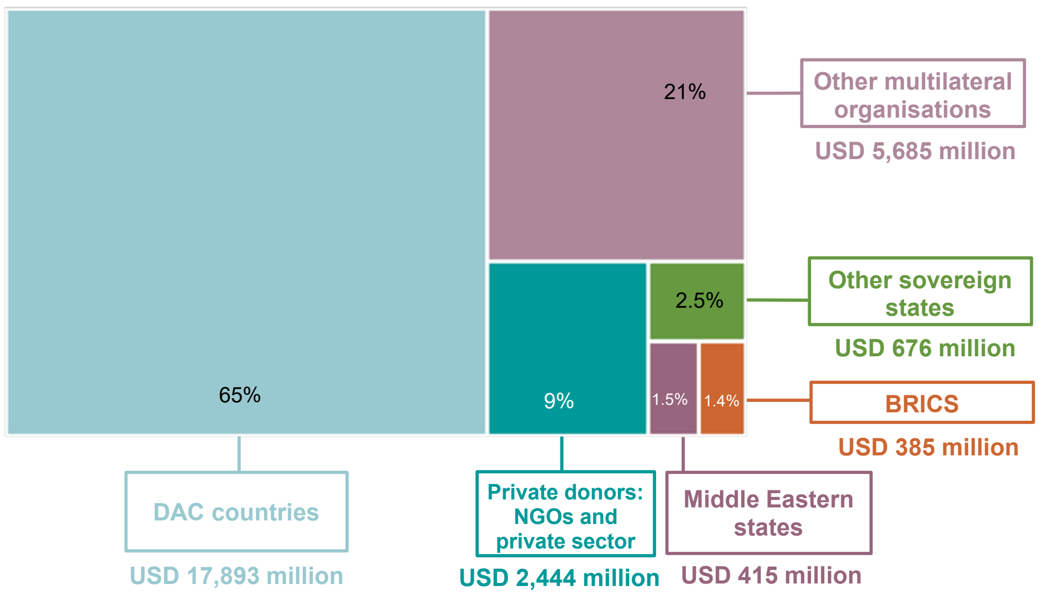
While the financing models of UN entities are diverse and so are the opportunities to attract financing beyond DAC countries, some key emerging trends on the UN development system[10] as a whole are discussed below.

DAC countries account for the bulk of funding to the UN Development System, but an additional 35% of resources is provided by other sources

Other sources comprise UN member states and non-member states[11] excluding the DAC, NGOs and private sector sources, and other multilateral organisations (Figure 2.16). In 2016, DAC countries contributed USD 17.9 billion to the UN Development System. Other sources collectively added USD 9.6 billion to the total. Collectively, at 35%, these other sources account for a share that is far from negligible. Further, some of these sources have increased at a faster pace than the 25% increase recorded by ODA funding in 2011-16. Despite this, the growth in other sources of funding to the United Nations Development System has not radically impacted on the overall weight of DAC countries' ODA funding in the total resources to the United Nations. This has only minimally decreased, from 67% in 2011 to 65% in 2016. The United Nations Development System reliance on the top ten providers has also remained high and fairly unchanged, with the share provided by the top 10 donors increasing slightly from 56% in 2011 to 58% in 2016. These figures do not change significantly when "local resources" – i.e. funding provided by sovereign states, often developing countries, to implement programmes and projects in their own territory – are included. In that case, the share of funding from DAC countries goes down to 60%.

Figure 2.16. DAC countries' ODA funding represents the bulk (65%) of resources to the United Nations Development System but other resources are slowly growing

UN Development System, total in 2016 = USD 27.5 billion



Source: Authors based on data from UN/DESA. Data were kindly provided by UN/DESA for this report and are not publicly available.

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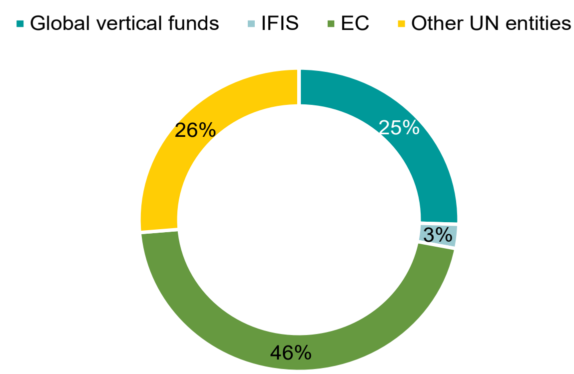
The expansion in the number of multilateral organisations involved in development, together with a greater differentiation, has increased funding provided to the UN by other multilateral organisations

After DAC countries, the largest source of funding to the United Nations Development System is represented by other multilateral organisations (USD 5.7 billion, or 21% of the total in 2016). These institutions include some large global vertical funds, which have become significant providers to individual countries and other multilateral organisations, which they fund for implementing specific programmes in partner countries. UN entities with a solid field presence have become particularly relevant partners for the implementation of programmes supported by these funds. For instance, in 2016, 18% of financing to UNDP came from vertical funds, such as the Global Environment Facility (GEF), Adaptation Fund, Global Fund to Fight AIDS, Tuberculosis and Malaria, and Green Climate Fund.

In 2016, however, the key driver of the increased funding from other multilateral organisations to the UN Development System was the European Commission. This alone accounted for almost half of all funding from multilateral organisations to the UN Development System (46%), against 25% from global vertical funds and only 3% of international financing institutions (IFIs) (Figure 2.17). The European Union channels about one-quarter of its ODA to multilateral organisations, and the United Nations represent the first multilateral partner. The 2016 spike in EU funding to the United Nations development seems to be linked to the EU response to the humanitarian and refugee crisis response. Funding to UNHCR and WFP more than doubled compared to 2011 figures, and UNHCR, WFP and UNDP together accounted for 64% of EU funding to the United Nations development system. While financing from other multilateral organisations increased, its share in the total has not changed much since 2011, increasing from 20% to 21% in 2016.

Figure 2.17. Among other multilateral organisations, the European Commission provides the largest share of financing to the UN Development System, in 2016



Source: Authors based on data from UN/DESA. Data were kindly provided by UN/DESA for this report and are not publicly available.

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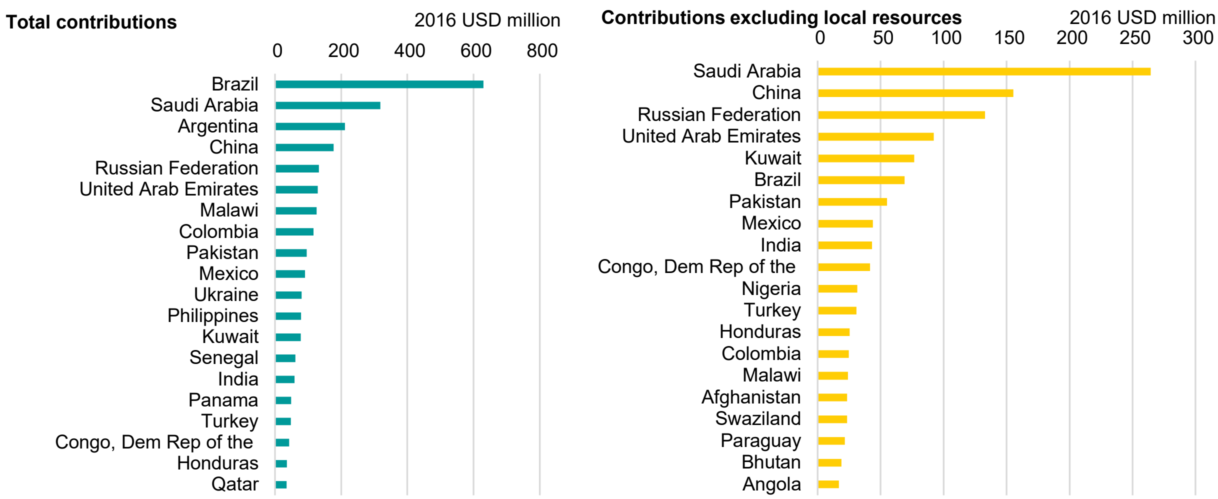
UN member and non-member states, excluding the DAC, represent an increasingly important source of funding to the UN development system, largely through cost-sharing arrangements

Funding from UN member and non-member states, excluding the DAC, has been the fastest-growing component of funding to the UN Development System, increasing by 52% between 2011 and 2016. However, collectively, sovereign states excluding the DAC only account for 5% of total funding to the UN Development System, for a total of USD 1.5 billion in 2016. This share reaches 12% when local resources are included (USD 1.9 billion in 2016). Local resources, or cost-sharing, are provided by sovereign states to implement programmes and projects in their own territory. They come almost entirely from sovereign states excluding the DAC (99.97%) and can represent a significant part of the financing to the UN Development System for individual sovereign states. For instance, they represent over 70% of funding to the UN Development System from some Latin American middle-income countries (e.g. Argentina, Brazil, Colombia, Chile, El Salvador), as well as a few low-income African countries (such as Benin, Botswana, Guinea-Bissau, Lesotho). Figure 2.18 shows figures from the largest sovereign states excluding the DAC look like when local resources are included or excluded. Figure 2.19 shows that when local resources are included Brazil becomes the ninth largest provider of funding to the United Nations development system, ranking higher than several DAC countries. For individual UN entities, the increase in these resources has been particularly important. For example, cost-sharing from programme country governments for programmes or projects in their own countries represented 18% of total funding from

UNDP in 2016 and has been a key source of growth in overall funding for the organisation (UNDP, 2016[38]).

Figure 2.18. Financing to the UN Development System from non-DAC providers



Source: Authors based on data from UN/DESA. Data were kindly provided by UN/DESA for this report and are not publicly available.

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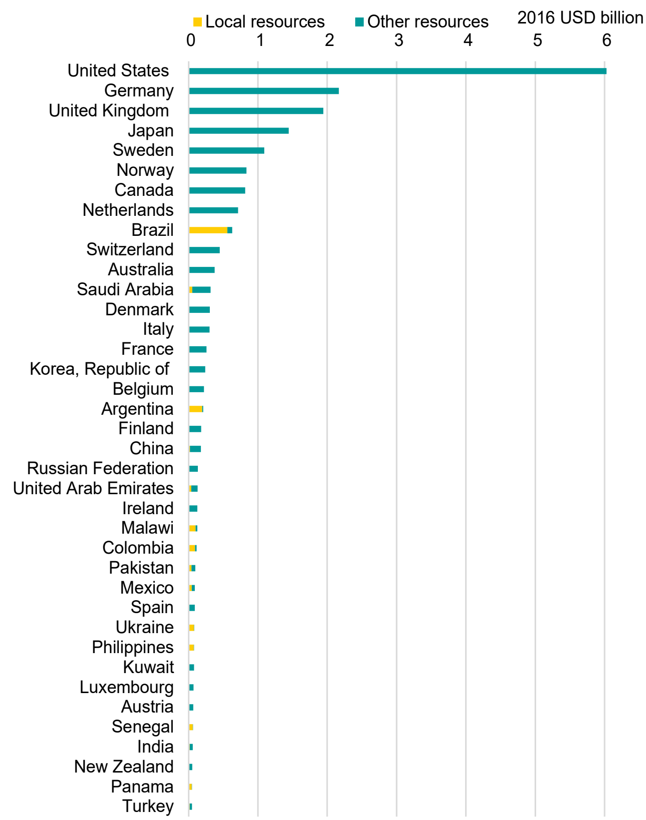
The 2015 edition of this report (OECD, 2015[21]) provided an in-depth analysis of the scope and evolution of the multilateral engagement of seven largely diverse non-DAC sovereign states (i.e. Brazil, China, India, Saudi Arabia, South Africa, Turkey and the United Arab Emirates) to promote development and extend humanitarian assistance worldwide. The report showed that, despite fluctuations, funding[12] to the multilateral development system from these countries increased by 51%[13] in 2009-13. In aggregate, the UN system was the single largest recipient of this support, accounting for 44%. The report also highlighted great diversity among the seven countries in terms of the objectives and priorities for increased engagement with multilateral development organisations as well as in terms of the prospects of continued multilateral engagement in the future (OECD, 2015[21]).

2016 figures[14] point to a continued increase in financing from these seven countries to the UN development system, which is especially remarkable when local resources are included (+ 204% vs +21% when local resources are excluded). The 2016 figures also confirm that these countries are engaging with the United Nations Development System to different extents and with different objectives and approaches. For instance, increases in funding from Brazil and the United Arab Emirates were mainly due to a rise in local resources. For Brazil, this could be partly linked to the need to enter into cost-sharing arrangements with UN agencies to overcome the lack of a co-operation law necessary to carry out procurement functions and provide services in other countries. China, instead, significantly reduced financing for UN interventions within its territory (-37% in 2011-16) while increasing all other funding to the UN Development System (+80% in 2011-16). This suggests that China's role as a net provider is growing considerably and that China increasingly partners with the UN development system to extend the global reach of its international co-operation rather than to serve its own development needs. Overall, in the UN context. China is the second-largest provider of finance (excluding local resources), after Saudi Arabia (see Figure 2.20).

Figure 2.19. Brazil becomes the 9th largest provider of funding to the United Nations Development System when local resources are included



Source: Authors based on data from UN/DESA. Data were kindly provided by UN/DESA for this report and are not publicly available.

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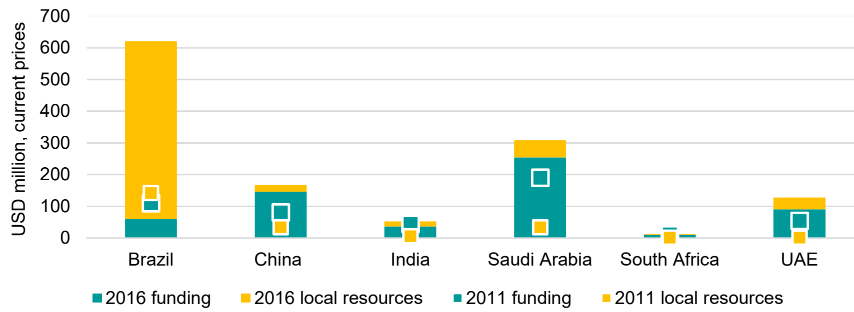
Figure 2.20. Large differences exist in the evolution and composition of United Nations funding from China, Brazil, India, Saudi Arabia, South Africa, Turkey and United Arab Emirates



Source: Authors based on data from UN/DESA. Data were kindly provided by UN/DESA for this report and are not publicly available.

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Private flows are small in aggregate but significant for individual organisations and initiatives, presenting a suite of challenges and opportunities

Throughout the UN Development System there is a refreshed impetus towards enhanced engagement with the private sector, with a view to leverage private partners' financial and non-financial assets towards the SDGs. The repositioning of the UN Development System is centred on a shift from UN entities being a source of grant funding to facilitating partner countries' access to various forms of financing for sustainable development, both public and private (United Nations, 2017[24]). Expanded partnerships with the private sector are part of the integrated financing strategies that the United Nations is promoting in developing countries to maximise resources for SDGs implementation. These shifts are reflected in the strategic plans of UN entities, as it is the case with the Common Chapter to the Strategic Plans of UNDP, UNICEF, UNFPA and UN Women (UNDP, 2018[39]). They build on some organisations' experience in creating enabling environments for investments and private sector development. However, they will also require significant adjustments in the UN's business models, skill sets and instruments to be effective (see discussion in Chapter 3).

In terms of direct financial contributions from the private sector to the UN development system, however, private financing has remained a small part of the UN funding portfolio: 9% in 2016, or USD 2.4 billion. This figure includes both the commercial private sector and private philanthropy, and NGOs (as the two cannot be disentangled in the data). Although resources increased by 22% in volume terms between 2011 and 2016, their share in the total has remained constant.

These aggregate trends fail to capture the long-standing importance that private financing has for some specific UN entities, such as WIPO, UNICEF and IFAD, as highlighted at the start of section 2.2.1. They also do not capture the growing importance that private financing is gaining for specific initiatives, programmes or sectors in individual organisations. For UNDP, for instance, while they represent less than 2% of the total funding portfolio, private sector contributions in the past 5 years totalled USD 330 million. In 2017, UNDP received USD 72.5 million in contributions from non-governmental partners (companies USD 32 million; foundations USD 31 million; and NGOs USD 9 million), with a total value 48% higher than in 2016. Examples of specific million-worth initiatives funded by private corporations and hosted at either UNDP, UNESCO and UN Women are presented in a recent article (Seitz and Martens, 2017[34]). In addition, the article points out that partnering with corporations is based on the idea that "the UN and its member states would not be able to solve today's global problems alone". "[P]artnerships with the private sector are seen as pragmatic, solution-oriented, flexible, efficient and un-bureaucratic."

However, there are also significant risks associated with an unconditioned opening to the business sector and corporate philanthropy. Corporations may benefit from partnerships with reputable international institutions in terms of a strong image transfer. There may also be lessened public scrutiny and a "licence to operate" (Ritcher, 2001[40]). Yet, the "dual" aspect of this is a reputation and neutrality risk for the partnering UN. For instance, the International Labour Office (ILO), has been for long criticised over its financial ties with the tobacco industry. In March 2018, countries and workers in the governing body asked it to stop accepting money from the industry for projects to end child labour in the tobacco sector. This request, presented during the 332nd Session of ILO's governing body, was supported by an ILO Secretariat report (International Labour Office , 2018[41]), which showed the limited effectiveness of ILO partnerships with the tobacco industry to tackle the root causes of child labour in the industry. Tobacco farm workers remain trapped in poverty and illiteracy, continuing to rely on unpaid family labour, including child labour. At the same time, the industry continues its extremely harmful but highly profitable business.

Seitz and Martens (Seitz and Martens, 2017[34]) also highlight that business funding to the UN leads to issues common to other forms of earmarking of resources. These include fragmentation, competition and overlap among entities and misalignment with the priorities defined through the organisation's governing bodies, to the detriment of the multilateral character of UN operations and of its democratic governance. Therefore, while it is positive that the UN has developed guidelines on co-operation with the business sector (United Nations, 2015[42]), there is still room for improvement. The guidelines could be complemented with additional measures and safeguards to ensure that the benefits of partnerships with the private sector are maximised, while risks are managed and reduced (United Nations Joint Inspection Unit, 2009[43]).

DAC countries and other sovereign states provide an additional USD 9.2 billion beyond their ODA contributions

Besides local resources, there is another part of funding that is not accounted for in ODA statistics relates to the standard setting functions of multilateral institutions (Figure 2.21) Many multilateral organisations have a standard setting role, i.e. they establish norms and standards in their respective areas of expertise. These activities produce benefits at the global level. Such activities are embedded in the 2030 Agenda and referred to throughout the Addis Ababa Action Agenda (AAAA) as contributors to an enabling environment for sustainable development. However, standard setting activities do not comply with the ODA definition.

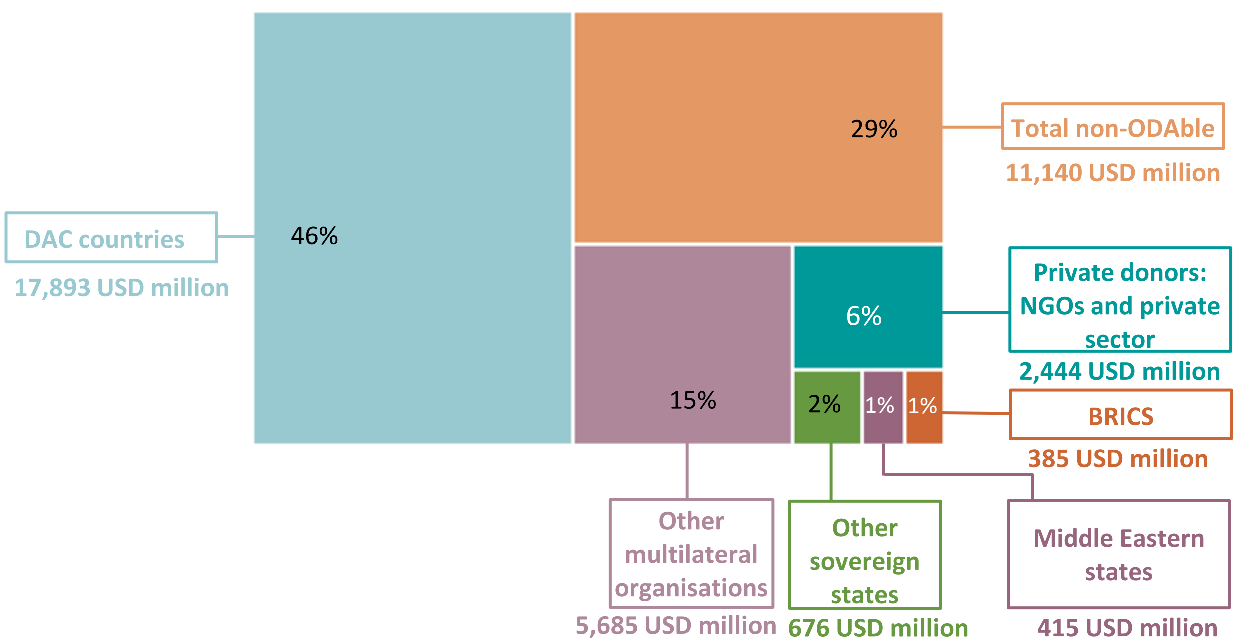
Therefore, in DAC statistics, contributions to multilateral organisations are counted as ODA in full only if the entirety of the multilateral organisation's activities are developmental in nature. For multilateral organisations that implement activities that are not developmental, a coefficient of 'ODAbility' is applied. This is the case for several institutions in the United Nations Development System, including the Economic

Commission for Europe (ODA coefficient: 89%) and the World Tourism Organisation (89%). For some organisations, only a tiny share of funding received is ODAble: e.g. the World Intellectual Organisation (3%) and the World Meteorological Organisation (4%).

In the SDG era, however, this system might be underestimating the support that providers extend to multilateral organisations that advance development enablers, as global standards and norms and other global public goods. A new statistical framework, the total official support for sustainable development (TOSSD), could effectively help fill this gap. It could enhance global tracking of the collective efforts made to advance sustainable development (see Box 2.4).

Figure 2.21. Non-ODAble contributions make for a large part of financing to the United Nations Development System

UN development system (ODA and non-ODA resources), Total in 2016 = USD 38.6 million



Source: Authors based on data from UN/DESA. Data were kindly provided by UN/DESA for this report and are not publicly available.

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Box 2.4. Total official support for sustainable development (TOSSD) framework: towards better tracking of support to multilateral organisations in the era of the 2030 Agenda

The TOSSD statistical framework aims to fill key information gaps on resource flows promoting sustainable development. It is being developed by the International TOSSD Task Force, an inclusive group of stakeholders from the international development co-operation and statistical communities. It will include all officially supported resource flows to promote sustainable development in developing countries. It will also include resource flows to support development enablers or tackle global challenges at regional or global levels.

In the current OECD ODA statistical system, 38 international organisations report on their development co-operation activities funded from core contributions from provider countries. This reporting is essential for establishing a complete picture of aid channelled through the multilateral system. However, standard setting activities are not reported on – they do not comply with the ODA definition but rather contribute to sustainable development of all countries by improving global governance. In fact, standard setting activities are not currently captured in any internationally comparable development co-operation statistics. This creates a critical information gap. For example, the ILO reports its development co-operation activities to the OECD. However, this reporting only captures activities that ILO conducts directly with ODA-eligible countries or that benefit mostly ODA-eligible countries. The important work of the ILO on international labour standards, employment policies, or research and knowledge sharing that benefits the global community, and that is key to promoting an enabling environment for sustainable development, is not covered.

Standard setting activities of multilateral organisations will be captured in the development enablers and global challenges pillar of TOSSD. This will contribute to a more complete picture of activities that promote sustainable development and support of the 2030 Agenda.

To operationalise the TOSSD framework, an inclusive list of multilateral institutions will be established to identify the multilateral institutions for which data will be collected. This list will also include organisations that might not conduct activities in TOSSD-eligible countries but contribute to promote enabling conditions for sustainable development and to address global challenges, especially for the global public goods pillar of TOSSD. As a starting point, all multilateral institutions included in the list of ODA-eligible multilateral organisations will be added to the TOSSD list, provided that they commit to report their sustainable development-related outflows to the TOSSD system. The list will be then completed with other relevant organisations at the regional or global level. Multilateral organisations willing to be added to the TOSSD multilateral organisations list will be able to request their inclusion through an opt-in procedure. They will be added once the institution governing TOSSD verifies compliance with the established criteria for inclusion.

The 2030 Agenda for Sustainable Development marks a shift to a universal agenda with far-reaching aspirational goals. The OECD has been working with traditional donors, South-South and emerging providers, multilateral institutions, civil society organisations (CSOs), foundations and the private sector to promote a better monitoring of resource flows in support of the 2030 Agenda. TOSSD is a concrete outcome of these efforts.

Note: For more information, please visit the dedicated website at http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/tossd-task-force.htm.

2.2.3. Multilateral development banks

MDBs are testing different financial innovations to boost their lending capacity

Multilateral development banks (MDBs) can play a critical role in financing the 2030 Agenda for Sustainable Development and the SDGs. With their financial model, they can extend the reach of development finance in line with the ambitions of the 2030 Agenda. Each "dollar in" of capital results in more than "a dollar out" for development investments. Each dollar managed by MDBs is used to catalyse, mobilise and crowd-in additional funds for sustainable development from other public and private sources.

As for any financing institution, however, the ability of MDBs to scale up lending is dependent on their capital. In recent years, MDBs have increased lending in response to calls from the G20 to help finance counter-cyclical spending and infrastructure, and support the SDGs. However, concerns have been raised that MDBs are reaching their internally defined capital adequacy limits, or would do so if they expanded lending in line with what is needed to achieve the SDGs (Humphrey, 2017[44]). These concerns sparked discussions on the need to recapitalise MDBs as well as on how MDBs could do more with the capital they already have. As discussed in (OECD, 2015[21]), the Asian Development Bank (ADB) pioneered a merger between its soft and hard windows into the overall balance sheet of the bank to optimise its capital resources and boost lending. The higher risk attached to future repayment streams compared with donor paid-in and callable capital led to an increase of the equity-to-loan ratio from 26.9% to 53.6%. Despite this, it was still possible for the ADB to reduce the need for donor contributions from about USD 1.2 billion a year to USD 0.6 billion a year, between the 11th and the 12th replenishments. It also boosted its ability to provide grants and loans from USD13.5 billion in 2014 to USD 20 billion in 2020, as documented in (Manning, 2017[6]). Other measures to enhance the financial capacity of MDBs have been explored. These include: 1) reforming MDB capital adequacy limits; 2) financial engineering to optimise balance sheets of the kinds of exposure exchange agreements, and portfolio guarantees and loan sales; 3) making better use of callable capital (Humphrey, 2017[44]). Besides the ADB and IDA, reforms to boost lending capacity have been implemented by the AfDB, which opened its non-concessional window to the poorest countries. IFAD has also explored options to revise its financing model in order to increase the size of the programme of loans and grants.

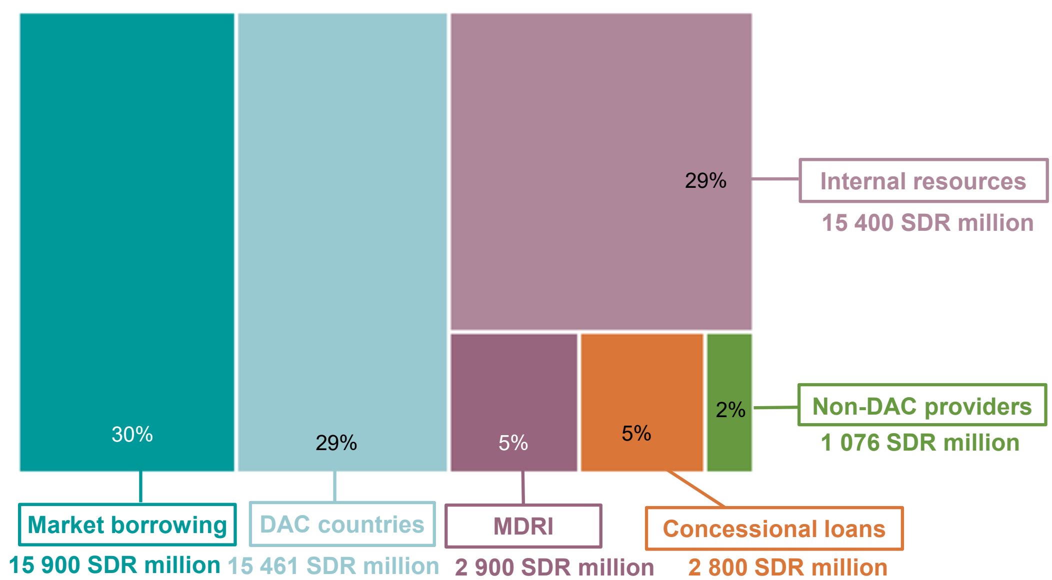
A comprehensive quantification and assessment of these innovations and how the financing landscape of MDBs is evolving overall is beyond the scope of this report. However, to exemplify how the importance of donor funding is changing and other sources of financing are gaining prominence, the reminder of this section will focus on the World Bank Group as an illustrative case. The concessional window of the World Bank Group, IDA, is one of the largest multilateral providers of concessional finance (i.e. grants and loans meeting the ODA definition) and the World Bank Group, as a whole, is by far the largest provider when non-concessional finance is also included. What follows draws on the outcomes of the 18th replenishment of IDA, and on the capital increases of IBRD and IFC decided in 2018.

IDA18 marked a small decline in donor resources but an unprecedented reduction in their weight in overall resources

As discussed in section 2.1, the 18th replenishment of IDA, concluded in October 2016, resulted in a record replenishment of SDR[15]53.5 billion, equivalent to USD 75 billion, to finance projects in the period from 1 July 2017 to 30 June 2020. Interestingly, this record replenishment was achieved despite a slight decline in donor contributions. As documented in (Manning, 2017[6]), in IDA18 the World Bank management achieved its goal of maintaining the level of donors' contributions stable, on average, in national currency terms. In SDR, this meant a 7% decrease for contributions from DAC members and a 5% decrease from all donors, compared to the previous replenishment (IDA17 in 2013). Among DAC countries, the largest declines were from some of the Nordic countries (Finland: -63%; Norway -33%). Contributions from European donors fell by 11% overall. The United States and Korea, in contrast, increased their contributions (by 8% for the United States and 13% for Korea). While donor contributions fell slightly, the increase in the total replenishment resources size (+54%, discussed below), between the 17th and 18th replenishment led to an unprecedented reduction in the weight of donor contributions in replenishment resources. Donor contributions accounted for 51% of total resources in IDA17 (and 55% on average in IDA15, IDA16 and IDA17) and for 31% in IDA18 (Figure 2.22).

Figure 2.22. With IDA18, the weight of donor funding shrinks to less than half of the total

IDA 18th replenishment (2016), Total = SDR 53.5 billion



Note: Internal resources include: reflows (SDR 14,200 million); carry forward of arrears clearance (SDR 800 million); IBRD transfers expected (SDR 300 million) and IFC transfers expected (SDR 100 million) (World Bank Group, 2017[45]).

Source: Authors based on data drawn from (Manning, 2017[6]), Multilateral development aid, https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2017-172.pdf and (World Bank Group, 2017[45]), Report from the Executive Directors of the International Development Association to the Board of Governors, http://documents.worldbank.org/curated/en/348661486654455091/pdf/112728-correct-file-PUBLIC-Rpt-from-EDs-Additions-to-IDA-Resources-2-9-17-For-Disclosure.pdf

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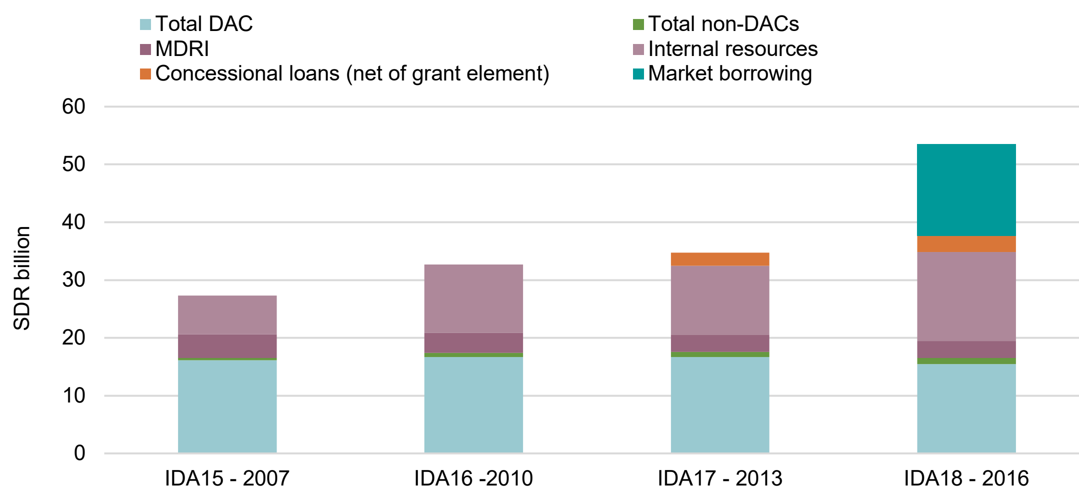
Reliance on the top ten donors also decreased

The reduction in the share of donor contributions in total replenishment resources was accompanied by decreased reliance on the top 10 donors. The list of the top 10 donors to IDA replenishments has been fairly stable over time, with either the United Kingdom or the United States at the top, followed by, in slightly varying order, Japan, Germany, France, Canada, Italy, Sweden, Netherlands; and, depending on the replenishment, either Spain or Switzerland. The share of top 10 donors in the total replenishment resources was 40% in IDA17. The large increase in replenishment resources beyond donor contributions, however, has brought it to less than 30% in IDA18 (Figure 2.23).

Figure 2.23. IDA 18 marks a shift in the funding model of the concessional arm of the World Bank



Note: Internal transfers from the Group are included in the "internal resources" category.
Source: Authors based on data from (Manning, 2017[6]), Multilateral development aid, https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2017-172.pdf and (World Bank Group, 2017[45]), Report from the Executive Directors of the International Development Association to the Board of Governors, http://documents.worldbank.org/curated/en/348661486654455091/pdf/112728-correct-file-PUBLIC-Rpt-from-EDs-Additions-to-IDA-Resources-2-9-17-For-Disclosure.pdf

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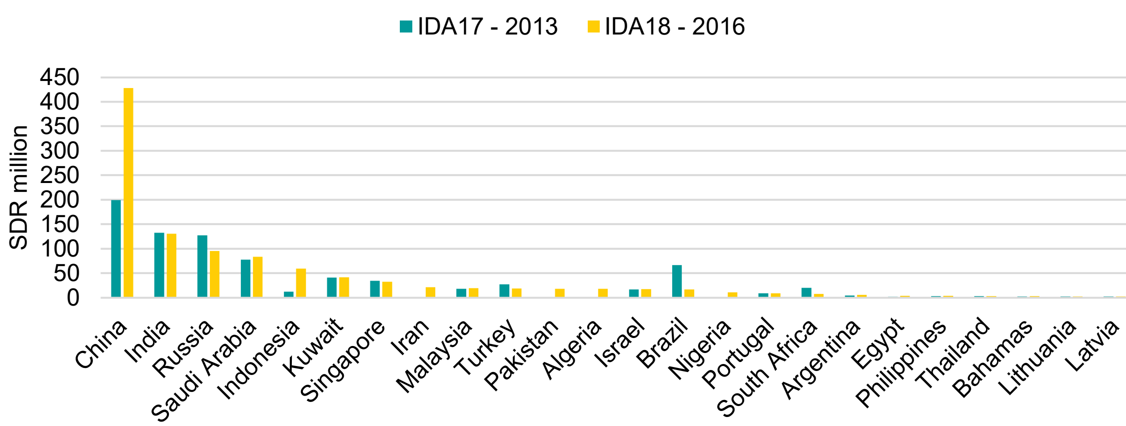
Shareholder contributions, excluding the DAC, are growing and China has become the 11th largest contributor among all shareholders

While in IDA18 resources from DAC countries decreased by 7% compared to the previous replenishment, shareholder contributions excluding the DAC recorded a significant increase (+21%), reaching SDR 1.08 billion. Further, the share of these contributions in total donor resources has steadily increased, but are still a small part of the total (from 1% of all donor resources in IDA15 to 2% of IDA18). Most significant is the increase in resources from China in IDA18. China's contribution more than doubled, at SDR 428 million. China has contributed to establishing new multilateral institutions – probably as a way to circumvent the slow pace of voice reforms at the World Bank and IMF, as argued by (Callaghan and Hubbard, 2016[46]); (Griffith-Jones, 2016[47]); (Kawai, Morgan and Rana, 2014[48]); (Reisen, 2015[49]). However, China has also gradually changed its approach towards "traditional" institutions and increased its financing to and influence on them (OECD, 2015[21]). Besides the IDA18 replenishment, China's increased engagement with and influence on the World Bank is apparent in the establishment of the G20 Global Infrastructure Connectivity Alliance and the G20 Initiative in Supporting Industrialization in Africa and LDCs. These initiatives, set out in the context of the Hangzhou G20 Summit and hosted or supported by the World Bank, reflect much of the Chinese thinking and experience. In fact, some argue that they would not have been possible without China (Finance Center for South-South Cooperation, 2017[50]). What it is clear is that they highlight a new and greater influence of China in the World Bank.

India was the second-largest contributor once DAC countries are excluded (SDR 130 million), and the 19th largest donor overall. Its contributions did not increase significantly, however, remaining in line with what India provided in the previous replenishment. The other three BRICS – Brazil, Russia and South Africa – all decreased their contributions compared to the previous replenishment. Indonesia's contribution recorded a four-fold increase, making of Indonesia the fifth largest contributor among shareholders excluding DAC countries (Figure 2.24).

Figure 2.24. China remarkably increases contributions in IDA18



Source: Authors based on data from (Manning, 2017[6]), Multilateral development aid, https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2017-172.pdf.

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Loans from providers helped mobilise more financing, but to a modest extent

While shareholders have traditionally provided resources to IDA in grant form, IDA17 introduced the option to make concessional loans. In IDA17, five countries – China, France, Japan, Saudi Arabia and the United Kingdom – did this, extending SDR 3.3 billion in total, roughly equivalent to SDR 0.6 billion in grant-equivalent terms. This option interested donors for different reasons. For the United Kingdom, it allowed to tap into funds considered as capital rather than recurrent funding of the DFID. France and others were attracted mainly because the national budget would only have to bear only the cost of subsidising the interest on government borrowing and not the full cost of the contributions (Manning, 2017[6]). The possibility of small returns on the loan was also attractive. In IDA18, the provision of loans from shareholders increased to SDR 3.7 billion, or SDR 0.9 billion in grant terms. Five providers used this option: Japan, the United Kingdom, France, Belgium and Saudi Arabia. This confirmed continued interest in this option and its usefulness in attracting resources for IDA. However, at 5% of total resources in IDA18, this option is far from a game changer for IDA.

'Hidden equity' and debut on capital markets: the real game changer of IDA18

In IDA18, a more significant innovation was the consideration of the stream of future repayments of loans as a real asset, against which additional borrowing could be provided. The stream of future loan repayments was thus, for the first time, treated as equity. This was possible because of a strong track record of regular repayments and economic progress of borrowing countries. The objective of this innovation was to boost lending in line with the ambitions of the 2030 Agenda, against a context of stagnating donor resources.

Unlike the ADB, the World Bank did not merge its concessional lending window, IDA and its non-concessional window, IBRD, including because these are two legally independent institutions (Manning, 2017[6]). Instead, IDA was given a AAA credit rating and allowed to access capital markets with a AAA credit rating. IDA made its debut on the capital markets on 17 April 2018. By the start of the New York trading hours on 17 April, total orders for the bond had reached USD 4.6 billion from 110 investors in 30 countries. In total, the IDA will be able to borrow up to SDR 15 billion from the market, almost as much as the IDA receives from all of its shareholders in IDA18. This is the main reason why, although donor resources are plateauing, IDA18 achieved the largest replenishment in the history of the institution, as shown in Figure 2.23.

IDA's access to capital markets will help channel private capital towards sustainable development initiatives, marking the "start of a new and exciting era for impact investing".[16] However, there might be implications for the lending portfolio of IDA. IDA may need to tailor its bond content to the likes of the investors. Capital market financing could also have implications in terms of allocations across countries and the degree of concessionality of IDA's operations. At this stage, however, these implications are not clear.

IBRD capital increase

In the past five years, within the international community, discussions have intensified on whether MDBs are approaching their limits on lending, defined by internal capital adequacy rules. In particular, some have suggested that MDB's narrow capital base and conservative loan approach was constraining their ability to increase lending enough to achieve the SDGs (Gottschalk and Poon, 2017[51]). With capital increases to MDBs being considered unlikely even by close and expert observers, e.g. (Humphrey, 2017[44]) and (Gottschalk and Poon, 2017[51]), alternative reforms to boost MDB's lending capacity have been explored or implemented. These include the merger of the ADB concessional window discussed above. Since 2013, the G20 has been calling on MDBs to work through their boards to optimise balance sheets, to increase lending without substantially increasing risks or damaging credit ratings. Since then, the World Bank has revised its approach to capital efficiency, allowing total lending capacity to increase by over USD 50 billion. Three MDBs developed a proposal for an MDB exposure exchange, which would result in an additional USD 12 billion in lending capacity for the AfDB alone (G20, 2015[52]).

Against predictions, in April 2018, World Bank shareholders endorsed a USD 13 billion paid-in capital increase (i.e. USD 7.5 billion paid-in capital for IBRD and USD 5.5 billion paid-in capital for IFC). They also supported a USD 52.6 billion callable capital increase for IBRD. These increases will take the average annual capacity of the World Bank Group to nearly USD 100 billion between FY19 and FY30 (World Bank Group, 2018[26]). This is almost double its current lending levels, which totalled USD 59 billion in 2017. The reform packages associated with these capital increases have three main implications:

- **Increased rates charged by IBRD to higher-middle-income countries**: Together with a target to channel 70% of IBRD resources to lower-income IBRD countries, this should in principle increase resources available to lower-income countries. The agreement also establishes new pricing guidelines, under which richer countries are charged a higher maturity premium (i.e. longer it takes them to pay back the loan, the more they pay) to incentivise countries pay back their loans faster, creating capital for those who need it more. This would discourage higher-middle-income countries from excessive borrowing and lead to a gradual decline in lending to China; although the reform does not hold any specific provisions about reducing lending to China. The new pricing guidelines also correct the fact that IBRD currently charges borrowing countries, from recent IDA graduates to relatively rich countries, all the same rate.
- **Revision of voting shares:** The agreement will lift China's shareholding in the IBRD to 6.01% from 4.68%. The United States will record a negligible dip in its share to 16.77%, from 16.89% (OECD, 2018[53]) and retain its veto power over IBRD and IFC decisions. Other large shareholders have agreed to minor reductions in their percentage shareholding in the IBRD, while China's increase corresponds to a rise by one-third, to rebalance extreme underrepresentation.
- **Graduation and global public goods:** No substantial changes to IBRD graduation rules have been introduced. Graduation will thus remain a consultative and voluntary process. The package strengthens the World Bank Group's support for global public goods, to respond to the interests of middle-income members of the World Bank and of those who want to see the institution tackle important global challenges more effectively. It also offers enhanced support to member countries during times of financial crisis.

2.2.4. Global vertical funds

Different funding models exist among global vertical funds, such as the Global Alliance for Vaccines (GAVI), the Global Fund for AIDS, TB and Malaria (Global Fund), and others. The Global Fund operates on a "grants-in-grants-out" model like the United Nations but has replenishment cycles like MDBs. It mainly relies on public resources. GAVI too raises resources through replenishments (every 5 years) but it has a "mixed" financing model, where private finance accounts for a greater share of the total (24%) (GAVI, 2018[54]). GAVI's greater access to private finance mainly hinges on two innovative finance mechanisms at the core of its financing model: the International Finance Facility for Immunisation (IFFIm) and the Advance Market Commitment (AMC). The IFFIm uses long-term pledges from donor countries to sell "vaccine bonds" in the capital markets, making large volumes of funds immediately available for GAVI programmes. GAVI has also piloted the AMC for pneumococcal vaccines: donors commit funds to guarantee the price of vaccines once they have been developed. These financial commitments provide vaccine manufacturers with an incentive to invest in vaccine research and development, and to expand manufacturing capacity. In exchange, companies sign a legally binding commitment to provide the vaccines at an affordable price to developing countries in the long term. The 2015 edition of this report focused on GAVI's 2015 replenishment outcomes (OECD, 2015[21]). The following discussion takes the Global Fund and its 2016 replenishment as an illustration of the evolution of various sources of financing.

The Global Fund mainly relies on public funds, with DAC countries accounting for 88% of total replenishment resources

The last replenishment of the Global Fund was concluded in September 2016 with donor pledges totalling USD 12.3 billion, in line with the management's objective. This outcome represented a slight increase compared with the USD 12.0 billion achieved with the previous replenishment in 2013. Resources will be used to fund activities in 2017-19. In general, the Global Fund is primarily financed by the public sector, which accounts for about 95% of total funding. The remaining 5% comes from the private sector, private foundations and innovative financing initiatives. The outcome of the 2016 replenishment confirms a similar split. Public sources – i.e. country donors and the European Commission – collectively pledged almost the entire amount: USD 12.03 billion (or 94%), and private donors accounted for the remaining 6%. Among sovereign donors, DAC countries accounted for 88% (Figure 2.25).

The European Union accounts for a significant share of resources

The European Commission pledged USD 593 million, accounting for 5% of the total. Therefore, although this report traditionally treats the EU institutions as "recipients" of multilateral aid, its role as a major donor to other multilateral organisations emerges clearly from the magnitude of the European Commission's contributions to the Global Fund, as well as to the United Nations Development System (see Section 2.2.2).

Pledges of 18 sovereign states, excluding the DAC, account for less than 1% of the total

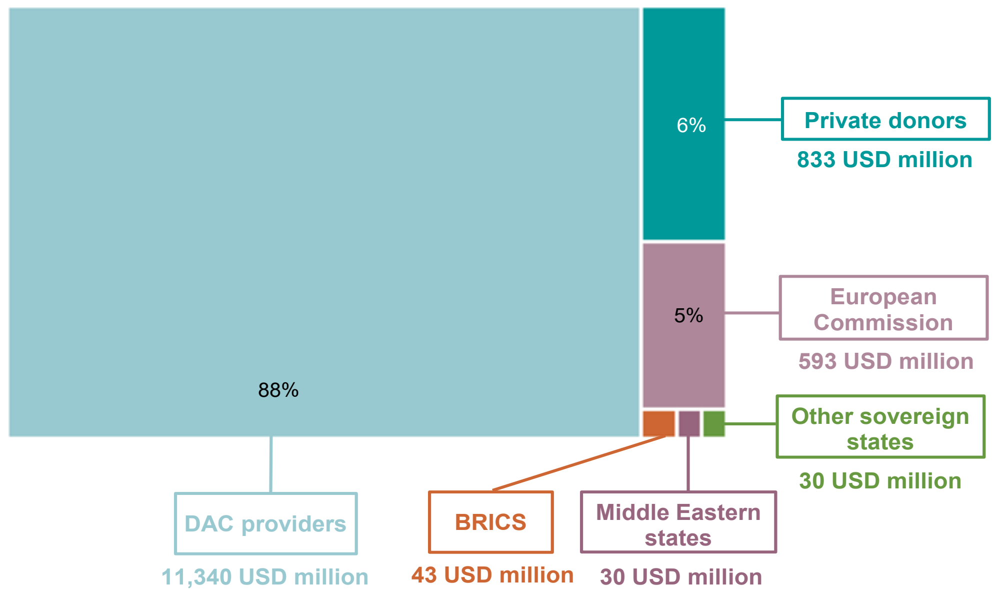
Sovereign states excluding the DAC pledged USD 103 million, roughly equivalent to almost 1% of the total. The largest funder in this group was India (USD 20 million), followed by China (USD 18 million) and Saudi Arabia (USD 15 million). Overall, BRICS accounted for 0.3% of all Global Fund replenishment resources, Middle Eastern countries for 0.02%, and remaining ten sovereign states, mainly African countries, for another 0.2%.

Among private donors, the Bill and Melinda Gates Foundation is by far the largest contributor, but the number and range of contributing actors is increasing

Among private donors, the Bill and Melinda Gates Foundation has been, since the start, the largest provider to the Global Fund. In the 2016 replenishment, it pledged USD 600 million (Global Fund, 2016[55]), an amount by far greater than pledges by any other private donor. It was also more than what was pledged by most sovereign donors (including DAC countries); only the United States, United Kingdom, Germany, France and Japan made larger pledges. Besides the Bill and Melinda Gates Foundation, however, an expanding range of private actors have contributed to the 2016 replenishment. These include 12 foundations and corporations from disparate parts of the world, and a group of anonymous private donors.

Figure 2.25. DAC countries account for 88% of the Global Fund's 2016 replenishment resources

Global Fund 2016 replenishment, total = USD 13 billion



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Source: Add the source here. If you do not need a source, please delete this line.
Source: Authors based on the statistical data available on the Global Fund's website: https://www.theglobalfund.org/media/1504/replenishment_2016conferencepledges_list_en.pdf?u=636488964230000000.

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2.3. Lessons for more effective multilateral co-operation in the era of the 2030 Agenda

Ensure adequate levels of financial support to multilateral institutions in ways that enable the effective functioning of the multilateral system

DAC countries continue to direct a stable share of their ODA resources to the multilateral development system. ODA resources to and through multilateral institutions reached USD 63 billion in 2016. As the founders and shareholders of the multilateral development co-operation system, sovereign states have a responsibility to ensure that the system has enough resources to carry out its mission and effectively contribute to the 2030 Agenda.

Current trends in large multilateral providers and mistrust in the shared benefits of international co-operation are leading countries to pursue policy goals through unilateral or ad hoc measures. This could translate into reduced support and financing for the multilateral development co-operation system in the near future, putting at risk the benefits that multilateral institutions can deliver for modern societies and the achievement of sustainable development globally. For a strong and effective multilateral development co-operation system that can deliver on the 2030 Agenda, sovereign states need to commit to providing appropriate financial support.

Supporting multilateral organisations to adopt safeguards to balance the need to broaden the funding base and to accept resources that are aligned with the institutions' mandates

Besides sovereign states, other sources of financing – such as private investors, corporations, philanthropy and multilateral organisations – are becoming more significant, although the nature and scope of the resources they provide can vary significantly across multilateral organisations. With stagnating donor resources and substantial financing needs to achieve the 2030 Agenda, broadening the funding base is a priority for most institutions.

Not all sources of funding, however, are the same. Some finance, especially from private corporations and private philanthropy, may come as new forms of earmarking of funds, contributing to piecemeal interventions or skewing allocations towards specific groups of countries, or away from the multilateral organisation's main institutional priorities. Therefore, there is a need to strike a balance between the quest for greater volumes of funding necessary to meet the needs of the 2030 Agenda and the need to ensure that this funding will not skew allocations towards groups of countries or priorities away from the most vulnerable people and countries. Sovereign states should support multilateral organisations to adopt safeguards so that public resources are used in line with the mandates of the organisations. The UN-developed guidelines on co-operation with the business sector (United Nations, 2015[42]) provide a good example of this. These guidelines could be complemented by additional measures to ensure that the benefits of partnerships are maximised, while risks are managed and reduced.

Annex 2.A. The growing role of China in the multilateral development system

An historical perspective of China's engagement with multilateral institutions

In the current phase of mistrust in the benefits of globalisation and in the efficiency of the multilateral system, China is positioning itself as a balancer of a multipolar international system by emphasising the role multilateral institutions play in addressing global challenges. President Xi Jinping's speeches in Davos (Xi, 2017[56]) and at the 2018 Boao Forum for Asia (Xi, 2018[57]) stress this.

China's own economic and social development and, consequently, its engagement to support other countries' development efforts, have progressed over the years. From 1990 to 2014, more than 65.2% of the Chinese population has been lifted above the international poverty line (USD 1.90/day, 2011 purchasing power parity).[17] China still faces major development challenges, such as an ageing population, over-capacity of low value-added sectors and environmental problems (Wei, 2016[58]). However, it is becoming an increasingly relevant actor in the development co-operation architecture, both bilaterally and through the multilateral system.

With a long-standing foreign co-operation programme, despite favouring bilateral channels, China has engaged in the multilateral system since the early 1970s. It joined the main agencies of the UNDS, such as UNDP, WHO and United Nations Educational, Scientific and Cultural Organization (UNESCO), in 1972. Despite initial reluctance to join international financial institutions with a strong Western imprint, China restored its seats in the International Monetary Fund (IMF) and the World Bank Group in 1980. This served the purpose of obtaining the funding and technology needed to build up its economy (Xiong, 2017[59]). China's multilateral co-operation has since expanded at the regional level. China joined the African Development Bank (AfDB) in 1985 and the Asian Development Bank (ADB) in 1986. In 2005, China entered what Xiong called the "phase of expansion of China's multilateral foreign aid". This increasingly pragmatic approach towards multilateral development co-operation, marked a sizeable increase in Chinese multilateral funding, which saw contributions to several multilateral organisations.[18]

Moreover, while foreign co-operation is traditionally considered a sensitive topic, China has recently shown an openness to discussing its development co-operation programme. After a first White Paper on Foreign Aid (Information Office of the State Council of The People's Republic of China, 2011[60]), with limited focus on multilateral co-operation efforts, the following White Paper (Information Office of the State Council of The People's Republic of China, 2014[61]) clearly signalled the importance that China attributes to the multilateral development system. It disclosed data on its multilateral contributions, acknowledging multilateral institutions' comparative advantage in leveraging bilateral efforts. Further, it emphasised willingness for dialogue and collaboration with "traditional donors" and OECD.

China's growing leadership in the multilateral sphere

The year 2015 arguably marked the beginning of China's enhanced presence and growing leadership in the multilateral development landscape.

China has lately shown an increasing commitment towards the responsibilities and duties stemming from its participation in the global multilateral system. In 2015, after endorsing the ambitious 2030 Agenda, China reported its willingness to align its own development strategy to the SDGs (Ministry of Foreign Affairs of the People's Republic of China, 2015[62]). It later demonstrated its commitment by publishing the National Plan on the Implementation of the 2030 Agenda (Ministry of Foreign Affairs of the People's Republic of China, 2016[63]) and presenting a voluntary national review of the SDG implementation (Sustainable Development Knowledge Platform, 2016[64]).

Furthermore, 2015 saw the establishment of new multilateral institutions under the leadership of China, such as the AIIB and the BRICS' New Development Bank. The AIIB has gathered support from both developing and advanced economies to finance infrastructure investments in Asia. China's concern over the slow evolution of the governance structure of existing international financial institutions has been seen as prompting the Chinese impetus to launch it [(Dollar, 2015[65]), (Callaghan and Hubbard, 2016[46]), (Reisen, 2015[49]), (Bob et al., 2015[66]) and others]. Similarly, (Xu, 2017[67])claims that the founding of the AIIB is "one quintessential example of China's quest for influence". The impact of AIIB on the multilateral system is not yet fully clear, including whether it will complement or challenge the current multilateral development architecture. The creation of the AIIB could encourage the proliferation of multilateral channels. According to (Dollar, 2015[65]), it could lead to increased efficiency of development banks due to competition and a more integrated Asia-Pacific economy. The AIIB Articles of Agreement (Asian Infrastructure Investment Bank, 2015[68]) state that "[the AIIB] will complement the existing MDBs". Some scholars [(Gu, 2017[69]), (Hanlon, 2017[70])] have argued that the AIIB seems to be playing a complementary role in the current multilateral development finance architecture. Collaboration between the AIIB with the World Bank, including through project co-financing[19], suggests that the AIIB is collaborating with traditional institutions rather than bypassing them.

The Belt and Road Initiative (BRI), a major Chinese initiative aimed at promoting trans-continental connectivity and economic integration, was probably the main reason behind the creation of the AIIB. (Ruta, 2018[71]) suggests that there are several challenges to the implementation of the BRI and thus to closing the global infrastructure gap and achieving greater integration. These challenges include questions of transparency about public procurement, as well as environmental, social standards and corruption risks associated with large infrastructure projects. In addition, there are macroeconomic risks stemming from the potential increase of sovereign debts to unsustainable levels. In this regard, (Hurley et al., 2018[72]) have identified potential BRI borrower countries at particular risk of debt distress. They suggest that multilateral partners should encourage good policies and procedures that would improve the BRI's development impact as well as debt sustainability. To implement the BRI, China could consider partnering with multilateral institutions to benefit from their expertise in infrastructure projects' design and implementation. It has already signed Memoranda of Understanding with some [(World Bank Group, 2017[73]), (European Investment Bank, 2017[74])]. Some UN high-level officials [the Secretary-General (United Nations, 2017[75]), the President of the United Nations General Assembly (UNGA) (United Nations, 2018[76])] have emphasised the potential beneficial impact of the BRI for the achievement of the SDGs and for a "multilateral renaissance".

Some hard facts on the evolution of Chinese contributions to multilateral organisations

United Nations Development System

According to (Xiong, 2017[59]), China considers the UN a crucial platform for enhancing the "South-South co-operation" and promoting "North-South dialogue".

Over the 2011-2016 time period, Chinese total contributions for operational activities to UN funds and programmes (excluding local resources) have increased steadily. An exception is an 11% drop in 2012, possibly explained by the slowing down of Chinese gross domestic product (GDP) growth in that same year. The highest increase in Chinese contributions (+42%) was in 2013 and an all-time high was reached in 2016, at approximately USD 146 million (Annex Figure 2.A.1, left panel). The largest recipient UN agencies have been the WHO, UNDP and FAO.

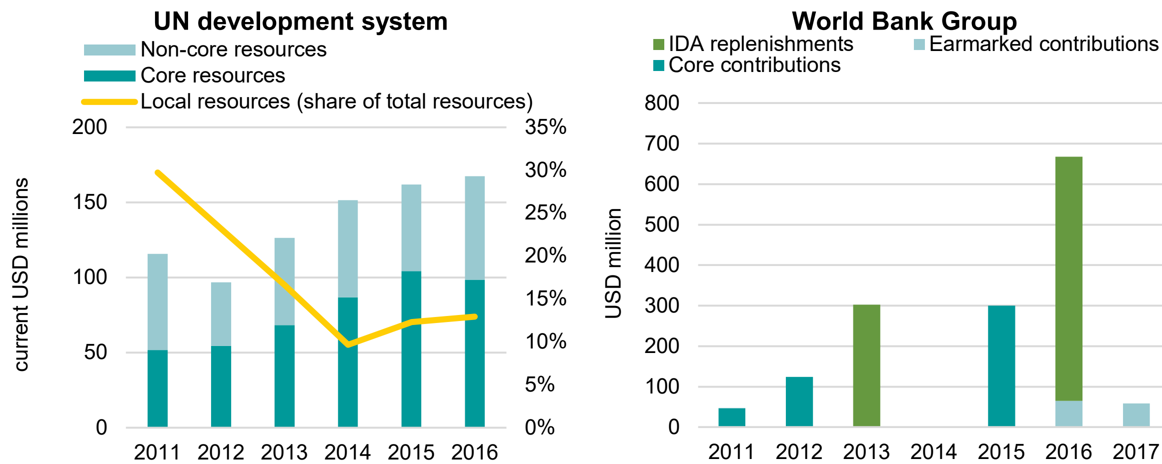
Both China's core and non-core funding have shown an upward trend over 2011-16. Growth in core resources has accelerated since 2013 (at +24% per year on average), although they dropped slightly (-6%) in 2016. Non-core resources show more volatility but, on average, have grown at a faster rate (21%) than core resources (12%) in 2011-16. The all-time high reached in 2016 was entirely due to the increase in non-core funding, which more than offset the decrease in core funding. However, overall core resources (excluding local resources) have accounted for the bulk of China's funding to the United Nations (68% in 2016). This is largely above the equivalent figure for DAC countries, where, on average in 2016, core funding accounted for 31% of total funding to the UNDS.

Further, China provided the UNDS with an additional USD 156 million in local resources over the 2011-16 period. On average, local resources represented 17% of China's total contributions to the UN, and have significantly decreased over time. In 2016, the share of local resources to total resources for China (13%) was much lower than the average for all BRICS countries (31%), where local resources increased over time. This suggests that China is increasingly using the multilateral development system to extend the reach of its development co-operation, rather than to foster development in its own territory (Annex Figure 2.A.1, left panel).

The World Bank Group

China's contributions to the World Bank Group comprise core contributions to IDA as well as earmarked contributions to several trust funds.[20] Cumulative contributions over the 2011-2017 period (excluding IDA replenishments) amount to USD 598 million. Core contributions to IDA over the period account for 79% of the total and are increasing over time. Earmarked contributions were modest until 2016, when they reached an all-time high of USD 65 billion, mainly due to the Chinese contribution to a World Bank single-donor trust fund for poverty reduction (World Bank, 2015[77]). Moreover, China doubled its contribution to IDA replenishments, from approximately USD 301 million in IDA17 (2013) to USD 602 million in IDA18 (2016). See Annex Figure 2.A.1, right panel.

Annex Figure 2.A.1. The evolution of Chinese contributions to the United Nations and World Bank Group



Note 1. Volumes are expressed in nominal terms.
Note 2. For the World Bank Group, core contributions include IDA paid-in contributions, while earmarked contributions include: IBRD/IDA/IFC trust funds, the Knowledge for Change Program, the South-South Experience Exchange Facility, the Global Infrastructure Facility and the China World Bank Group Partnership Facility.
Source: Authors' calculations based on data kindly provided by UN/DESA for the analysis on the United Nations and data from Aid flows for the analysis on the World Bank Group, http://www.aidflows.org/.

StatLink https://doi.org/10.1787/888933874580

China's steps to enhance its engagement in the multilateral development system

The previous edition of this report highlighted some organisational, economic and political limitations on greater engagement of China and other emerging markets in multilateralism (OECD, 2015[21]). Given China's growing role in the multilateral development system, and in order to be able to better engage with multilateral partners, China is taking steps to reform its institutional structure for development co-operation.

At present, China's management system for development co-operation is multifaceted, involving up to 40 agencies and institutions. This makes the management of development aid rather complicated, and the management of multilateral contributions are more spread out than the bilateral contributions (Xiong, 2017[59]). Several Chinese ministries and commissions have been responsible for matters involving multilateral organisations so far, with a fragmented approach (Thier et al., 2018[78]). Nevertheless, the state press agency has reported that China is planning to establish a national aid agency. This aims to improve the strategic planning and co-ordination of foreign aid and to "better serve the country's overall diplomatic layout and the BRI" (Xinhua, 2018[79]). As (Thier et al., 2018[78]) remark, a consolidated and centralised aid agency headed by a senior official is expected to make Chinese aid more effective, more transparent and more coherent, and should thus be welcomed "with open arms". Furthermore (Thier et al., 2018[78]) argue that the new agency could better manage the risks of engaging in fragile contexts. This is important as the BRI involves some Middle Eastern countries that are conflict affected, such as the Syrian Arab Republic, Yemen and Afghanistan (Belt and Road Portal, 2018[80]).

China's ambition is to take on a greater leadership role in regional affairs and global economic governance. This has seen the country increase its support to the evolving multilateral system, particularly in the international development arena. Whether China will manage to play such a role and to fulfil the responsibilities and duties stemming from multilateral donorship is yet to be seen. A lot also depends on other players' stances. According to (Gottschalk and Poon, 2018[81]), China's recent experience in the multilateral development finance architecture suggests that financial resources are not all that matters. Political will and innovative ideas are crucial, and China has shown this with AIIB's innovative lending model for infrastructure finance. "Traditional" donors and institutions need to increase efforts to scale-up development finance and close funding gaps. They should take action to ensure that all actors follow global norms, such as transparency of operations and respect for financial, environmental and social standards.

Annex 2.B. Non-DAC countries reporting to the OECD Creditor Reporting System: An overview of contributions to the multilateral development system

Several countries beyond the DAC are becoming increasingly important players in the multilateral development finance landscape. Although they represented a small share (10%) of the ODA reported to the OECD Creditor Reporting System in 2016, they have greatly expanded their development co-operation recently, as well as their use of the multilateral system for development purposes.

Currently, 20 countries[21] beyond the DAC (henceforth referred to as "reporting countries") report data on their ODA-like flows[22] to the OECD Creditor Reporting System. However, this analysis considers 18 of the reporting countries, over the 2015-16 period, due to partial data coverage[23]. Total ODA disbursed by these reporting countries is on an upward trend: from USD 11.3 billion in 2015 to 15.6 billion in 2016 (+ 38% in real terms).

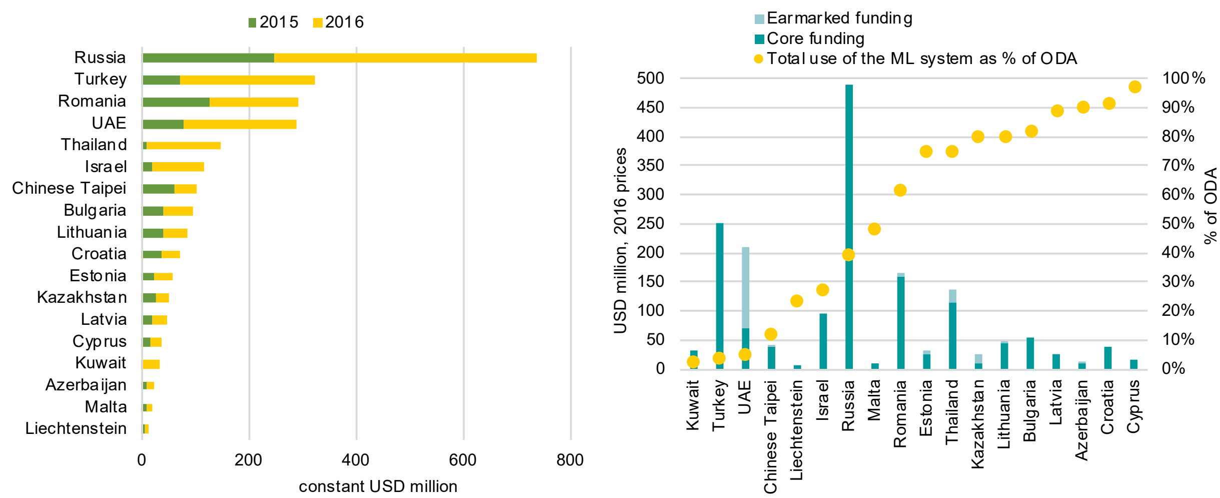
The reporting countries use the multilateral development system to different extents (see Annex Figure 2.B.1, right panel). Eastern European and Central Asian countries extend over 60% of their ODA through the multilateral system, whereas other donors (e.g. Kuwait, Turkey and the United Arab Emirates) mostly rely on bilateral channels.

Although, the reporting countries accounted for only 3% of the total funding to the multilateral development system (from all reporting providers, including the DAC) in 2016, their support for multilateral organisations is increasing. They almost doubled their funding to ODA-eligible multilateral organisations: from approximately USD 836 million in 2015 to USD 1.7 billion in 2016. Russian Federation (henceforth referred to as Russia**)**, Turkey, the United Arab Emirates and Thailand recorded the largest absolute increases, collectively accounting for 78% of the increase in multilateral funding from the reporting countries in 2016.

Throughout the 2015-16 period, among the reporting countries, Russia, Turkey and Romania were the largest three providers to multilateral organisations, followed by the United Arab Emirates, Thailand and Israel (Annex Figure 2.B.1, left panel). The reporting countries mainly extended core contributions to multilateral organisations, with amounts corresponding to 89% of their total use of the multilateral system. The largest provider of earmarked contributions was the United Arab Emirates, earmarking USD 140 billion to multilateral organisations in 2016, mostly to UN funds and programmes (Annex Figure 2.B.1, right panel).

Annex Figure 2.B.1. In 2016, the reporting countries almost doubled their contributions to multilateral organisations, mainly extending core funding

Total use of the multilateral development system (sum of core and earmarked contributions) in 2015 and 2016 on the left panel; total use of the multilateral system by type of funding (core vs earmarked) and as a share of total ODA in 2016, on the right panel.



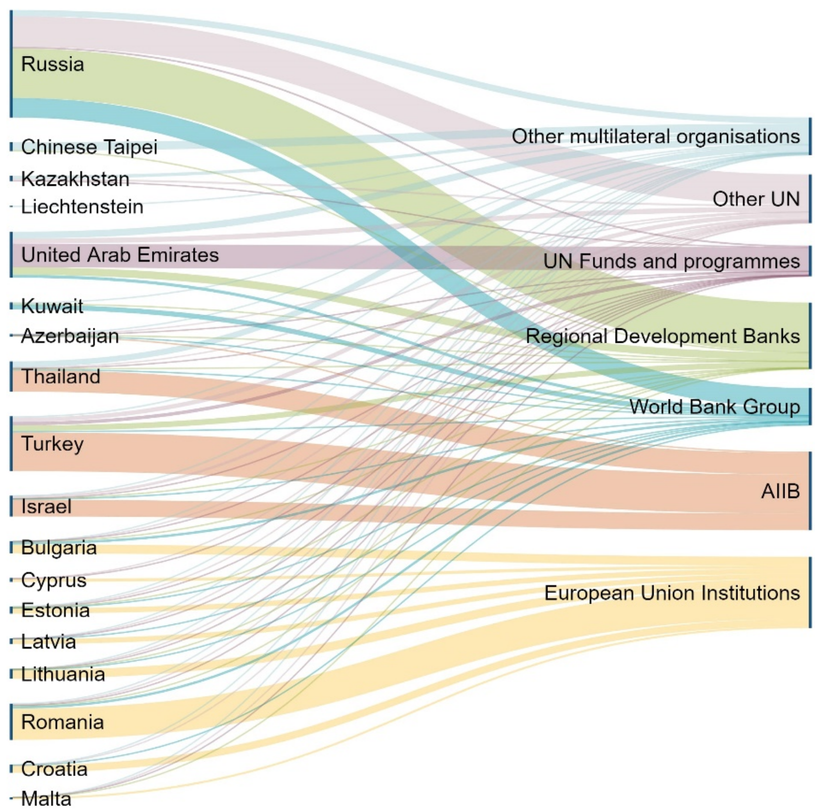
Note 1: Disbursements, 2016 constant prices.
Note 2: Data for 2016 for Cyprus are missing and data for 2015 were taken as proxy for estimating the 2016 ones.
Note 3: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Note 4 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 5 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, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874599

Among the clusters of ODA-eligible multilateral organisations considered in this report, in 2016 regional development banks were the largest group receiving core and non-core ODA contributions from reporting countries (i.e. USD 661 million). Among the various regional development banks, the AIIB stands out in terms of volume of funding from the reporting countries (USD 358 million). Turkey, Thailand, Israel and Azerbaijan were the only donors among the reporting countries to provide the start-up funding needed for the AIIB to build up its capital. UN funds and programmes, together with other UN bodies, are the second-largest group of multilateral organisations receiving ODA contributions from reporting countries, collectively receiving USD 362 million, mostly by the United Arab Emirates and Russia. United Nations Development Programme (UNDP), the United Nations Relief and Works Agency for Palestine Refugees in the Near East, World Food Programme (WFP), WHO and UNICEF are the UN entities receiving the largest ODA contributions from the reporting countries'. Further, European Union institutions are the third-largest group of multilateral organisations receiving contributions from reporting countries. It received USD 325 million, mainly from Romania, Lithuania, Croatia, Bulgaria and other Eastern European countries. Finally, the reporting countries channelled USD 169 million to the World Bank Group and USD 171 million to other multilateral organisations (Annex Figure 2.B.2).

Annex Figure 2.B.2. Among the reporting countries, differences exist in terms of their support for the various clusters of multilateral organisations

Total use of the multilateral development system in 2016



Note 1: Disbursements.
Note 2: Notes 2, 3, 4, and 5 of Annex Figure 2.B.1 apply.
Source: Authors' calculations based on (OECD, 2018[3]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874618

Notes

[1] The full list of multilateral organisations that are eligible for ODA resources is publicly available, together with the eligibility criteria at: http://www.oecd.org/dac/stats/annex2.htm.

[2] ACP stands for African, Caribbean and Pacific group of states. This group was created by the Georgetown Agreement in 1975. All of its member states, except Cuba, are signatories to the Cotonou Agreement with the European Union.

[3] 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. The aim of this is to promote the stabilisation and reconstruction of the Central African Republic.

[4] Their legal basis was established in 2013 with the adoption of Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union.

[5] These are: 1) the EU Regional Trust Fund for the Central African Republic (Bêkou Trust Fund) established in July 2014; 2) the EU Regional Trust Fund in response to the Syrian crisis (Madad Fund) in December 2014; 3) the EU Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa, established in November 2015; and 4) the EU Trust Fund to support the implementation of the peace agreement in Colombia in December 2016. The European Union has also established the Facility for Refugees in Turkey.

[6] These are Spain and Portugal.

[7] Data for the United Nations development system was kindly provided by UN/DESA. Data for IDA18 was drawn from (Manning, 2017[6]). Data on the Global Fund was drawn from the statistical data available on the organisation's website: https://www.theglobalfund.org/media/1504/replenishment_2016conferencepledges_list_en.pdf?u=636488964230000000.

[8] This finding mainly refers to multilateral development systems that provide concessional finance.

[9] This percentage excludes local resources.

[10] This analysis draws from data in the statistical annexes on funding data of the United Nations Secretary General's reports on the implementation of the QCPR, covering the years 2011-16. Statistical annexes for individual years are publicly available online: https://www.un.org/ecosoc/en/node/1158673.

[11] UN non-member states include: Anguilla, Aruba, Bermuda, British Virgin Island, Cayman Islands, Faroe Islands, French Guiana, Monserrat, Niue, St. Helena.

[12] These contributions were calculated applying the ODA definition to allow for a comparison with funding from DAC members.

[13] This figure refers to a nominal increase as it is calculated on current prices.

[14] These figures are drawn from the Statistical annex on funding data of the 2018 Report of the Secretary-General (A/73/63 - E/2018/8) available at: https://www.un.org/ecosoc/en/node/1158673.

[15] The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. The value of the SDR is based on a basket of five currencies: the US dollar, the euro, the Chinese renminbi, the Japanese yen and the British pound sterling.

[16] Jes Staley, Barclays Group Chief Executive Officer, stated this during an interview on IDA's debut on the capital markets, as reported by the World Bank press: http://www.worldbank.org/en/news/press-release/2018/04/17/ida-makes-historic-capital-market-debut-with-inaugural-usd-1-5-billion-benchmark-bond.

[17] According to World Bank Poverty and Equity data.

[18] A USD 30 million contribution to the Asian Development Fund and a USD 20 million contribution to the ADB Regional Cooperation and Poverty Reduction Fund in 2005 (Asian Development Bank,(n.d.)[82]), the first-ever contribution to an IDA replenishment with a USD 30 million contribution to IDA15 (2007) (Freeman, 2015[83]), a USD 30 million contribution to a FAO trust fund (Food and Agriculture Organization, 2009[84]), and the first-ever contribution to the WTO

Aid for Trade Initiative, after China's accession in 2001 (Permanent Mission of China to the WTO, 2011[85]).

[19] More information on the collaboration between the AIIB and the World Bank in co-financing projects are provided in Chapter 3.

[20] Earmarked contributions include funding to: IBRD/IDA/IFC trust funds, the Knowledge for Change Program, the South-South Experience Exchange Facility, the Global Infrastructure Facility and the China World Bank Group Partnership Facility.

[21] The 20 countries beyond the DAC that report their data on financial flows that qualify as ODA to the OECD are: Azerbaijan, Bulgaria, Chinese Taipei, Croatia, Cyprus, Estonia, Israel, Kazakhstan, Kuwait, Latvia, Liechtenstein, Lithuania, Malta, Romania, Russia, Saudi Arabia, Thailand, Timor-Leste, Turkey and the United Arab Emirates. See Notes 2, 3, 4, and 5 in Figure 2.B.1.

[22] ODA-like flows include both financial flows and technical assistance.

[23] Even though Timor-Leste reports data on its ODA-like flows to the OECD Creditor Reporting System, in 2015 Timor-Leste did not report data on its multilateral contributions, and thus it could not be considered in the analysis. Similarly, granular data on multilateral contributions for 2016 for Saudi Arabia is not available.

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Chapter 3. Funding *from* the multilateral development system

This chapter examines the evolution of concessional and non-concessional operations of multilateral development partners by institution, sector and instrument. It aims to elucidate the characteristics of each multilateral group and the global trends in the multilateral development finance architecture. It analyses how multilateral development partners are contributing to the 2030 Agenda. This includes: supporting country governments, working in vulnerable contexts, supporting developing countries to mitigate and adapt to climate change, providing global public goods, mobilising private finance for development and supporting private sector development, particularly through infrastructure development. Further, the chapter examines how the operations of multilateral development partners will need to change to respond to the new development agenda. The chapter concludes with lessons for good multilateral co-operation in the era of the 2030 Agenda.

Chapter highlights

Multilateral development finance is growing in volume, but on increasingly harder terms. This points to the difficulty of finding appropriate concessional resources for operations that are particularly hard to finance. In particular, the chapter finds that financing volumes from multilateral organisations are growing through increased lending for infrastructure and production from multilateral development banks (MDBs). They can tap into capital markets and loan repayments to expand the size of their operations, including in fragile contexts. However, while increased finance from MDBs is boosting resources, it is also hardening the terms of financing, particularly through non-concessional loans. Moreover, the boost of multilateral development finance has not gained traction in concessional operations. Beyond health and humanitarian assistance, concessional resources are growing slowly. In this context, the United Nations Development System (UNDS), which is predominantly supported through grants from sovereign states, is experiencing funding challenges. These affect its capacity to contribute to a complex and ambitious development agenda through highly concessional operations.

This chapter provides hard evidence to examine the areas where multilateral development partners are more prominent in the development finance architecture. First, multilateral development partners provide larger amounts of financing to country governments compared to bilateral providers – including for policy and institutional development. Second, multilateral development partners are increasingly implementing bilateral development partners' programmes in fragile contexts, although more for short-term humanitarian assistance than for long-term development programmes. Third, multilateral development partners play an important role in supporting the climate agenda as conveners, financers and project implementers, even though they have a low share of climate-related financing in their portfolios. Lastly, multilateral development partners, particularly MDBs and the European Union, lead the advance of private sector development activities, especially through infrastructure development. They also lead the mobilisation of private finance for development, compared to most bilateral development partners, at least in terms of overall volumes of financing mobilised.

Finally, this chapter identifies a move from transaction-based to system-wide financing approaches as a priority for multilateral development partners. In particular, multilateral development partners need to adapt to a crosscutting development agenda and working more cohesively. They can do this by focusing on the drivers of development both globally, by supporting global public goods (GPGs) (e.g. climate change, financial stability, conflict prevention, orderly migration, etc.) and within specific countries by mainstreaming crosscutting issues in country programmes (e.g. environment, gender equality, etc.) based on local needs.

Multilateral development partners have started aligning with this new development paradigm but need to demonstrate the results, as these efforts are at early stages. Moreover, multilateral development partners need to increase support in the most challenging contexts as increasingly expected by their members and the broader international community. The associated increased operational risks need to be managed and appropriate streams of resources obtained. Moreover, multilateral development partners need to encourage co-operation and build on comparative advantages to promote institutional coherence. This is needed both internally, among institutions of the same group, and externally, through joint programmes and initiatives with other organisations. Multilateral development partners play a central role in facilitating collective action on global development and in providing GPGs. However, they need to ensure a clear division of labour and find sufficient financing for these activities. Furthermore, multilateral development partners, particularly MDBs, need to diversify the financing strategies for private finance mobilisation, moving from being mainly lenders to mobilisers. This involves using different instruments and financing structures to increase their ratios of private finance mobilised. Finally, multilateral organisations need to lead restructuring funding mechanisms, in collaboration with other providers, to reverse the decrease in quantity and quality of concessional finance. While not a perfect solution, multilateral pooled-funding mechanisms (MPFM) could be explored. These could provide a way to both promote donor interest and promote coherence among several providers.

Key facts:

- The volume of concessional and non-concessional resources committed by multilateral organisations significantly increased over the last decade; from USD 109 billion in 2008 to USD 162 billion in 2016 (+49%). MDBs account for two-thirds of this increase.
- While non-concessional finance from MDBs is growing strongly, concessional finance from multilateral development partners only increased from USD 73 billion in 2012 to USD 80 billion in 2016 (+10%). This was mainly due to a boost of earmarked grants from bilateral providers for humanitarian assistance, an increase of grants from the Global Fund and Global Alliance for Vaccines and Immunisation (GAVI) and loans from International Development Association (IDA) for health programmes.
- From 2012 to 2016, the value of multilateral development operations in fragile contexts increased from USD 42 billion to USD 59 billion. Much of this increase was due to increasing non-concessional loans.
- Funding to the multilateral system earmarked for humanitarian programmes by DAC countries and other bilateral providers reporting to the Development Assistance Committee (DAC) doubled in the period 2012-2016. It increased from USD 5 billion in 2008 to 10 billion in 2016.
- One-fifth (20%) of annual financing flows of multilateral development partners in 2015-2016 was for operations with climate objectives or that had climate components.
- Multilateral organisations account for two-thirds of the amounts mobilised from the private sector by bilateral and multilateral development partners. These are through syndicated loans, credit lines, shares in collective investment vehicles, direct equity participation and guarantees.

3.1. Global trends of multilateral development finance

This section provides an overview of the major financing trends shaping the operations of multilateral development partners. Financing measurements include concessional and non-concessional amounts sourced from the budget of multilateral organisations and funding earmarked by bilateral providers reporting to DAC. Multilateral funding earmarked by bilateral providers is considered bilateral development finance in the DAC reporting system. However, this section considers it as multilateral in order to examine the magnitude of the operations of multilateral organisations that are mostly financed though earmarked funding, such the UNDS. Overall, the section finds that multilateral development finance is increasing in volume but on increasingly harder terms. This raises the question how to find appropriate resources for operations that are particularly hard to finance, such as those in risker and more vulnerable contexts or for GPG.

3.1.1. The way multilateral organisations fundraise for their operations affects the quantity and the characteristics of their operations

The multilateral development system is a complex and diverse web of international organisations which finance and implement development and humanitarian programmes in developing countries. Some organisations act more as providers of financing, particularly the MDBs and the vertical funds. Others mainly have an intermediary role, particularly the UNDS, which means that they implement operations financed by other development partners – bilateral, multilateral or philanthropic. While financing channelled by bilateral donors through multilateral organisations is generally counted as bilateral finance, this chapter considers these resources to be multilateral. This helps reflect the magnitude of operations of multilateral organisations that are mainly sourced through earmarked funding, mainly UNDS entities.

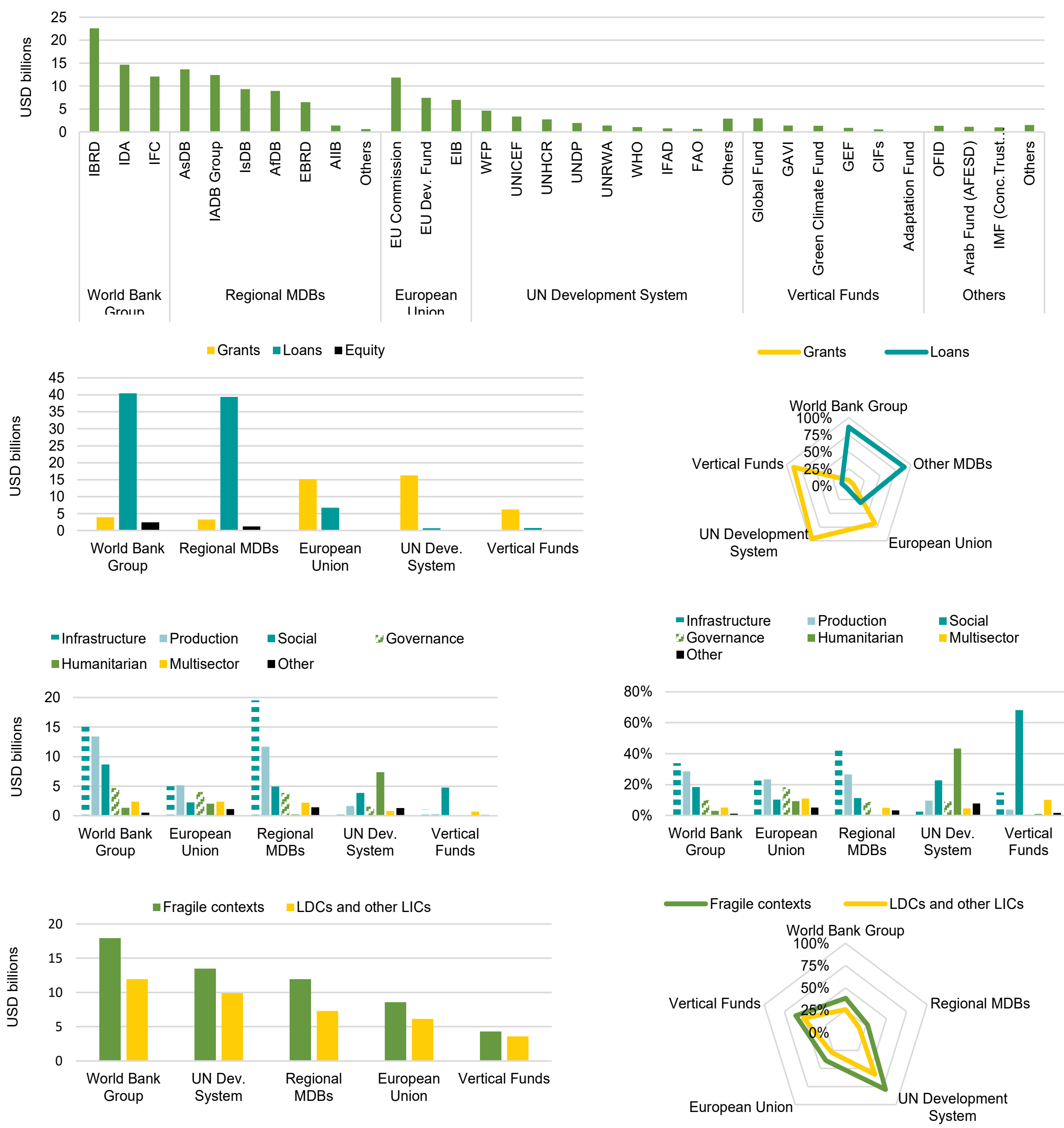
Overall, operational characteristics and the independence of multilateral organisations are reflected in the way these organisations fundraise. In particular, the share of the budget and operations financed by member states shapes the features of the operations of multilateral organisations. It also affects the degree of dependence with respect to bilateral providers. As MDBs get significant shares of their financing from capital markets and internal resources, such as loan repayments, they need to carry out operations that are less concessional, such as loans. In fact, about 90% of financing provided by MDBs is in the form of loans, two-thirds of which are non-concessional. These are mainly for infrastructure and production. At the same time, significant differences exist among MDBs, with some having concessional agencies providing high shares of grants, such as the African Development Fund or the Inter-American Development Bank (IADB) Special Fund, which are mainly financed by members.

Conversely, as mentioned in Chapter 2, the European Union, UNDS and vertical funds receive most of their resources as grants from bilateral donors in the form of core and earmarked contributions. This means that they are more dependent on donor support and behaviour. However, it also allows them to carry out highly concessional operations in the poorest countries. Areas include humanitarian assistance and social sectors, which have less ability to mobilise financial and technical resources than infrastructure and production sectors. Among these multilateral groups, the European Union focuses more on infrastructure, production and governance; UNDS on humanitarian assistance and social sectors; and vertical funds on social sectors and the environment.

In terms of instruments and sectors, loans are mostly used for infrastructure and production, whereas grants prevail in humanitarian assistance (see Figure 3.1). This is because costs for infrastructure and production investments are high, but can be recovered by the increase in tax revenues from higher economic growth and future cash flows from profit-making activities (e.g. fees, tolls, etc.). The range of instruments used in other sectors is more mixed. Social sectors and governance receive grant finance from EU institutions, UNDS entities and vertical funds as these multilateral development partners concentrate more on the poorest countries. In contrast, MDBs use concessional and non-concessional loans in social sectors for policy reforms in countries that are more developed. This is in line with the Addis Ababa Action Agenda (AAAA), which states that the most concessional resources need to be prioritised for those with the greatest needs and least ability to mobilise other resources (United Nations, 2015[1]).

Figure 3.1. Multilateral development partners have different specialisations

USD value of multilateral development operations (concessional and non-concessional) by agency, instrument, sector and country (annual average, 2012-2016)



Note: USD commitments (2016 prices). Includes imputed shares for fragile countries, LDC and other LICs for unallocated official development finance.

Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

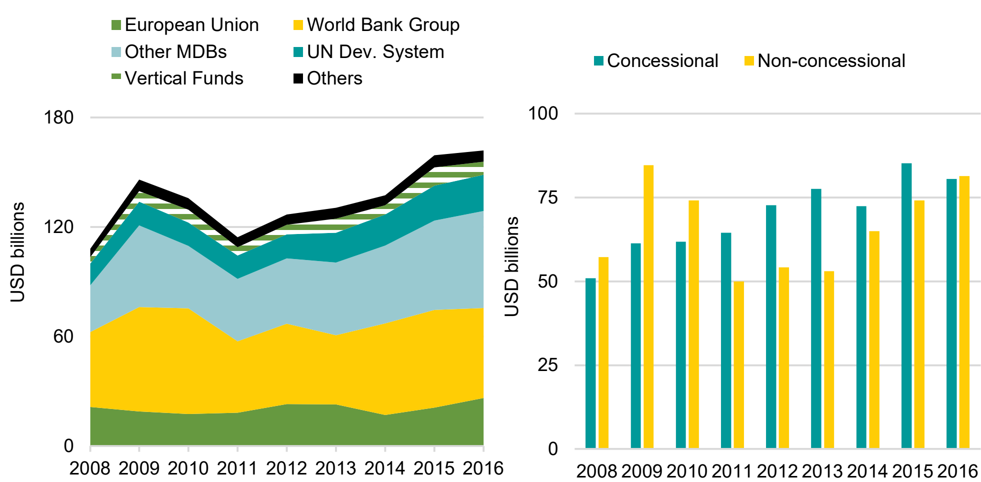
StatLink https://doi.org/10.1787/888933874637

3.1.2. Finance from multilateral organisations is growing due to increased lending from MDBs

The volume of concessional and non-concessional resources committed by multilateral organisations has increased significantly in the last decade, from USD 127 billion in 2012 to USD 162 billion in 2016 (+ 28%, see Figure 3.2). This increase was mainly due to MDBs, which account for two-thirds of the increase. The World Bank Group and other MDBs are the largest providers of concessional and non-concessional finance, accounting for two-thirds of total resources from multilateral development partners. Large volumes of financing from MDBs are used to support infrastructure and production sectors, including large-scale projects. For example, more than one-quarter of large infrastructure projects in developing countries involve MDB support in the form of direct loans, syndication, equity investment, partial credit guarantees and political risk coverage (Gurara et al., 2017[3]).

Figure 3.2. Funding from multilateral organisations is growing, largely driven by flows from multilateral development banks

USD value of concessional and non-concessional operations of multilateral development partners (2008-2016).



Note: USD commitments (constant 2016 prices). Data includes earmarked funding from DAC countries and bilateral development partners. Amounts include estimates derived from annual reports. Data only include amounts from bilateral and multilateral development partners reporting to the DAC. See statistical methodology.
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1 and annual reports.

StatLink https://doi.org/10.1787/888933874656

While flows from multilateral organisations have grown steadily, exceptionally large amounts were committed in 2009-2010. These were mainly non-concessional loans from the International Bank for Reconstruction and Development (IBRD; World Bank's non-concessional arm) and the IADB to counter the effects of the financial crisis (see Box 3.1). After the peak in 2009-2010, non-concessional finance by multilateral organisations decreased significantly to about half of total funding from multilateral organisations. This took the ratio between concessional and non-concessional finance by multilateral organisations back to its average value for the pre-2009 period.

Box 3.1. Multilateral development partners play a counter-cyclical role in times of crisis

International Financing Institutions, particularly MDBs, are important in providing policy loans in developing countries in times of financial shocks and crises. This role is expressly recognised by the AAAA which states that “Multilateral development banks can provide counter-cyclical lending, including on concessional terms as appropriate, to complement national resources for financial and economic shocks [...]” (United Nations, 2015[1]). In fact, since the 1970s multilateral institutions have provided balance of payments support in times of shocks due to geopolitical events, e.g. commodity price changes or financial crises. That is, shocks which reduce space for public and private investment due to reduced public domestic revenues or increased risks for the private sector.

Economic upturns and downturns can deteriorate the quality of banks’ assets, which affect the ability of banks to take risks, in turn easing or reducing their lending capacity. This is more evident when it comes to financing long-term investments, such as infrastructure, as these projects bear high risk, particularly in developing countries. For instance, long-term syndicated lending, which is particularly important for infrastructure, dropped significantly after the global financial crisis (Chelsky, Morel and Kabir, 2013[4]).

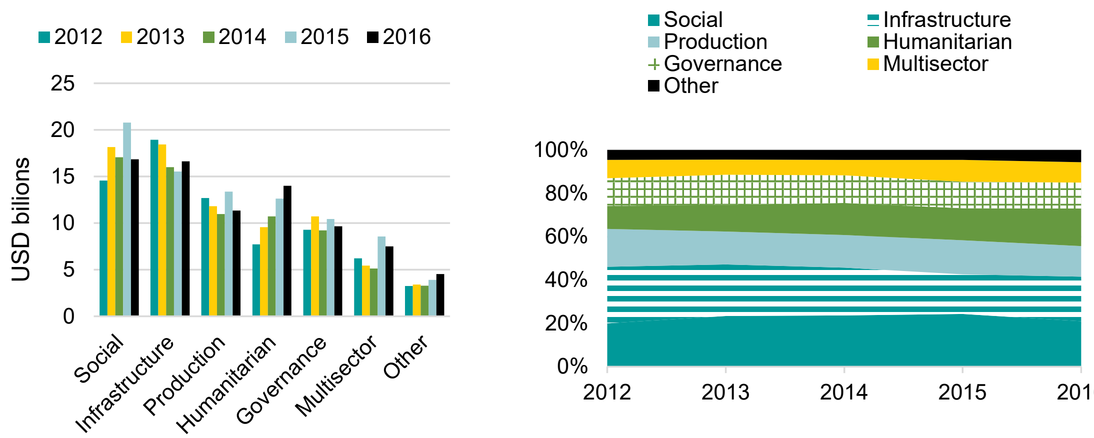
During the financial crisis, MDBs and the International Monetary Fund (IMF) co-ordinated at the level of the G20 to respond to shrinking private financing and tighter public budgets. MDBs played a counter-cyclical role during and after the crisis, mainly through non-concessional loans from the IBRD and IADB in large emerging economies, such as China, India and Brazil. For example, the World Bank implemented 67 Development Policy Operations, which provided loans to these countries on the condition that they carried out fiscal consolidation measures. This, however, produced mixed results (World Bank, 2017[5]).

3.1.3. Greater finance from multilateral organisations increased concessional operations to a small extent, except for health and humanitarian assistance

While non-concessional resources of MDBs are growing strongly, the level of concessional finance is growing much more slowly. In fact, concessional finance from multilateral development partners only grew from USD 73 billion in 2012 to USD 80 billion in 2016. The increase of concessional finance was mainly due to a boost of earmarked grants from bilateral development partners for humanitarian assistance, an increase of grants from Global Fund and GAVI and loans from IDA for health programmes. While smaller than other sectors, concessional finance for humanitarian assistance is the fastest-growing area funded through concessional finance. It accounted for 17% of concessional finance from multilateral development partners in 2016, up from 11% in 2012 (see Figure 3.3). Conversely, concessional finance for infrastructure and production decreased in both absolute and relative terms in the same period, from 43% to 35% of total multilateral concessional finance.

Figure 3.3. Except for health and humanitarian assistance, concessional finance is growing slowly across sectors

USD value of concessional and non-concessional operations of multilateral development partners (2012-2016)



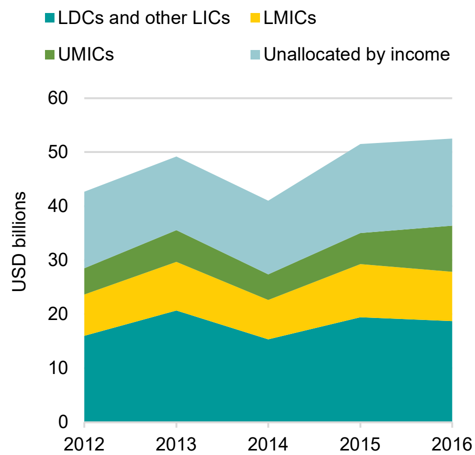
Note: USD commitments (constant 2016 prices). Data includes earmarked funding from DAC countries and bilateral development partners.
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874675

Of the concessional finance provided by multilateral development partners in 2012-2016, 60% is grants (mainly for social sectors, humanitarian assistance and governance). This is mostly sourced from bilateral providers as core and non-core finance to and through the EU, UNDS entities and vertical funds in the health sector. The remaining 40% is concessional loans from MDBs for infrastructure and production (i.e. 65% of concessional loans) and, to a certain extent, to social sectors (i.e. 17% of concessional loans). While grant-funded operations of multilateral development partners are mostly in least developed countries (LDCs), other low-income countries (LICs) and somewhat in lower-middle-income countries, grants to upper middle-income countries (UMICs) increased in 2016. This was due to high levels of earmarked funding channelled to Turkey through the European Union and to Iraq and Lebanon through UNDS agencies, mainly for humanitarian purposes (see Figure 3.4).

Figure 3.4. Grants to upper middle-income countries are increasing to face humanitarian crises

USD value of grant-funded operations of multilateral development partners by income group of recipient country (2012-2016)



Note: USD commitments (constant 2016 prices). Data includes earmarked funding from DAC countries and bilateral development partners.
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874694

In terms of concessional loans, support for infrastructure and production decreased steadily. In contrast, loans for social sectors increased from 2013 to 2014, and decreased steadily afterwards. In the other sectors, the level of concessional loans provided remained stable. In terms of recipients of concessional loans, the trends remained stable from 2012 to 2016. LDCs (including other LICs) and LMICs received 40% of concessional loans each, and UMICs receiving the remaining 20%.

3.1.4. Increased finance from MDBs is boosting resources in fragile contexts but also hardening the terms of financing

A boost of MDB finance is increasing the amounts available for the most vulnerable countries but at terms that are increasingly hard. Concessional and non-concessional funding from multilateral development partners to fragile contexts – which include LICs, LMICs and UMICs – increased from about USD 42 billion in 2012 to roughly USD 59 billion in 2016 (see left chart in Figure 3.5). A large part of this growth was due to an increase of non-concessional loans. These rose from 14% to 31% of total funding from multilateral development partners in fragile contexts. This involved major increases in infrastructure and production sectors, particularly energy, transport and banking in large middle-income countries (see centre and right charts in Figure 3.5).

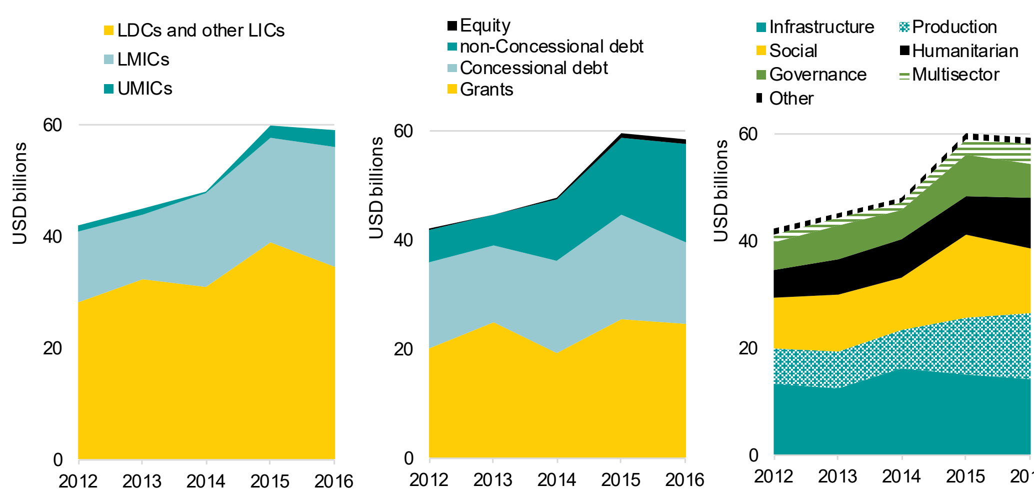
Increasing of supply and demand of non-concessional financing for infrastructure explains this growth of financing. First, an increase in financing was particularly noticeable by the IBRD, Islamic Development Bank (IsDB) and Asian Development Bank (ADB) to large economies. Second, a relaxation of non-concessional borrowing policies of the African Development Bank (AfDB) allowed creditworthy LICs to access non-concessional loans [

(IATF, 2018[6]); (Prizzon and Mustapha, 2014[7])]. Moreover, the increasing demand for loans reflected a wider interest in boosting investment. Developing countries – including LDCs and other LICs – increasingly gained access to loans beyond traditional development partners. New lenders included international bond markets and bilateral loan agencies, lending at semi-concessional terms, notably China EXIM and the Chinese Development Bank.

Concessional resources increased for governance, health, humanitarian assistance and social infrastructure, and plateaued or decreased in the other sectors. Egypt, Iraq, Pakistan, Cameroon, Bangladesh, Syrian Arab Republic, Burkina Faso, Rwanda, Mali, United Republic of Tanzania, South Sudan, Myanmar, Niger and Nigeria account for the vast majority of the increase of total concessional and non-concessional resources from multilateral development partners to fragile contexts between 2012 and 2016. Increases were mainly due to growing levels of loans for infrastructure and production, a mix of grants and loans for governance and health, and increased levels of grants for humanitarian assistance.

Figure 3.5. Multilateral development partners are increasing their support to fragile contexts but on increasingly harder terms

Concessional and non-concessional funding from multilateral development partners to fragile contexts (2012-2016)



Note: USD commitments (constant 2016 prices). Data includes earmarked funding from DAC countries and bilateral development partners.
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874713

The increasing levels of loans, particularly those that are non-concessional, to vulnerable countries raises two issues: the risk of unsustainable debt accumulation and debt distress; and the future of highly concessional resources, such as grant-funded operations for humanitarian and development objectives in the most challenging contexts. The international community should reflect on the use of multilateral organisations' concessional resources and the future of concessional windows. These issues are relevant to the operations of MDBs which, being increasingly financed through higher borrowing from capital markets, could feel constrained in using grant resources to preserve financial sustainability (Gottschalk and Poon, 2017[8]). Furthermore, as more countries approach higher levels of income per capita, they graduate from concessional finance from MDBs. However, there is a growing recognition that per capita income – an indicator for access to concessional finance – does not capture the multi-dimensional nature of developing countries' financing needs. Graduation from concessional finance limits, for instance, the eligibility of middle-income countries to receive grants or concessional loans from MDBs even if specific circumstances, such as shocks, crises and disasters (e.g. refugee crises in Jordan and Lebanon), demand them (see the "In My View" piece by Annalisa Prizzon).

Box 3.2. In My View: Graduating from concessional assistance: what are the options for reforming MDBs? By Annalisa Prizzon[1]

For a recipient country, "graduating" from soft (concessional) windows to hard (non-concessional) windows of MDBs is often considered something of a milestone. Terms and conditions evolve when moving from soft to hard windows of MDB lending: loan maturities and grace periods get shorter, interest rates get higher. Becoming a middle-income country is often confused with graduation from concessional assistance. With some nuances, surpassing the threshold of around USD 1 000 income per capita triggers the graduation process. "Graduated" countries are those that have been assessed to be in a position to borrow from international capital markets and afford more expensive financing options (i.e. they have successfully passed a so-called "creditworthiness assessment").

But what challenges are associated with graduation from MDBs' soft windows and what are the solutions to them?

First, a country's public resources fall continuously as a share of GDP until it is well into the middle-income country bracket, as international assistance falls faster than tax revenues grow. Kharas, Prizzon and Rogerson (2014[9]) call this the "missing middle" of development finance for countries joining the lower-middle-income group. Just when many countries start to emerge from low per capita income, their growth is constrained. Domestic taxes, and foreign private and market-related public borrowing fail to expand fast enough (and in some cases, fail to expand at all) to compensate for the loss of concessional assistance. A way for MDBs to fill the "missing middle" of development finance involves boosting market-based lending, either by using receivables from concessional windows, or by general capital increases. The IDA and the IDA and IBRD achieved this through both approaches, while the ADB did so using concessional window receivables.

Second, several shareholders challenge the rationale for lending to middle-income countries at lower than market rates. This is indeed the case for lending from hard windows as countries can in principle borrow from capital markets but at far higher rates than those applied by MDBs. There are at least two approaches and motivations that would justify continued engagement with middle-income countries that have graduated from concessional assistance. For example, borrowing terms and conditions can be tailored to each country reflecting their repayment capacity, i.e. by applying differentiated pricing. This would be instead of defining approaches by operational category and would move away from graduation to gradation (Rogerson, 2017[10]). Such a proposal would undermine the co-operative nature of MDB lending by penalising success – creditworthy borrowers should be charged less because they are perceived as being less risky. However, there are a series of advantages. MDB lending is still less expensive than a market-based option; lending can help to generate income to subsidise soft window lending and help to smooth the transition to fully market-based lending (Prizzon, 2017[11]).

Furthermore, lending should help middle-income countries to tackle global and regional challenges. These include tackling climate change mitigation, global pandemics, regional integration and migration crises, actions that usually are underfunded. One such example is the Concessional Financing Facility buying down IBRD conditions to IDA terms for Jordan and Lebanon to host refugees. As well as creating ad hoc measures, such an approach should be mainstreamed within MDB facilities for GPGs in middle-income countries (or, more precisely, in countries eligible for hard window lending only). Smoothing borrowing terms and conditions, expanding lending volumes and helping to finance global challenges in "graduated" countries are key areas for MDBs both to support these countries in their transition away from aid and to avoid future setbacks undermining results achieved so far.

[1] Annalisa Prizzon is a Senior Research Fellow at the Overseas Development Institute (ODI)

3.2. The unique role of multilateral organisations in the global development co-operation architecture

With an increasing number of development actors, multilateral organisations should demonstrate their value added by identifying their role and building on comparative advantage. This sub-section will first provide a brief exploration of real and perceived comparative advantages of multilateral organisations. Findings from the OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" highlight the perceived comparative advantages of multilateral development partners over their bilateral counterparts.

This sub-section also highlights specific areas where multilateral development partners play a prominent role compared to bilateral providers, at least in terms of financing volumes provided. These areas are: supporting country governments; working in fragile and humanitarian contexts; supporting climate change mitigation and adaptation; mobilising private finance for development; and supporting private sector development, particularly infrastructure.

3.2.1. Multilateral organisations hold a strong positioning in the global development co-operation architecture because of their comparative advantages

As discussed in Chapter 2, the development co-operation landscape is bringing new actors, new resources and new ways of thinking and operating. This is good news as the 2030 Agenda requires increased financing and knowledge. However, it also creates risks of fragmentation and competition, which run against the policy coherence needed to achieve a crosscutting and integrated development agenda. In this context, multilateral organisations need to demonstrate their comparative advantages and to build on their added value. This is not only true within multilateral organisations themselves, but also in finding a complementary role with other major development partners, particularly bilateral ones.

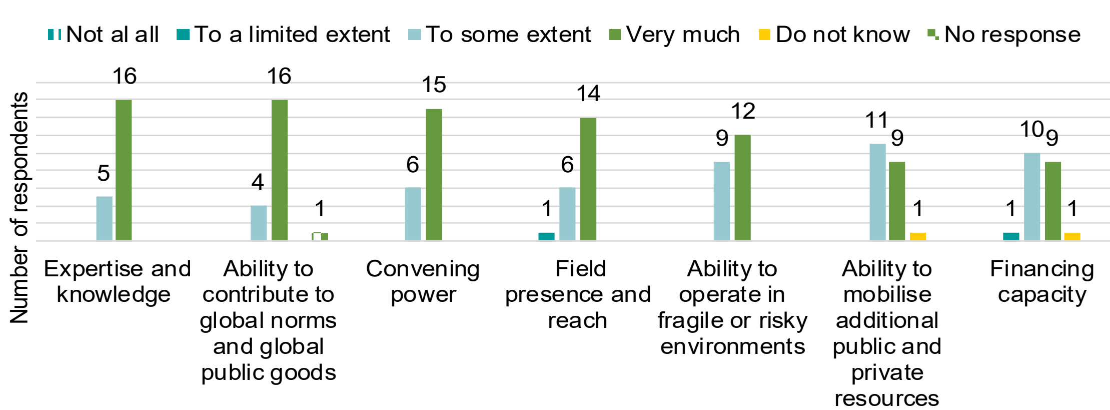
Despite the evident difficulties in defining comparative advantages for a broad and diverse group of institutions, the following can be attributed to multilateral development partners:

- Expertise in mobilising resources from public and private sources;
- Specialised knowledge in policy reforms and specific sectors, e.g. social sectors (UN agencies and vertical funds) and infrastructure and financial services (MDBs);
- Extensive country presence and political knowledge, including in fragile contexts;
- Convening power for collective action in development matters;
- Delivery of GPGs in thematic areas (e.g. peace and security, climate change, pandemics, migration, etc.) or through provision of norms, standards and principles that shape "the rules of the game" in various sectors.

Evidence from the literature shows that donors delegate responsibility to multilateral organisations for both policy and political reasons. According to (Greenhill and Rabinowitz, 2016[12]) policy reasons mainly concern supporting GPGs and organisations that share similar objectives. Political reasons include the capacity to influence a multilateral organisation and path dependency from earlier decisions. Similarly, (Gulrajani, 2016[13]) suggests that donors use bilateral channels when motivated by the need to control and be visible. Multilateral channels are chosen when motivated by the donor imperative of pooling and advancing a common global cause.

To gather more evidence on this issue, the 2018 OECD Survey asked DAC members their opinion on the comparative advantages of multilateral organisations with respect to bilateral channels. The three most-cited comparative advantages identified by respondents were: expertise and knowledge; the ability to contribute to global norms and GPGs; and convening power (see Figure 3.6). Moreover, the survey revealed that DAC donors assign considerable weight to the extensive presence and reach of multilateral organisations in the field. Their ability to operate in fragile and risky environments, where it could be difficult for bilateral donors to intervene in a prompt, co-ordinated and efficient manner, was also important. Finally, survey responses suggest that DAC donors consider multilateral institutions' financing capacity and ability to mobilise additional public and private resources as a comparative advantage.

Figure 3.6. DAC members' opinions on the comparative advantages of multilateral institutions



Source: OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" (unpublished).

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3.2.2. Supporting country governments

While bilateral development partners move away from supporting country governments due to real or perceived risks associated with these operations, support from multilateral development partners is growing. MDBs are increasing their sovereign lending to middle-income countries for infrastructure and production, and the Global Fund is boosting grants for health to LDCs and other LICs.

Beyond support for infrastructure, production and health, multilateral development partners allocate important shares of their resources to support policy and institutional reforms. Support for policy and institutional development include project and budget support. These are provided at different levels of conditionality and different levels of alignment to national strategies.

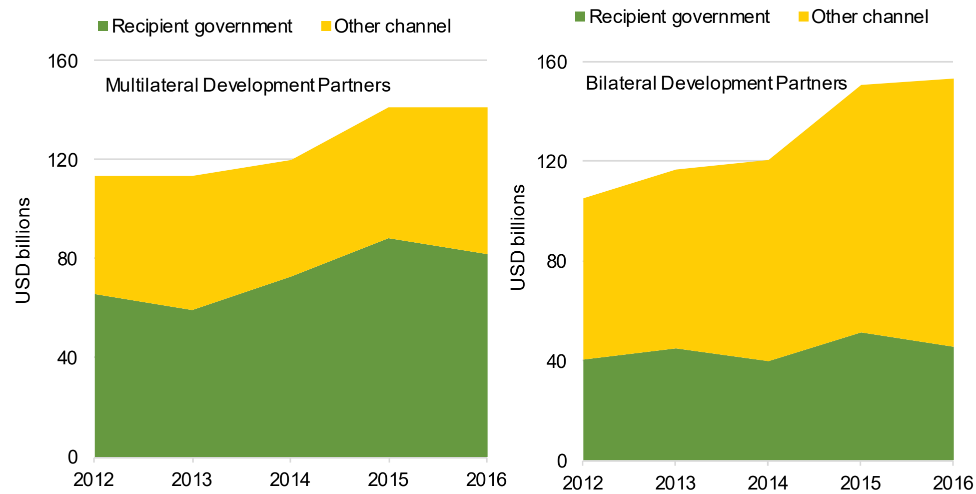
Multilateral development partners provide larger amounts of financing to country governments compared to bilateral providers, including in social sectors

The 2030 Agenda calls for holistic approaches for development, which require support for initiatives that are crosscutting, coherent and integrated. National governments have traditionally played the primary role in supporting system-wide approaches by laying down the overall development policy of a country, implementing projects within and among sectors, and providing public goods and services. However, mixed results in public financial management of developing countries – including the real and perceived risks of corruption and misappropriation of resources – have led development partners to move away from system-wide financing to governments. Instead, they allocate their resources through other channels (Orth et al., 2017[14]). Conversely, multilateral development partners have assumed a prominent role in this area, providing large amounts of concessional and non-concessional development finance to support country governments. This is intended for policy and institutional development or for investment projects, such as in physical infrastructure, agricultural development, etc.

Overall, multilateral development partners provide more financing to country governments than do bilateral development partners. Bilateral partners channel high amounts of their financing through their own agencies, civil society organisations (CSOs) and multilateral organisations (see Figure 3.7). In fact, while multilateral development partners channelled between half and two-thirds of their resources to governments between 2012 and 2016, bilateral providers only channelled a third. Moreover, while financing from bilateral development partners to country governments stagnates, multilateral development partners are increasing their support both in absolute and relative terms. In particular, support from multilateral development partners to country governments increased from USD 66 billion in 2012 to USD 82 billion in 2016. In contrast, support from bilateral development partners to country governments only increased from USD 41 billion to USD 45 billion in the same period (see Figure 3.7).

Figure 3.7. Multilateral development partners are increasing resources to country governments compared to bilateral providers

Concessional and non-concessional development finance from multilateral and bilateral providers through governments and other channels (2012-2016)



Note: USD commitments (constant 2016 prices). Earmarked funding from bilateral development partners through multilateral organisation is considered as financing from bilateral development partners. Bilateral development partners only include DAC countries.
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

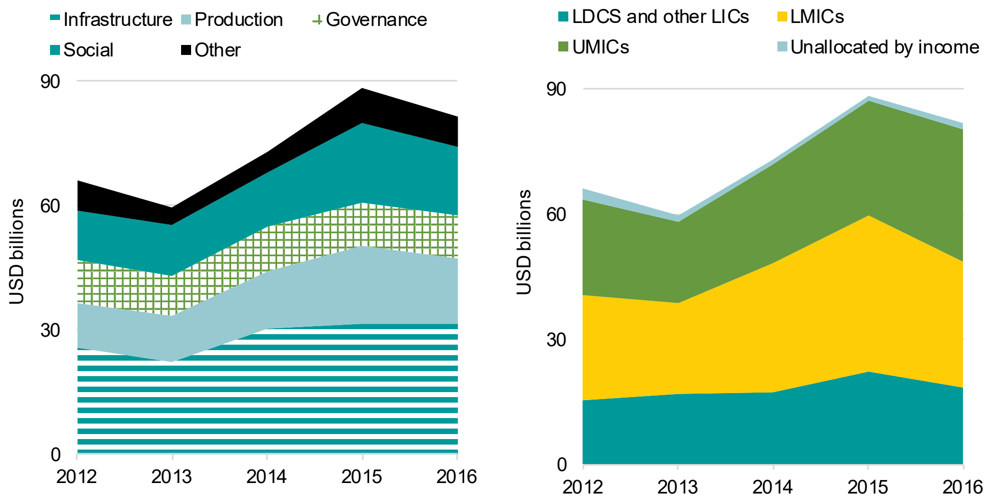
StatLink https://doi.org/10.1787/888933874751

Much of this increase in financing was due to a boost of non-concessional loans from MDBs to middle-income countries for infrastructure and production. These are sectors where governments are strongly involved because of the importance of infrastructure as a public good in promoting economic growth to maximise public resources. Moreover, a large share of financing to middle-income countries reflects performance allocation systems of MDBs. These allocate more to countries with larger GDPs and better institutional quality, which are generally middle income countries.

Multilateral development partners also provide large volumes of support to country governments for social sectors. This increased from USD 12 billion in 2012 to USD 17 billion in 2016, with a peak of USD 19 billion in 2015 (see Figure 3.8). However, this financing was provided at different levels of concessionality. Part of this increase was due to a boost of grant finance for health from the Global Fund to LDCs. A more significant contribution was a boost of MDB loans to UMICs for health and social services.

Figure 3.8. Multilateral development partners are increasing resources for governments, including in social sectors

Concessional and non-concessional finance from multilateral development partners to country governments by sector and income group (2012-2016)



Note: USD commitments (constant 2016 prices). Earmarked funding from bilateral development partners through multilateral organisation is considered as financing from bilateral development partners.
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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Multilateral development partners support extensively policy and institutional development

Multilateral development partners allocate large shares of their resources to policy and institutional reforms. For example, a quarter of the World Bank's resources is provided for development policy lending (World Bank, 2015[15]). Multilateral development partners provide grants, loans and technical assistance to support:

- State reforms and capacity building on general public administration, including strengthening the rule of law, public financial management and decentralisation; domestic revenue mobilisation;
- Public reforms in social sectors, such as in health, education, housing;
- Improvement of the investment climate, such as investment laws, business environment reforms, financial sector regulations and, privatisation;
- Supporting economic development and competitiveness within production policies, e.g. structural adjustment, macroeconomic reforms, poverty reduction strategies, rural development strategies, agricultural and industrial policy;
- Policies, laws and regulation in key infrastructure sectors, e.g. energy, transport, water and communication policies, to improve the investment climate or ensure the provision of public goods and services;

- Counter-cyclical lending to withstand financial crises, which includes policy conditionality, such as fiscal consolidation and other macroeconomic reforms to promote economic development (see Box 3.1 above).

Support for policy and institutional development is provided at project and budget levels. These have different levels of conditionality and alignment to national strategies. In budget support, providers and recipient countries negotiate overarching principles of reforms and a performance assessment framework that sets indicators for monitoring the implementation of reforms. Budget support can be both general and sectoral. It has less conditionality than project loans, although there may be broad conditionality on macroeconomic reforms or fiscal consolidation measures. In particular:

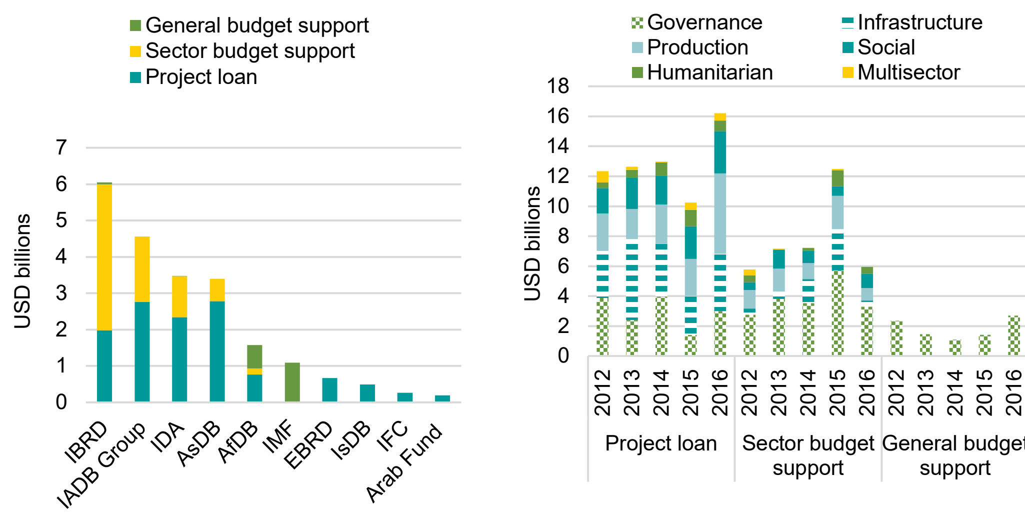
- *General budget support* is provided for the overall country budget with policy conditionality not related to specific sectors or to specific projects but including broad macroeconomic reforms or overall development policy objectives (e.g. poverty reduction strategies);
- *Sector budget support* is provided for the implementation of national sector strategies of recipient countries (e.g. energy, health, education, etc.) with policy conditionality at a broad thematic level but not on specific projects;
- *Project loans* can be within or beyond of existing general and sector strategies of countries and provide more detailed conditionality.

The vast majority of policy loans are provided by MDBs, particularly the World Bank Group and the IADB Group (see Figure 3.9). While half of the amount is for projects, about a third is for general and sector budget support. The World Bank Group and the IADB Group are also the largest providers of sectoral budget support. The IMF and the AfDB are the largest providers of general budget support.

While the MDBs are the largest providers of policy loans, the European Union is large provider of grants for policy and institutional development. In 2016, the European Union provided about USD 7 billion for policy and institutional development. About half of the EU's grant support of policy and institutional development is given as project support and a third as general and sector budget support. This makes the European Union the largest provider of grants for general and sectoral budget support among all multilateral development partners. For instance, the European Union provided Mali with a grant budget support of EUR 615 million for the period 2014-2020. This was to support state reform and consolidation of the rule of law, rural development and food security, education and road transportation in addition to other projects scheduled in Mali's northern regions (European Union, 2016[16]). Other important actors of grant finance for policy and institutional development are the United Nations Development Programme (UNDP), the Global Environment Facility (GEF) and the World Bank.

Figure 3.9. MDBs are the main providers of debt finance for policy and institutional development in the form of project loans and budget support

USD value of policy loans from multilateral development partners by largest provider (annual average) and sector (2012-2016)



Note: USD commitments (constant 2016 prices). Only purpose codes related to policy and institutional development. See Statistical methodology.

Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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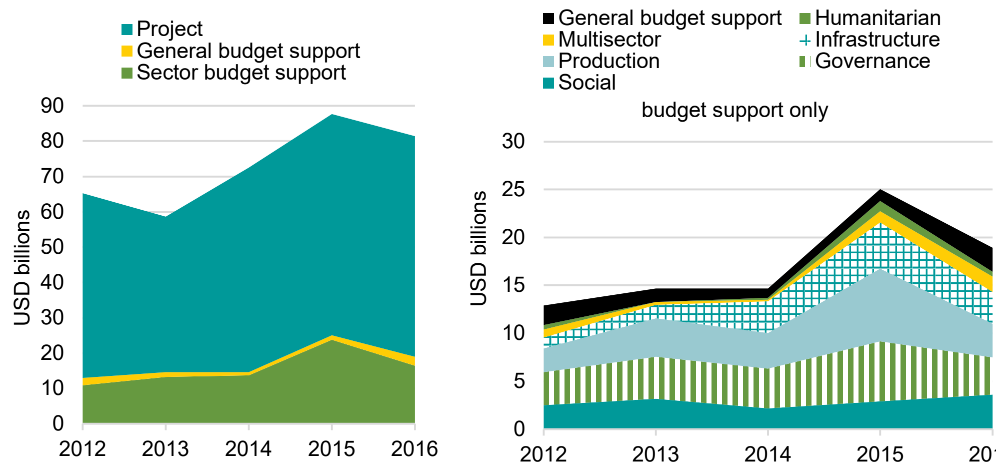
Sector and general budget support from multilateral development partners increased markedly from USD 13 billion in 2012 to USD 19 billion in 2016, with a peak of USD 25 billion in 2015 (see Figure 3.10). Conversely, budget support from bilateral development partners fluctuated within a small range of USD 1-2 billion in the same period. A comprehensive review of donors' evaluations of general and sector budget support suggests that overall this type of support improves public financial management and the provision of public goods and services (Orth et al., 2017[14]). However, this is dependent on institutional capacity and political will for reform in the recipient countries. Multilateral development partners are preferred partners for these activities. However, they need to ensure that measures supported are aligned with national development strategies of recipient countries and achieve the desired results.

Figure 3.10. Multilateral development partners are increasing sector budget support, particularly on production and infrastructure

Concessional and non-concessional finance from multilateral development partners for budget support and other types of interventions, including by sector (2012-2016)



Note: USD commitments (constant 2016 prices).
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874808

3.2.3. Working in the most vulnerable contexts

The increase in number and intensity of shocks, crises and disasters is compromising development progress in the most fragile and humanitarian contexts. This is affecting the international community's efforts to achieve the 2030 Agenda, including poverty eradication and leaving no one behind. In this context, bilateral development partners are increasingly delegating responsibility to multilateral organisations to both implement humanitarian programmes and carry out development programmes in fragile contexts.

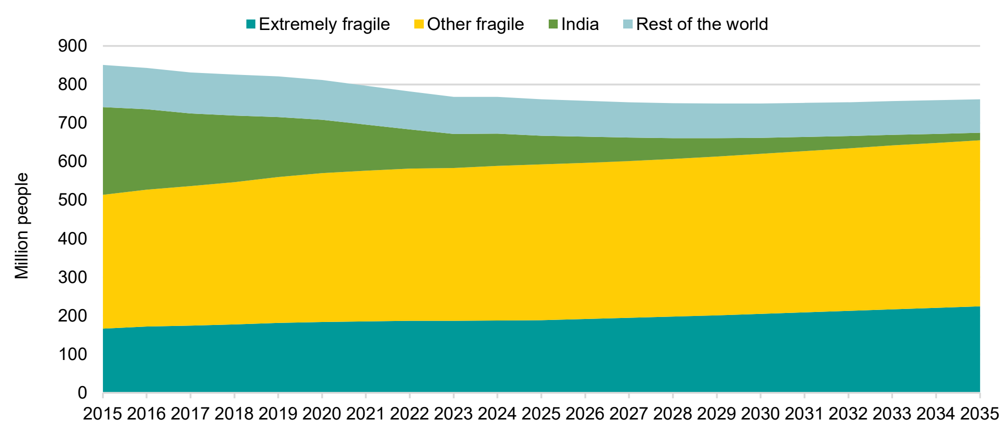
The intensification of shocks and crises is reducing the capacity of the most vulnerable countries to achieve the 2030 Agenda

While the increased recurrence of shocks, crises and disasters is compromising development achievements almost everywhere, it is more compelling in the poorest and more vulnerable countries. This is because of their increased exposure to conflicts, pandemics, environmental disasters and knock-on shocks from price changes, trade and monetary policies and financial crises occurring beyond their borders, as well as their limited capacity to cope with these events [(UNHCR, 2017[17]); (ILO and UNDP, 2017[18]); (Kreft, Eckstein and Melchior, 2016[19])]. For instance, environmental shocks and disasters more frequently and severely affect LDCs and Small Island Development States (SIDS), which are more constrained in anticipating and responding to these events. This puts 26 million people into poverty every year [(IMF, 2017[20]); (Hallegatte et al., 2017[21])]. Another example is the volatility of global food prices, which increased after 2010. This put an additional 44 million people into extreme poverty, as poor people spend high proportions of their income on food (UNCTAD, 2017[22]).

Vulnerability to systemic issues can partly explain why poverty reduction is stagnant in fragile contexts – particularly LDCs and in sub-Saharan Africa (see Figure 3.11). Two-thirds of the extremely poor live in fragile contexts. This share is likely to increase to 82% by 2030, mainly due to high demographic growth in sub-Saharan Africa, particularly in Nigeria, Democratic Republic of Congo, Tanzania and Madagascar (OECD, 2018[23]).

Figure 3.11. Poverty will be increasingly concentrated in fragile contexts

Number of poor people in the world by country (2014-2035)



Note: Calculation by the authors using list of fragile contexts from (OECD, 2018[23]).
Source: Projections by (International Futures, n.d.[24]) database, www.ifs.du.edu/ifs/frm_MainMenu.asp.

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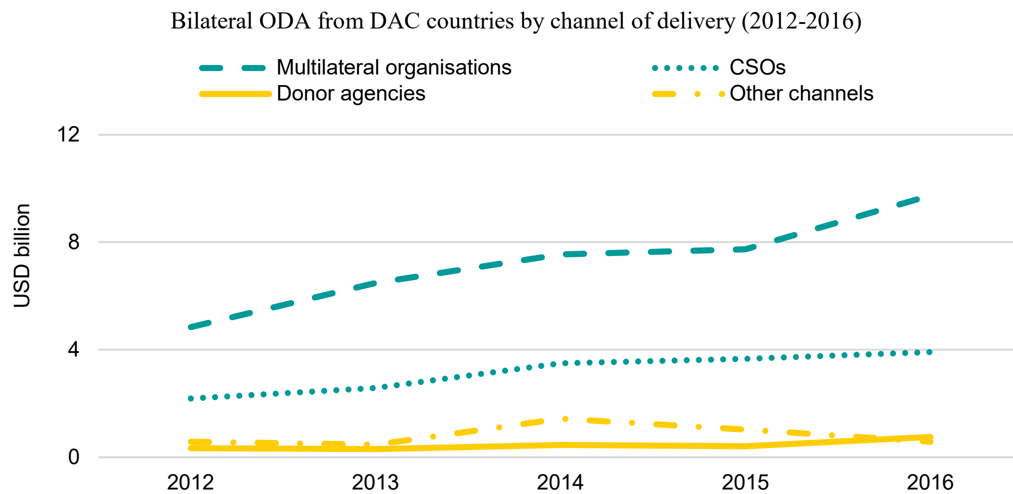
Bilateral development partners are increasingly delegating responsibility to the multilateral system for work in humanitarian and other fragile contexts

The intensification of shocks, crises and disasters is also pushing development partners to increase the share of resources for humanitarian responses. This involves a shift away from longer-term developmental assistance. In fact, the share of ODA from bilateral and multilateral development partners reporting to DAC for humanitarian crises, (i.e. in-donor refugee costs and humanitarian assistance) doubled from 10% to 21% in 2012-2016. In contrast, the ODA to the LDCs and/or fragile contexts, beyond humanitarian assistance, is stagnating (OECD, 2018[23]).

Bilateral donors are increasingly delegating responsibility to multilateral organisations, particularly agencies from the UNDS, to implement humanitarian programmes. Funding earmarked for humanitarian programmes by DAC countries doubled from USD 5 billion in 2008 to 10 billion in 2016 (see Figure 3.12). About 90% of these funds earmarked for humanitarian programmes are channelled through the UNDS. This illustrates the importance of this multilateral group in the humanitarian field. Among the various channels that bilateral providers use for humanitarian assistance, multilateral organisations are by far the most prominent (Figure 3.12). This resonates with the 2018 OECD Survey, which suggests that DAC countries attribute a comparative advantage to multilateral organisations when it comes to operating in fragile contexts. This can be explained by their political neutrality (especially in the case of the UN), a greater capacity to absorb risks and the ability to release funds more rapidly.

While the increase of these resources was particularly prominent for short-term responses to humanitarian crises, earmarked support for development projects in fragile contexts plateaued. This highlights the issues of providing sufficient resources targeting both the consequences and causes of fragility; causes which are political, economic, societal, and environmental and security related (OECD, 2018[23]).

Figure 3.12. DAC countries are increasingly using the multilateral system for humanitarian assistance



Note: USD commitments (constant 2016 prices). Humanitarian assistance includes food aid.
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874846

3.2.4. Supporting developing countries in mitigating and adapting to climate change

Fighting climate change in the long term (i.e. climate change mitigation) and adapting to negative climate impacts in the short term (climate change adaptation) require an important focus on developing countries. Developing countries, particularly large and more advanced economies (e.g. China and India), are large emitters of global greenhouse gases, accounting for two-thirds of global emissions (Center for Global Development, 2015[25]). They therefore need to quickly transition to a low-carbon development path to keep global warming below 2°C above pre-industrial levels, in accordance with the Paris Agreement. Developing countries, especially LDCs and SIDS, suffer the most from the increased occurrence of extreme climate events. They lack capacity to anticipate and cope climate disasters, and appropriate infrastructure. Their geographical positions further increase their exposure to risk. This requires increased resources for disaster risk reduction, climate change adaptation and climate-resilient infrastructure.

In this context, the role of multilateral development partners cannot be overstated:

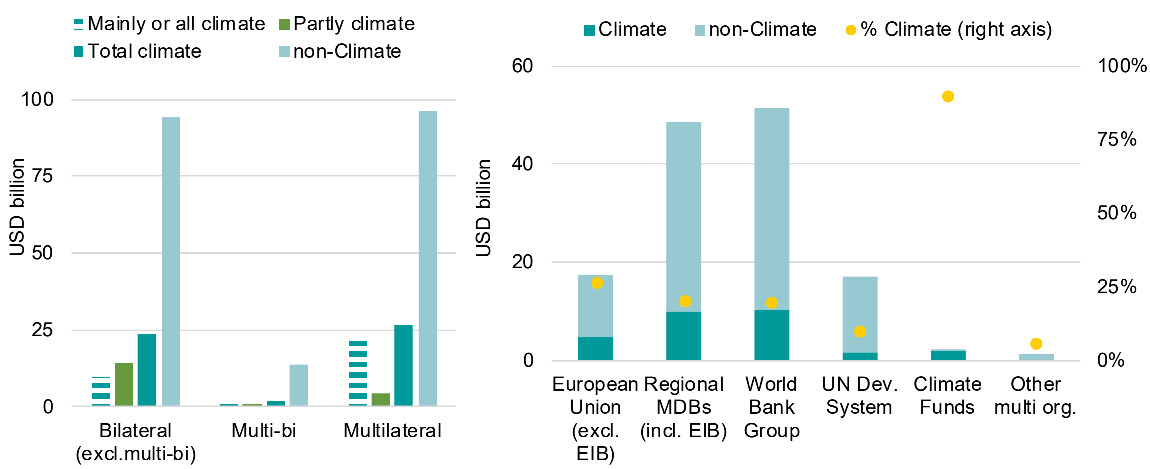
- As conveners, multilateral development partners, particularly the UN, have been at the forefront of facilitating major environmental agreements. The United Nations Framework Convention on Climate Change (UNFCCC), for example, which led to the adoption of the Kyoto Protocol and the recent Paris Agreement;

- As financers, MDBs and multilateral climate funds are key in supporting low-carbon and climate-resilient infrastructure and production investments;
- As implementers, UN programmes and agencies carry out general environment programmes, disaster risk reduction and climate change adaptation projects. These prepare the poorest countries and people for climate disasters.

Despite the crucial role of multilateral development partners in promoting the climate agenda in developing countries, only a small portion of their resources is allocated for climate-related projects. In fact, a fifth (20%) of their annual financing flows in 2015-2016 was for operations with climate objectives. Compared to their bilateral counterparts, multilateral development partners provide more resources for projects that are principally for climate change – especially MDBs for low-carbon infrastructure. Bilateral development partners provide more support for projects that mainstream climate objectives among sectors (see Figure 3.13).

Figure 3.13. A small share of multilateral development finance is allocated for climate-related purposes

Bilateral and multilateral climate and non-climate finance by type of provider, annual av. 2015-2016 (left chart) and multilateral climate finance and non-climate finance by multilateral group, annual av. 2015-2016 (right chart)



Note: Partly climate" refers to financing of projects that have a significant climate objective. In the right panel, "climate" refers to the climate components of projects financed by MDB as well as the financing for projects with both principle and significant climate objective. The right chart includes both core-funded multilateral outflows and bilateral funding earmarked through multilateral organisations. Multilateral organisations only include those that report climate data to the DAC. Climate finance is both concessional and non-concessional development finance for development. See Statistical methodology.
Source: (OECD, 2018[26]), "Climate Change : OECD DAC External Development Finance Statistics", http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm.

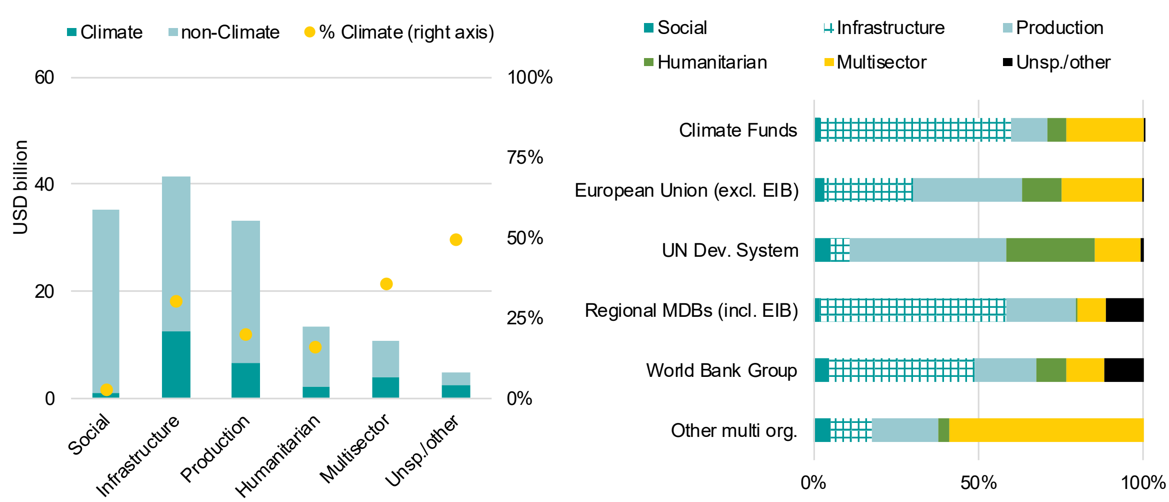
StatLink https://doi.org/10.1787/888933874865

MDBs are the largest providers of climate finance in terms of volume. However, multilateral climate funds, such the Green Climate Fund, the Green Environment Facility (GEF) and the Clean Investment Funds, have the highest shares of climate finance in their portfolios. Climate finance is distributed mainly to the infrastructure (particularly energy) and production sectors, followed by multisector projects. Multisector projects mostly include general environmental protection and urban development projects (see Figure 3.14).

Climate financing in the humanitarian sector includes disaster risk reduction and climate resilience programmes. This is in the form of concessional and non-concessional loans from MDBs to LMICs and grants to LDCs, other LICs and LMICs by the EU, climate funds and UN programmes (mainly the World Food Programme) as earmarked funding from bilateral providers.

Figure 3.14. Infrastructure and production sectors receive the largest share of multilateral climate finance although the share of climate finance within these sectors is low

Multilateral climate and non-climate finance by group of sector, annual average 2015-2016 (left panel) and multilateral climate finance by group of sectors and multilateral group 2015-2016 (right panel)



Note: Climate finance includes climate components of projects financed by MDB as well as financing for projects with both principle and significant climate objective by other multilateral development partners. See Statistical methodology.

Source: (OECD, 2018[26]), "Climate Change : OECD DAC External Development Finance Statistics", http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm.

StatLink https://doi.org/10.1787/888933874884

3.2.5. Mobilising resources from the private sector

Multilateral development partners are important in supporting development directly or indirectly through concessional and non-concessional financing to companies and financial institutions. Multilateral development partners, particularly MDBs, provide the largest volumes of financing for these operations among all development partners. They also mobilise more resources from the private sector. However, the portfolios of multilateral development partners are still dominated by debt instruments, particularly loans. For example, instruments such as equity investment only make a small portion of their financing available for development, despite their importance in supporting market-based solutions.

Multilateral development partners have a prominent role in mobilising private finance for development

Increasingly, both bilateral and multilateral partners are using concessional resources to reduce the risk of investments or structure returns to mobilise finance from the private sector. This is achieved through blended finance arrangements and other financial innovations. OECD (2017[27]) defines blended finance as "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries", where additional finance is from private resources. Concessional and non-concessional instruments have been used to attract private finance, especially in sectors with clear commercial opportunities. Providers have also contributed technical assistance and absorbed the costs of project preparation.

For multilateral development partners, blended finance operations can be part of their regular activities. They can also be ring-fenced in private sector windows or dedicated blended finance programmes that they manage on behalf of bilateral and multilateral providers. Multilateral blended finance funds have increased sharply, as demonstrated by the long list of blended finance funds established to support small and medium-sized enterprises (SMEs) and low-carbon infrastructure. Data from the OECD Survey (OECD, 2018[28]) on 74 blended finance funds and facilities shows that a third of these funds are managed by MDBs and other multilateral organisations. This accounts for half of the total size of these funds and facilities examined.

MDBs are increasing mobilisation efforts collectively, including at the G20 level. In the G20 in Hamburg in 2017, the MDBs' Joint Principles on Crowding-In Private Finance were endorsed. These aim to enhance private sector instruments and mobilisation efforts (G20, 2017[29]). MDBs aim to increase private finance mobilisation by 25-30% between 2017 and 2019 (AIIB et al., 2017[30]). A common principle framework has been established to guide MDBs in this:

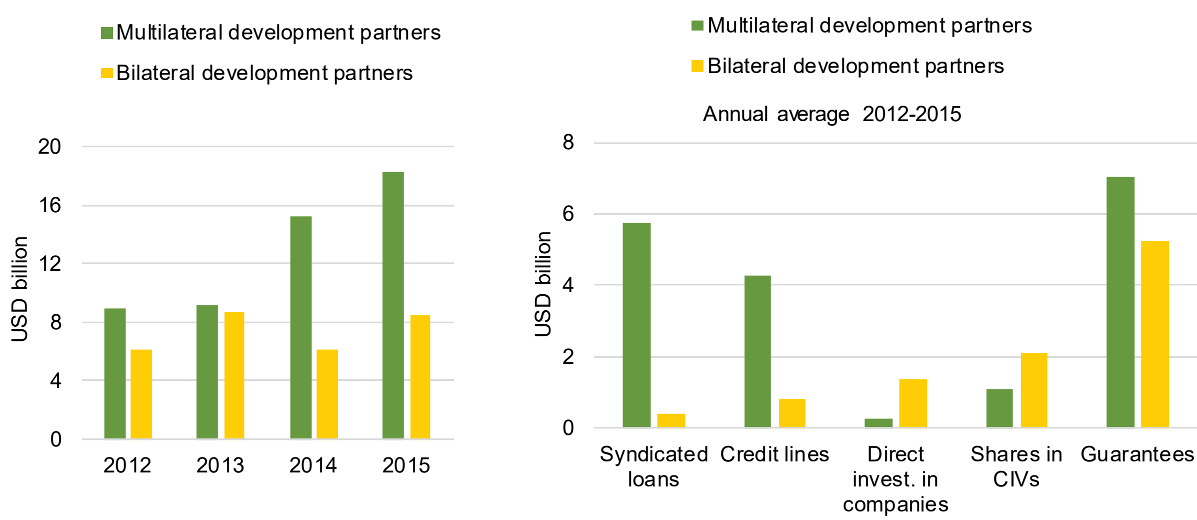
- expanding and standardising credit enhancement;
- prioritising commercial financing not guaranteed by governments;
- blending concessional resources and private capital;
- reviewing incentives for crowding-in private sector resources.

To follow up on these commitments, the World Bank Group is increasing the amount of resources for private sector projects. For instance, the new IDA18 replenishment created a Private Sector Window of USD 2.5 billion in collaboration with the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) to mobilise private sector investment in IDA-only countries, including in fragile contexts. More recently, World Bank Group shareholders agreed a capital increase for the IFC, which will increase its borrowing from capital markets for private sector projects.

These increased efforts will further reinforce the role of MDBs in mobilising private finance. According to data from the OECD Survey, multilateral organisations account for two-thirds of the amounts mobilised from the private sector by bilateral and multilateral development partners. This is achieved through a set of official development finance interventions (i.e. syndicated loans, credit lines, shares in collective investment vehicles, direct equity participation and guarantees) (Benn, Sangaré and Hos, 2017[31]). Development partners mobilised USD 18 billion from the private sector in 2015, up from USD 8 billion in 2012 (see Figure 3.15). Guarantees and syndicated loans collectively mobilised two-thirds of total, followed by credit lines, which mobilised a fifth. The institutions mobilising most resources were MIGA and the IFC, collectively mobilising half the total amount from the private sector.

Figure 3.15. Amounts mobilised from the private sector by multilateral development partners are small but growing

USD value of amounts mobilised from the private sector by official development finance interventions of multilateral development partners (2012-2015)



Note: Amounts mobilised from syndicated loans, credit lines, direct investment in companies, shares in collective investment schemes and guarantees.
Source: (Benn, Sangaré and Hos, 2017[31]), "Amounts Mobilised from the Private Sector by Official Development Finance Interventions", http://dx.doi.org/10.1787/8135abde-en.

StatLink https://doi.org/10.1787/888933874903

The blended finance portfolios of multilateral development partners are dominated by debt instruments

Private sector operations of multilateral development partners are dominated by debt instruments. These include single and syndicated loans or credit lines. These debt instruments represent about 60% of total support for private sector projects by all multilateral development partners. Much of this support is concentrated in a few providers, mainly the IFC and the European Bank for Reconstruction and Development (EBRD). For MDBs, while debt instruments are mostly non-concessional, they are usually provided on better terms and conditions than alternative options available in the market. Debt instruments from MDBs to the private sector cover:

- large syndicated loans for infrastructure, including public-private partnership (PPP) models;
- senior and subordinated loans to both SMEs and large companies in manufacturing, agriculture and mining and construction;
- credit lines to financial institutions that on-lend to SMEs in various industries;
- project bonds from infrastructure companies and funds.

Some MDBs provide loans through co-investment platforms. For instance, IFC's Managed Co-Lending Portfolio Program is a syndicated loan platform. Investors provide capital on a portfolio basis, which can be deployed by IFC in individual investments to all regions and sectors in accordance with IFC's strategy and processes. An extension of this programme specifically targets infrastructure projects. This enables institutional investors to take advantage of IFC's ability to originate and manage a portfolio of bankable infrastructure projects. Similarly, the African Financing Partnership is a collaborative, co-financing platform of the AfDB, EIB and IFC, which finances private sector infrastructure projects in Africa.

Despite their potential impact for development, equity investments are only a small portion of multilateral development finance for private sector projects

Unlike loans, equity investments represent only a small share of total resources committed by multilateral development partners. Most is committed by the IFC and, to a lesser extent, the EBRD. This is because equity investments are generally riskier than loans.

Equity investments can have an important development impact by supporting both business innovation for development and paving the way for the growth of high potential companies. First, equity participation of a multilateral development partner in a company can boost the confidence of private investors, in turn attracting commercial investors and reducing the cost of capital. This is in the case in the European Commission's concessional equity investment in the Kenyan Lake Turkana Wind Power project via the Africa Infrastructure Trust Fund (OECD, 2018[28]). Second, investing in private equity funds that support companies in developing countries can promote market-based solutions for development, especially when positive social and environmental impact programmes are targeted (e.g. seed funding or growth capital for SMEs; supporting funds investing in sustainable infrastructure, etc.).

The level of equity participation changes among multilateral development partners. For instance, the IFC generally invests between 5% and 20% of a company's equity. In contrast, the EBRD does not fix a specific limit, although it has to take a minority position and have a clear exit strategy. The choice between direct investment in companies and investment in private equity funds depends on a variety of factors. These include: the degree of control and engagement; the volatility and return profiles; expertise with the required corporate governance skills; country knowledge; and industry experience (IADB, 2017[32]). Examples of innovative equity investments include the Global Energy Efficiency and Renewable Energy Fund (GEEREF), which is advised by the EIB Group. GEEREF is an innovative fund-of-funds. It supports private equity funds that provide financing in return for shares in private companies that conduct commercial projects in renewable energy and energy efficiency in developing countries.

3.2.6. A focus on private sector development than bilateral partners

Multilateral development partners' operations and strategies have a strong focus on private sector development (PSD). This supports private-sector-led growth in developing countries, such as:

- investment and production policies;
- market functioning (e.g. physical infrastructure, financial sector, business development services);
- enterprise resources (see Box 3.3).

Box 3.3. Multilateral development partners support PSD in three main areas

Policies and institutions. Multilateral development partners support public institutions to make policy and institutional reforms that can improve the investment climate and production policies (e.g. industrial policies) of developing countries. These include providing loans and technical assistance to support: 1) macroeconomic stability, including public financial management; 2) business environment reforms, such as improving business laws and regulations; 3) policies and regulatory frameworks in infrastructure sectors, labour markets and trade; 4) production policies and strategies to increase competitiveness in agricultural and various industries.

Market functioning. This area involves supporting infrastructure and economic services to facilitate business activity and productivity growth. This means financing physical infrastructure in order to increase the connectivity of companies to energy, transport, communication and water systems. It also includes promoting value chain integration through market platforms or industrial clusters. This means supporting providers of business intermediary services, such as training providers and incubators, as well as supporting financial institutions, such as banks and investment funds, in order to expand financial access for local companies, particularly SMEs.

Enterprise resources. Multilateral development partners support local and foreign companies directly with technical and financial assistance in agriculture and other production sectors, such as manufacturing, mining, construction and tourism. Technical assistance is provided to improve managerial skills of entrepreneurs, including SMEs. Advice is given on structuring complex transactions, such as mergers and acquisitions; or helping companies enhance productivity, e.g. by improving energy and water efficiency, business development plans, etc. Moreover, large portions of financial support is provided through non-concessional loans and equity investment in companies operating in various production sectors, such as manufacturing, mining and construction, and tourism.

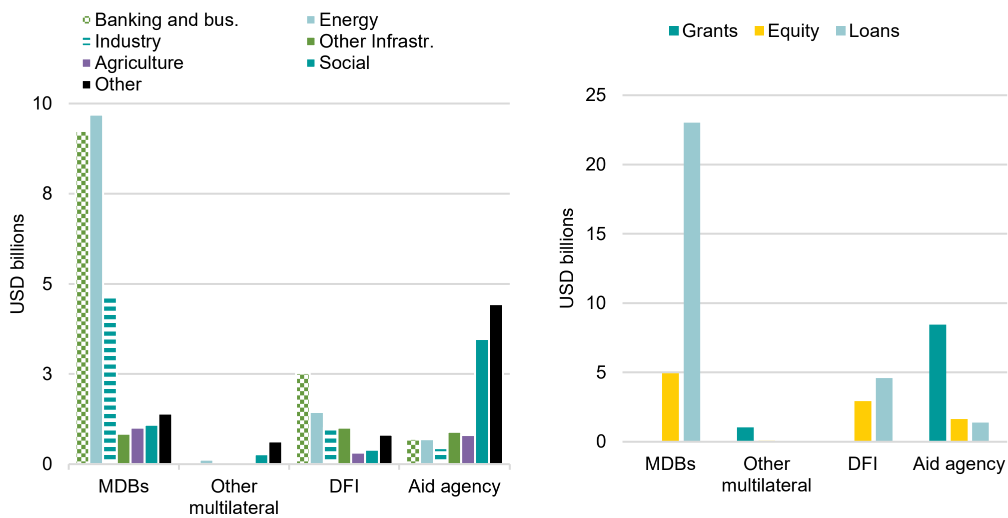
Source: (Miyamoto and Chiofalo, 2017[33]), "Development Co-operation for Private Sector Development", http://dx.doi.org/10.1787/ded2028f-en.

While PSD operations support both public and private institutions that promote economic growth, large amounts are channelled to companies and financial institutions for infrastructure, financial services and production sectors (see Figure 3.16). These activities include:

- investing in, and providing technical assistance to, companies in manufacturing and agriculture, which helps to increase jobs and promote private sector-led economic growth in developing countries;
- providing loans for large-scale physical infrastructure or equity to infrastructure funds, mainly in energy, which is essential for companies' productivity;
- extending credit lines to banks or financial institutions that on-lend to local companies (mainly SMEs) in developing countries, increasing financial services for local PSD.

Figure 3.16. Large amounts are provided by development partners to private companies and financial institutions for PSD, particularly from multilateral development banks

Concessional and non-concessional development finance provided to the private sector (estimate, 2016)



Note: USD Commitments (constant 2016). It includes estimates from the authors based on annual reports of multilateral organisations and other secondary literature. See Statistical methodology.
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874922

PSD is high on the agenda of multilateral development banks and the European Union

Among multilateral organisations, MDBs and EU institutions are in the lead on PSD financing. MDBs have laid out a number of joint principles and statements that set strategies and quantifiable targets on supporting PSD. In particular, the G20 Hamburg Action Plan called on MDBs to step up efforts to support private-sector-led growth by:

- mobilising more private finance for development;
- increasing the level of PSD operations thanks to balance sheet optimisations;
- boosting investment in infrastructure;
- investing in local currency bond and capital markets;
- supporting the resilience of domestic economic and financial systems (G20, 2017[34]).

The emphasis on PSD is increasingly recognised in the policy document and strategies of multilateral development partners. For example, the recently adopted World Bank Group's "Maximising Finance for Development" strategy, sets PSD as the main goal of the Group. The strategy builds on a "cascade approach" for investment decision making, whereby the Group will facilitate commercial solutions in order to avoid the accumulation of public debt and liabilities (World Bank, 2017[35]). If commercial solutions are not viable, then market failures will be dealt with by supporting the policy and regulatory framework and through credit enhancement. Public financing is considered as a last-resort option. The Maximising Finance for Development strategy dovetails with IFC's "Create Markets" strategy and

MIGA's 2020 strategy creating a whole-of-group plan. This encourages investment policy and regulatory frameworks, with the objectives of improving competition and developing local markets.

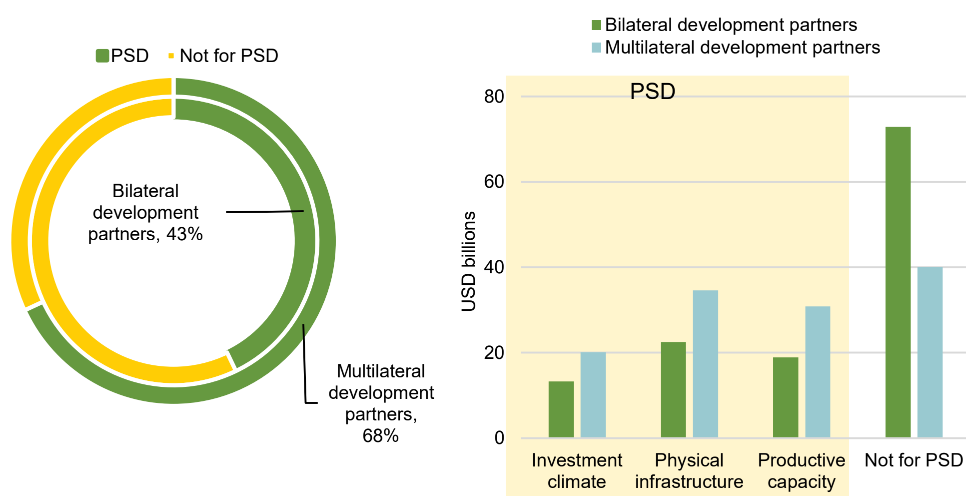
Beyond the MDBs, the European Union developed an External Investment Plan (EIP) to encourage investment in Africa and other developing countries. Priority investment areas include: encouraging sustainable infrastructure; expanding SME finance; and promoting sustainable agriculture and rural development. This PSD strategy aims to both support an investment climate, such as market-based regulatory policy and governance reforms. It will also create a European Fund for Sustainable Development (EFSD) to channel downstream support for public and private PSD projects.

The strong strategic focus of multilateral development partners on PSD is reflected in the high shares of their portfolios dedicated to these operations

Multilateral development partners' interest in PSD – mainly the MDBs and the European Union – is reflected in the high shares of financing provided for these types of operations. Conversely – with the exception of Japan, Germany and France, who invest large amounts of resources in infrastructure – bilateral providers' contribution is more modest, at least in dollar terms. In fact, while for bilateral development partners' support for areas relevant for PSD account for two-fifths of total resources, for multilaterals the share is more than two-thirds (see Figure 3.17). Larger volumes for PSD areas for multilateral development partners reflect large amounts of loans for infrastructure and production sectors. These are less supported by most bilateral development partners as they concentrate more on social sectors.

Figure 3.17. Multilateral development partners prioritise PSD more than bilateral development partners

Bilateral and multilateral development finance for PSD (annual average, 2012-2016)



Note: USD commitments (constant 2016 prices). PSD definition and clustering based on (Miyamoto and Chiofalo, 2017[33]). See Statistical methodology.
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874941

Bilateral partners channel large shares of their finance for PSD through:

- public institutions in various infrastructure sectors;
- donor agencies and development finance institutions (DFIs) for legal and judicial development, agriculture, banking and infrastructure;
- private companies in various PSD areas, such as infrastructure and production.

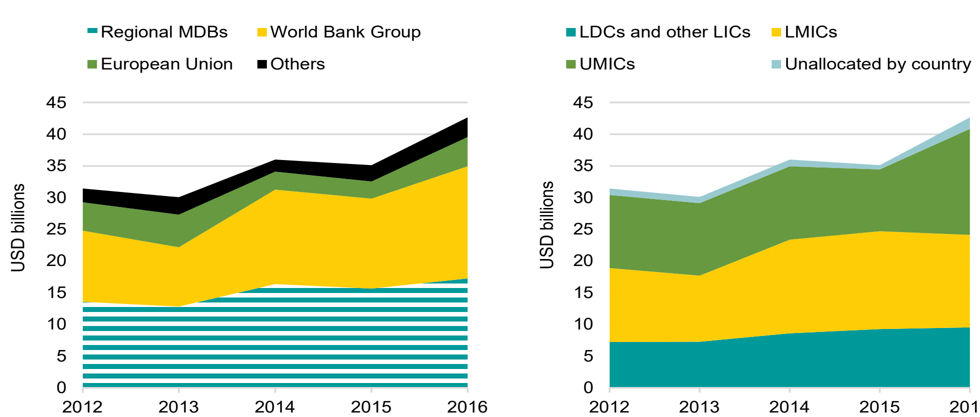
Individual bilateral partners may focus a small part of their ODA portfolios on PSD as an implicit recognition of multilateral institutions' comparative advantage in this area. For instance, most European DAC countries channel small amounts of resources towards PSD. At the same time, they finance EU institutions, which are large supporters of PSD. In particular, the European Commission and the European Development Fund allocate about half of their support for PSD operations and provide financing to the EIB, which focuses principally on PSD. EU institutions support physical infrastructure and sector budgets for various policy and institutional reforms in PSD sectors, such as energy policy, public financial management and agricultural policy.

The largest portion of multilateral development finance for PSD is for infrastructure in order to improve market functioning

Over the three levels of PSD assistance identified in (Miyamoto and Chiofalo, 2017[33]), multilateral support for PSD largely concentrates on market functioning (57%). This is mostly about physical infrastructure and to some extent financial services. Multilateral development finance for physical infrastructure grew from USD 31 billion in 2012 to USD 43 billion in 2016, mainly through non-concessional loans from MDBs in middle-income countries (see Figure 3.18). The World Bank Group and regional MDBs provide most of this financing and have specialised knowledge in these areas. Evidence shows that MDB involvement in project selection, preparation and oversight in infrastructure projects generally increases its chances of success (Gurara et al., 2017[3]).

Figure 3.18. MDBs are boosting financing for infrastructure

Concessional and non-concessional multilateral development finance for physical infrastructure (2012-2016)



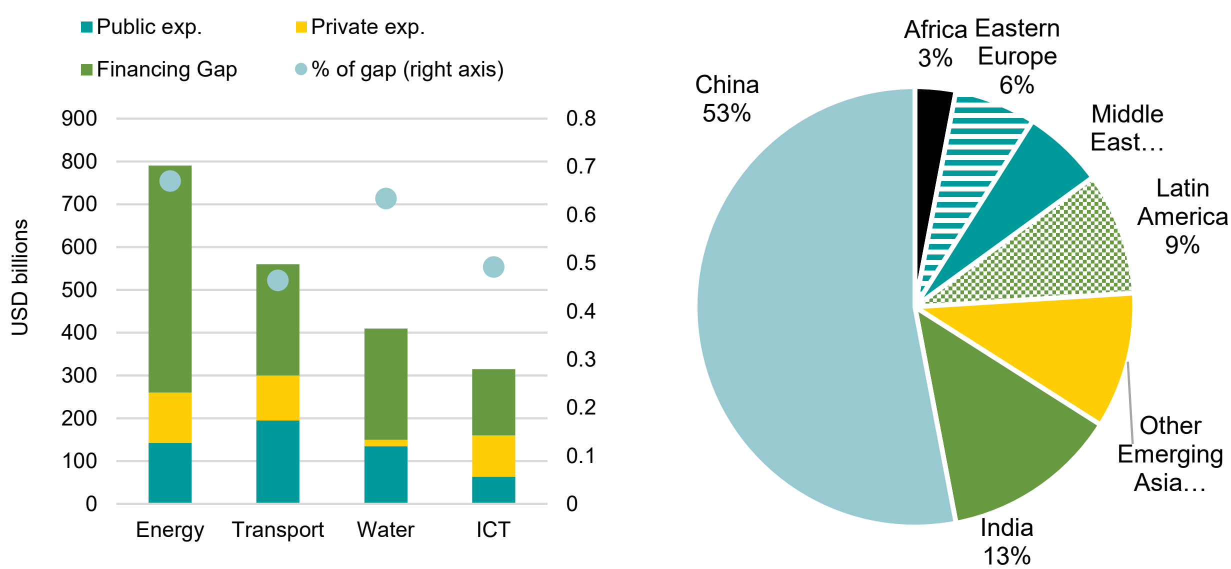
Note: USD commitments (constant 2016 prices). Physical infrastructure only. See Statistical methodology.
Source: Authors' calculations based on (OECD, 2018[2]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933874960

Increasing support for infrastructure reflects the growing need to close financing gaps in this sector. Infrastructure needs are significant (over USD 2 trillion per year) and are mostly unfunded, particularly in energy and water (see Figure 3.19). Moreover, aggregate financing volumes hide the challenges the international community faces in filling these gaps in developing countries. If volumes alone were considered to measure efforts to finance infrastructure, attention would shift towards large-scale projects in large emerging economies, particularly China and India, rather than poorer countries, such as those in sub-Saharan Africa. However, while much smaller in volume, infrastructure needs in the poorest countries are more difficult to fill due to budget constraints of these countries and poor investment climates for private sector participation.

Figure 3.19. Infrastructure needs in developing countries are significant, particularly in large emerging economies

Annual investment and financing gaps in infrastructure in developing countries (left panel) and shares of financing needs in infrastructure in developing country by country (right panel)



Source: Authors' calculations based on (UNCTAD, 2014[36]), World Investment Report 2014, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf and (McKinsey, 2017[37]), Bridging Infrastructure Gaps: Has the world made progress?, https://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/bridging-infrastructure-gaps-has-the-world-made-progress.

StatLink https://doi.org/10.1787/888933874979

Large financing gaps for infrastructure in developing countries explain why enhancing financial support is high on the agenda of multilateral development partners, including at the G20 level. In 2016, within the G20, MDBs issued a joint Declaration of Aspiration on Actions to Support Infrastructure Investment, which sets targets to increase infrastructure finance. For instance, the EBRD committed to increase the level of infrastructure finance by 20% over the period 2016-2018 compared to 2015 levels and the IFC by 5-10% (Miyamoto and Chiofalo, 2016[38]).

To increase the finance available for infrastructure, multilateral and bilateral partners have been working on attracting the private sector. For example, they have acted to develop infrastructure as an asset class (see Box 3.4), and to mobilise institutional investors. Facilitating long-term investment by institutional investors, such as pension funds and insurance companies, would help to channel global savings into productive investment. Realising this potential will require, however, removing both regulatory obstacles and market failures, and reviewing prudential regulation for institutional investors. To attract long-term financing, including from institutional investors, MDBs are supporting the G20 Global Infrastructure Hub and the World Bank's Global Infrastructure Facility. These are platforms that help prepare and structure complex infrastructure projects.

Increasingly, multilateral development partners are using Public-Private-Partnerships (PPPs) to support large-scale projects in infrastructure. PPPs can involve a variety of arrangements with different degrees of public and private participation in terms of financing, building and operation of the infrastructure. Multilateral development partners, especially MDBs, support countries to build their regulatory and institutional framework, including by helping to create or enhance PPP laws and units. However, unlike projects that are fully private and therefore involve minimal financing effort for countries, PPPs might be costly, especially for the poorest countries. These projects are complex and require capacity from the public sector as well as good investment climates, which are both generally limited in the most vulnerable countries. Moreover, these projects are usually backed by the country through guarantees. While offloading the cost of the project from domestic budgets, this leaves the country exposed to the same financial risk of cost overruns. Moreover, high costs from private sector developers and the subsidies provided by the country to promote PPPs make these operations particularly expensive compared to traditional procurement.

Box 3.4. The OECD Initiative for the G20 on “Breaking silos: actions to develop infrastructure as an asset class and address the information gap”

Policy and industry initiatives have been launched to build a better understanding of infrastructure at the macro and micro level. Taken together, the data sources and methods used in these initiatives may be applied to help close the data gap in infrastructure. This will chart a course that better describes investment expectations for both policy makers and investors. The G20 could play a key role in helping to advance the proposed agenda for research, building on countries and multilateral organisations’ contributions.

The aim of the OECD report “Breaking silos: actions to develop infrastructure as an asset class and address the information gap” is to develop proposals to fill the main gaps in information (OECD, 2017[39]). It has a particular focus on infrastructure financing and the role of the private sector. The proposals build on two Workshops on Data Collection for Long Term Investment held in 2017. There supported the G20/OECD Taskforce on Institutional Investors and Long Term Investment Financing and the OECD and Long-term Infrastructure Investor Association Joint Forum on Developing Infrastructure as an asset class on 18 October 2017.

A new project, the “Infrastructure Data Initiative”, on data gathering and filling data gaps was presented at the last Taskforce meeting in May 2017. This jointly developed project by the MDBs, Global Infrastructure Hub and OECD is supporting the Argentinian G20 presidency for 2018 and the Japanese one for 2019 (see www.oecd.org/finance/lti).

This initiative aims to create a centralised repository of historical long-term data on infrastructure at an asset level. The aim is to ensure a collective effort mobilising the existing information held by MDBs, DFIs, the private sector and governments to create a centralised repository. This will make the information accessible, as a public good, in an appropriate way to policy makers, regulators, investors and researchers.

The data collected will be used in different interrelated areas of research:

- Financial performance benchmarks: new benchmarks on investment profitability metrics such as return on assets, return on equity, and dividend yield, analysing also risk (i.e. default rates and recoveries) measured over project life-cycle;
- Economic and financial viability: impact evaluation at project/asset level, including utilisation performance (ex-post and ex-ante analysis), construction costs and delivery performance (ex-post and ex-ante analysis);
- Environmental, social and governance performance: sustainability and inclusive growth impacts and climate-related risks (i.e. transition risk).

Digital solutions, e.g. enhancing the role of technology in building standardisation and improving performance measurement through better data and information management, are key areas. These will be explored under the roadmap and through the Infrastructure Data Initiative. The OECD is considering how blockchain and more broadly distributed ledger technology could be create much-needed standardisation and data transparency in infrastructure markets.

This initiative to be launched under the G20 Argentinian Presidency will be discussed in November 2018 at the next G20/OECD Taskforce on Long term Investment in Paris.

3.3. Priorities for delivering on the 2030 Agenda

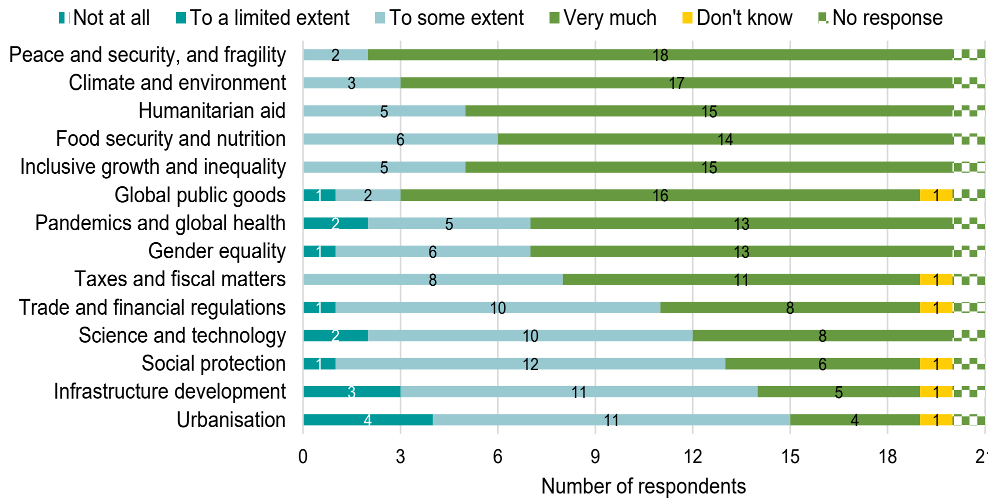
The 2030 Agenda calls for a paradigm shift in terms of financing practices and approaches. This will require moving from transaction-based to system-wide financing approaches that build on comparative advantages of multilateral organisations and realise the potential of public and private resources for development. In particular, multilateral development partners need to: 1) adapt operational strategies and approaches with a crosscutting and integrated development agenda; 2) support GPGs and steering discussions to divide roles and resources for providing these functions; 3) promote co-operation and build on comparative advantages for institutional coherence; 4) increase support in fragile contexts and manage operational and financial risks; 5) promote the climate agenda; 6) boost contributions of the private sector, while ensuring that these operations are aligned with national priorities, do not harm developing countries and increase development gains; and 7) improve resource mobilisation for concessional resources, including through more and better pooled funding mechanisms.

3.3.1. Adapting to a crosscutting and integrated development agenda

With a development agenda shaped by systemic (e.g. climate change, financial crises, conflicts, etc.) and local issues, development partners need to adopt holistic approaches. This means promoting development both globally, by supporting GPGs, and within specific countries, by mainstreaming crosscutting issues in country programmes based on local needs. For example, overcoming growing poverty and development challenges in fragile contexts will require tackling the causes of fragility, which are political, societal, economic, environmental and security related [(OECD, 2018[23]); (Kharas and Rogerson, 2017[40])].

Given their technical, financial and political resources, multilateral organisations have an important role to play in supporting an interconnected and multi-dimensional development agenda that requires collective action. A multilateral system that is aligned and responsive to this evolving agenda is essential to the solution. Moreover, multilateral development partners can support and complement the work carried out by bilateral development partners. For example, as suggested by the 2018 OECD Survey, DAC countries believe that multilateral organisations can contribute in a way that complements their bilateral efforts. They can do this by shifting their sectoral and thematic focus more towards global promoters of development, such as peace, security, climate change mitigation and adaptation, global health and other GPGs (see Figure 3.20).

Figure 3.20. DAC members believe that multilateral organisations will need to focus more on addressing global issues that require in-depth country and technical knowledge



Source: OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" (unpublished).

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Multilateral development partners have already started to adapt to the 2030 Agenda. They are moving towards goal-oriented programming rather than focusing on narrow activities and outputs. In particular, they are:

- aligning their policies and operational strategies with the SDGs;
- creating indicators and monitoring tools to track their alignment with the SDGs;
- designing and implementing programmes and projects that mainstream crosscutting development issues;
- carrying out research and analysis to monitor the state of advancement on the 2030 Agenda.

For instance, the UN Secretary-General recently adopted the 2018-2021 strategy for financing the 2030 Agenda. This strategy calls for mainstreaming SDGs within global economic policies as well as regional and national financing strategies and investments, while harnessing the potential of financial innovation and new technology at the project level (United Nations, 2018[41]). From a results perspective, the World Bank Group has adopted eight SDG indicators verbatim and linked to 45 others for 31 targets and 15 goals (World Bank, 2018[42]). While these efforts are at early stages, they show that the multilateral system is responsive to the calls of the international community to commit to the 2030 Agenda. Multilateral organisations will need to demonstrate their results in mainstreaming crosscutting development goals in their programming in order to maintain legitimacy and political support.

3.3.2. Increasing support in fragile contexts and managing resulting risks

As discussed above, sovereign states recognise that multilateral organisations have a comparative advantage when operating in the most challenging situations. They are politically neutral (especially in the case of the UN), have a greater capacity to absorb risks and can distribute funds more rapidly. This is evidenced by the increasing levels of earmarked funding to multilateral organisations for humanitarian assistance. It is also shown in recent reforms and discussion within MDBs and the UNDS to increase development efforts in fragile contexts. This echoes the OECD 2018 Survey, which found that DAC countries believe security and fragility should be prioritised by multilateral organisations.

The preference of donors to choose multilateral channels in the most challenging contexts can be seen as a risk management approach. It allows donors to transfer part of the programmatic and fiduciary risk to the implementing agency, while retaining some degree of control (OECD, 2012[43]). However, multilateral organisations may feel that operational and reputational risks resulting from increased delegation by donors are too high. For grant providers, such as the UNDS and vertical funds, this will further increase programmatic risks. Moreover, for the UNDS, increased programmatic risk will add to the already high financing risk arising from funding modalities that are fragmented and unpredictable (see Chapter 2). For loan providers, such as the MDBs, this will require adjustments to funding and operational practices. Practices will need to be adapted to fragile contexts, by mitigating high sovereign risks, supporting debt management, streamlining fiduciary systems, developing skillsets and breaking silos between central and local government [see e.g. (McKechnie, 2016[44])].

3.3.3. Promoting the climate agenda

Achieving the 2030 Agenda is a priority given the limited time frame to avoid irreversible climate consequence to the planet. Countries must speed up the green transition. As a GPG that requires collective action, climate change should be high on the agenda of multilateral development partners. This is also reflected in what sovereign states expect from multilateral organisations, as shown by Figure 3.20.

Such a change will require both reduced support for carbon-intensive infrastructure and increased volumes of low-carbon and climate-resilient infrastructure. As shown in Figure 3.13, only small shares of existing portfolios of multilateral development partners are climate related. Importantly, only a third of official development finance for infrastructure and production sectors is climate related. MDBs will need to “green” their portfolios by avoiding support for carbon-intensive infrastructure which could “lock-in” a country to high-carbon development pathways in the long term (OECD, 2017[45]). MDBs face several constraints, relating to the conservative risk profile of their investments and balancing climate and development goals (Meltzer, 2018[46]).

Moreover, multilateral development partners should continue to support disaster risk reduction and climate resilience projects both by helping countries with thematic programmes and by mainstreaming climate objectives, including in urban and rural development. These will require loans and technical assistance, including grant-funded operations for countries most in need.

Finally, the governance of multilateral climate funds should be considered. As noted by (Amerasinghe et al., 2017[47]), there is a need to increase the effectiveness and coherence of an increasing number of these funds, consolidating some if necessary. For example, given the direct link between the Green Climate Fund (GCF) and the UNFCCC and its scale, this fund could absorb the Climate Investment Funds and the Adaptation Fund. However, consolidation of various funds in the GCF will require improvements in the fund’s governance and operational modalities, which have led to inefficient management and slow disbursement (Waslander and Vallejos, 2018[48]). If the GCF takes a leading role in supporting the Paris Agreement, including providing resources for adaptation projects, these structural issues need to be resolved.

3.3.4. Working cohesively with other institutions

A crosscutting and integrated agenda calls for co-ordinated approaches in order to build on comparative advantages and avoid competition and overlaps. Multilateral development partners are trying to strengthen systemic coherence and collaboration via institutional reforms, strategic partnerships and intergovernmental processes, including partnerships with new multilateral organisations. Bilateral development partners feel that most multilateral organisations need to work more cohesively towards the 2030 Agenda, particularly for the UNDS (see Figure 3.21).

Figure 3.21. DAC members believe that working cohesively to reduce overlaps and fragmentation is a priority for most multilateral development partners

DAC's opinion on the areas where multilateral development partners need to improve to be fit for purpose for the 2030 Agenda

	MDBs	UNDS	New MDBs	Vertical Funds	Climate inst.	Average
Demonstrating value added and comparative advantage	28%	44%	78%	56%	41%	49%
Adapting functions to new development challenges	22%	75%	33%	11%	9%	30%
Responding to increasingly diverse country contexts and needs	52%	78%	72%	41%	60%	61%
Working cohesively to reduce overlaps and fragmentation	69%	100%	83%	81%	76%	82%
Leveraging resources and knowledge from the private sector	52%	61%	56%	72%	86%	65%
Fostering inclusive partnerships, including with civil society	16%	44%	53%	46%	49%	42%
Increasing the voice of emerging economies	60%	17%	6%	11%	9%	21%
Increasing transparency and communication around results	46%	83%	58%	0%	47%	47%
Enhancing performance and delivery	40%	75%	72%	23%	69%	56%

Note: Values normalised based on survey responses and scores attributed by each respondent. Highest and lowest levels of need for improvement are 0% and 100%, respectively.
Source: OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" (unpublished).

StatLink https://doi.org/10.1787/888933875017

Multilateral organisations are strengthening systemic coherence and collaboration

Enhancing systemic coherence and reducing overlaps and fragmentation among multilateral organisations is a main concern among sovereign states, as expressed in the 2018 OECD Survey. Multilateral organisations are already making efforts to align their strategies and promote co-ordination in order to increase the impact of their contribution to the SDGs. This is being achieved through ongoing institutional reforms, intergovernmental process and strategic partnership frameworks.

- **Institutional and policy reforms:** Institutional reforms, including capital reforms and updated institutional and thematic strategies, are increasingly highlighting the need for coherence and collaboration. The ongoing institutional reform of the UNDS aims to achieve greater coherence among UN entities. It aims to strengthen in-group co-ordination with a reinforced role for resident co-ordinators and improved co-ordination among UN agencies and other multilateral organisations. Similarly, the World Bank Group's Maximizing Finance for Development strategy is an attempt to create a "whole-of-group" approach for PSD.
- **Strategic partnerships:** Multilateral organisations are encouraging partnerships with each other through strategic partnership frameworks that define areas of co-operation and joint initiatives. For example, the recent Strategic Partnership Framework between the UN and the World Bank Group is a step to collaboration in country project implementation and in fragile contexts. The newly created Asian Infrastructure Investment Bank (AIIB) has entered into multiple Memoranda of Understanding with other MDBs, such as the World Bank, the AfDB, the ADB, the EBRD and the IADB.
- **Intergovernmental processes**: International fora are increasingly becoming a platform where crosscutting and thematic issues are discussed to improve the contribution of the multilateral system to the current development agenda. For example, the G20 has catalysed MDB joint approaches, for example, by carrying balance sheet optimisations and agreeing with shareholders on capital reforms. It has also promoted efforts for infrastructure and PSD. More recently the G20 Eminent Persons Group has discussed global governance, advocating closer interaction among MDBs (Box 3.5). Similarly, compelling development issues are bringing bilateral and multilateral development partners together on specific themes. For example, WHO is co-ordinating an intergovernmental process with bilateral development partners and other multilateral development partners that focus on health (i.e. UNAIDS, the United nations Children's Fund, the United Nations Office on Drugs and Crime, UNDP, the Global Fund, GAVI and the World Bank) to identify comparative advantages and develop a joint plan to achieve SDG 3 (WHO, 2018[49]).

Box 3.5. The G20 Eminent Persons Group on global economic governance

The G20 Eminent Persons Group on global economic governance was created in spring 2017 to make practical recommendations for the functioning of IFIs in a rapidly changing global system. Within its remit and functions, the G20 Eminent Persons Group has called for the MDBs to collaborate more closely on "principles, procedures, and country platforms" and to work more "as a system".

However, it is unclear to what extent these broad recommendations will be actionable in practice. The calls from the G20 Eminent Persons Group seem too vague and unlikely to bring about greater collaboration, especially in co-financing of large programmes among MDBs (e.g. the ADB and the AIIB) or with bilateral donors.

Concrete suggestions are needed from G20 Eminent Persons Group for the repartition of roles among MDBs based on common but different capacities. They could provide concrete suggestions to:

- Determine an appropriate repartitioning of roles among MDBs in financing and providing GPGs and supporting country lending (e.g. World Bank's specialisation on GPGs and increased support of regional development banks in country lending for infrastructure);
- Ensure an appropriate regional division of roles in country lending (e.g. among the World Bank and regional development banks in specific regions or among regional development banks in overlapping areas, such as the EBRD and the AfDB in northern Africa);
- Support a broader reflection among shareholders about the financing capacity of the MDBs as a whole (i.e. does the MDB system has sufficient resources?). Correct imbalances among them (e.g. balance the shrinking AfDB's concessional window size with the one of the World Bank's larger IDA windows in Africa);
- Tackle MDB's corporate issues, such as excessive bureaucracy and the rigidity of funding and administrative practices.

Note: Summary of main points of article written by (Birdsall, 2018[50]), On the G20 Eminent Persons Group "Update": I'm Disappointed but Still Hopeful, https://www.cgdev.org/blog/g20-eminent-persons-group-update-im-disappointed-still-hopeful.

Encouraging partnerships between new and established multilateral organisations to bring new perspectives on working together

Political resistance in traditional multilateral institutions has led large emerging economies, particularly China, to carve out political and economic leadership by creating new multilateral financial institutions, such as the AIIB and the New Development Bank. These new MDBs have gained significant traction as shown by the large membership in developing and more advanced economies. For example, AIIB includes members from emerging economies and all major European countries.

Despite fears of fragmentation and competition within a growing multilateral system, early experience shows that they are more likely to partner with traditional institutions than replace them. For instance, the AIIB and the World Bank signed their first co-financing framework agreement in June 2016. This sets the legal framework for the two institutions to develop joint projects. This includes preparing and supervising co-financed projects in accordance with the World Bank's policies and procedures in areas such as procurement, the environment and social safeguards. Moreover, in 2017, the two MDBs agreed to strengthen co-operation and information sharing, signing an agreement providing a framework for co-operation in areas such as development financing, staff exchanges, and analytical and sector work. Similarly, AIIB developed Memoranda of Understanding to promote co-operation with major traditional MDBs, such as the AfDB, the ADB, the EBRD and the IADB.

Since the 2016 agreement, the AIIB and the World Bank have co-financed several projects. These include rural connectivity and power supply projects in India, an improved flood management in the Philippines, hydropower rehabilitation and extension projects in Tajikistan and Pakistan, dam safety improvements in Indonesia, improvements to regional infrastructure and urban infrastructure in slums, and the construction of the Trans-Anatolian natural gas pipeline.

Overall, the increased prominence of emerging economies in these new institutions is bringing new perspectives to development finance approaches. In particular, the increased presence of China and other emerging economies in the newly created MDBs is emphasising the importance of the positive role of well-run public development banks. This highlights the need for more balanced provision of both public and private long-term finance for development (Griffith-Jones, 2016[51]).

3.3.5. Providing and financing GPGs

Development challenges are increasingly interconnected and global in nature, making it all the more important to support GPGs. Multilateral development partners are main actors in this area, carrying out support functions. Support includes facilitating policy dialogue, implementing programmes on global issues, developing global standards and norms and collecting data on development. However, multilateral development partners are experiencing difficulties in finding sufficient resources and identifying a clear division of roles in the implementation of these activities.

Despite their importance for a global and interconnected development agenda, the provision of GPGs face financing issues

Multilateral organisations play a key role in the international development architecture by providing GPGs. These are institutions, mechanisms and outcomes that provide quasi-universal benefits. They cover more than one group of countries and several population groups (Kaul, Grunberg and Stern, 1999[52]). They include policy areas, such as peace and security, global financial stability, climate change, global pandemics, migration and so on. Multilateral organisations contribute to the delivery of GPGs by:

- facilitating political dialogue on global development issues;
- implementing donor-funded development programmes;
- setting global norms and standards;
- monitoring the implementation of international agreements;
- collecting data;
- providing forecasting and policy intelligence on global issues.

Despite the importance of global public goods for a crosscutting and integrated development agenda, only USD 14 billion is provided annually for GPG-related activities. This mainly covers UN peacekeeping, IMF surveillance and selected WHO activities (Birdsall and Diofasi, 2015[53]). These estimates only include ODA activities that are global in scope and exclude support for country programmes on GPG-related areas, such as climate change, pandemics and migration. Funding for carrying out UN normative functions has been estimated at USD 5-6 billion, although the credibility of the number is contested (Jenks and Topping, 2017[54]). Beyond the quantity of support, the increased use of piecemeal and volatile earmarked funding for these functions hinders long-term predictability and effectiveness. This is highlighted by the UN Secretary-General and a 2008 World Bank Independent Evaluation Assessment [(United Nations, 2017[55]); (World Bank, 2008[56])]. Challenges in filling financing gaps for providing GPGs arise because no single country can fully recover the benefit of its own spending. This results in low political returns on financing and incentives for free-riding [(Kaul, 2012[57]); (Birdsall and Diofasi, 2015[53])].

There is still uncertainty about the division of labour among multilateral organisations in the provision of GPGs and how to fundraise for these activities

More and better funding for multilateral organisations for GPG delivery is essential if the international community wants to achieve a global development agenda. Given the inherent reluctance of sovereign states to carry out functions and activities that they cannot fully benefit from, collective action steered by multilateral organisations is needed. Multilateral organisations need to take the lead in facilitating discussions to divide roles in the provision and financing of these functions.

First, there is a need to ensure a clear division of labour based on common but differentiated capacities of multilateral organisations. In a growing multilateral development landscape, it is increasingly difficult to reach agreement among multilateral organisations that sometimes have overlapping mandates. It is unclear what constitutes a GPG within the broader development community and what mechanisms can be used to steer governance and attribute roles in the provision of these goods. This is an issue both within multilateral groups (e.g. UNDS) and among different groups (e.g. UNDS and MDBs).

Mechanisms are needed to pool resources from a variety of actors (public and private, national and international) in order to raise sufficient funding that is also flexible and predictable. Multilateral organisations can also play a role. One option is to use returns from lending activities of MDBs to subsidise the delivery of GPGs. For instance, as suggested by (Morris and Atansah, 2017[58]), IDA reflows could be used to provide grants to multilateral organisations that provide GPGs and subsidised loans for GPG-related investment (e.g. infrastructure, agriculture, etc.). However, the use of margins from income-generating operations to fund GPGs could be an opportunity cost for developing countries as shifting reserves of MDBs to finance GPGs will reduce the amount available for new operations. Therefore, alternative options for fundraising that involve the participation of advanced economies are still important to ensure fairness.

3.3.6. Boosting PSD and mobilising private finance while maximising alignment with national priorities and the SDGs

Multilateral development partners play a leading role in promoting PSD and mobilising finance from the private sector, for instance through blended finance arrangements. However, these two types of engagements present both challenges and opportunities for achieving the 2030 Agenda. A bigger role of the private sector is necessary in terms of resources and financing needed to fill significant financing gaps. In contrast, it is important to align these activities to national priorities, avoid harm to people and increase development gains.

Ensure that policy and institutional development for PSD areas is aligned with national priorities and increase development gains

Multilateral development partners have supported policy and institutional development more than bilateral development partners since their creation. They have been particularly active in promoting macroeconomic reforms and increasing competitiveness in various sectors to bolster private sector participation. However, results have been mixed – both in terms of alignment of the policies with national priorities and in overall social and economic impact, particularly from MDBs and other IFIs (Shah, 2013[59]). In particular, structural adjustment programmes of the IMF and World Bank during the 1980s and 1990s have, in several circumstances, failed to achieve their social and economic objectives. At times, they have had serious detrimental effects on recipient countries.

Since the late 1990s, multilateral development partners have increased their efforts to integrate social considerations into their policy conditionality. For example, social impact assessments and poverty reduction strategies are more integrated into their policy lending. In 2004, the World Bank switched from adjustment lending to development policy lending, putting emphasis on country ownership of the reform programme (Swaroop, 2016[60]). It also introduced the Poverty and Social Impact Analysis tool to avoid collateral damages to the most vulnerable segments of societies in borrower countries. However, criticism from civil society suggested that the change was in name only, rather than in creating different policy instruments (Shah, 2013[59]). Contrary to this, recent reviews carried out by some MDBs show improvements in the economic and social impact of policy lending compared to past experiences [(World Bank, 2015[15]); (Asian Development Bank, 2018[61])].

More recently, the humanitarian crisis in Africa, led the European Union to boost its engagement in the region, particularly in fragile contexts. While increased resources for fragile contexts are particularly important, given the challenges that these contexts face, the objectives of the organisation were questioned. Critics claimed that motives were political rather than developmental. As mentioned in Chapter 2, country studies on Libya, Niger and Ethiopia suggest that EU trust funds – which also integrate PSD activities, e.g. SME development – are mainly motivated by EU's migration policy. Critics claim they prioritise reduced transit of migrants over the safety and the impact of development operations (CONCORD, 2017[62]).

More evidence is needed to comprehensively and accurately assess the intentions and consequences of the funding practices and policy conditionality of multilateral development partners. It is important for these institutions to preserve and, when needed, advance efforts in supporting policies and institutions. However, this support should respect country ownership, avoid collateral damage to the most vulnerable people and support development rather than political issues.

Ensure sufficient amounts are mobilised from the private sector and that they increase development gains of developing countries

Overall, private finance mobilised from the private sector is increasing and is set to continue due to interest in private sector solutions from official development partners, particularly multilateral agencies. The AAAA, the Paris Agreement, intergovernmental processes at the G20 and the UN clearly show political commitment to promoting commercial solutions to close important financing gaps in infrastructure, climate change and social services [(United Nations, 2015[1]); (G20, 2017[29]); (OECD, 2017[63])]. This raises two issues. First, ensuring that resources allocated for mobilisation efforts achieve increased mobilisation rates, which are currently low. Second, that these operations do not cause collateral damage and effectively contribute to development.

1. Increasing mobilisation outcomes by diversifying instruments and funding mechanisms

Amounts mobilised by the private sector from multilateral development partners are far from the trillions expected. This is illustrated by MDBs' private capital mobilisation ratios of 1 (public) to 1.5 (private) over their whole portfolios (Blended Finance Taskforce, 2018[30]). Diversifying transaction-based portfolios dominated by loans and finding financial mechanisms will free up more space in MDBs' balance sheets for increasing private sector operations. However, methodological difficulty in understanding the potential of each instrument makes comparisons challenging and evidence hard to find. First, ascertaining additionality – ensuring that private finance was mobilised because of MDBs' interventions – is hard to calculate in practice and widely contested. Second, instruments are diverse among MDBs and comparisons are challenging. In fact, only grants entail an actual and definitive flow of resources once disbursed. In contrast, loans are meant to be repaid, equity can be redeemed upon exit and guarantees – which are not flows – cashed only if activated. However, despite their difference in terms of risk-taking for their providers, loans, guarantees and equity are all booked on balance sheets based on their value and therefore limit the amount of new investments that multilateral institutions can make.

This is important as MDBs are bound by capital adequacy rules. These rules restrict the magnitude of new investments that they can take. Therefore, multilateral organisations need to choose the instruments that can maximise their investment. They also need to develop financing mechanisms that expand their financing capacity for private sector operations (see the "In My View" piece by Nancy Lee). For example, (Lee, 2018[64]) suggested creating special purpose vehicles (SPVs) for all MDBs. These would be designed to target highly catalytic uses – e.g. early stage finance and high-risk project tranches – freeing up space in MDBs' balance sheets for new investment by sharing risk.

Box 3.6. In My View: MDB private finance: more mobilising and less lending, by Nancy Lee[1]

To date, the surge in private investment – critical for filling SDG financing gaps – has for the most part failed to materialise. In infrastructure, for example, World Bank data show that the volume of investment with private participation in developing countries is down sharply. It has gone from over USD 210 billion in 2012 to USD 93 billion in 2017. As the world looks for ways to channel huge pools of private capital to SDG investments, the private sector windows (PSWs) of the MDBs are moving centre stage. Rightly so, for these are the most important publicly funded instruments for tackling this challenge.

Yet, MDB shareholders are surprisingly conflicted about their core expectations and priorities for these institutions. They want MDB PSWs to operate commercially, price on market terms, meet profit objectives and avoid distortive subsidies. Yet, they are also asked to make markets, achieve additionality and target development impact. PSWs are encouraged to deploy subsidies through blended finance, but cautioned to avoid wasting resources and taking on risks and costs that should be borne by the private sector. After many years of operations, the purpose and records of PSWs remain a subject of debate.

The following suggests some operational principles that would clarify PSW priorities and require shareholders to make choices. Fully implementing these principles would change PSWs' business models towards more mobilising and less lending, lower risk adjusted returns and possible reductions in institutional ratings, and more development impact.

Prioritise private finance mobilisation

PSWs are held accountable by their shareholders for the volume of their own business and returns. Returns tend to trump and constrain mobilisation ratios (dollars of private finance mobilised per dollar PSWs commit), leading PSWs to focus on lending rather than more catalytic but less profitable tools, such as guarantees.

Focus on capital market gaps

To catalyse private finance that would not otherwise flow, PSWs must help bridge gaps in capital markets, not occupy the same space as private investors. Capital is typically scarce in early stage finance (for firms and for infrastructure projects) and in high-risk tranches for later stage projects, e.g. junior equity. To support increased PSW operations in these riskier areas, I proposed elsewhere the creation of an off-balance sheet SPV to help PSWs manage such risks.

Aim for market impact

To make or build markets, PSWs should choose projects specifically for their likely effect on the behaviour of market actors, market infrastructure, and the management of first mover costs and risks (without discouraging other market entrants). The best use of blended finance is to tackle obstacles that affect not just a single firm but actors throughout the market: information or skill gaps, collective action problems or the need for new business models that work in low-income environments.

Share performance track records

PSWs have long financial track records that show respectable financial returns in the aggregate. However, these are not, with some exceptions, shared at the project level with the private sector. PSWs therefore miss the opportunity to use the power of their own data to signal markets on profitable opportunities and to price risk more accurately.

Create internal capacity to pilot innovations

Conventional wisdom contends that the problem for PSWs is largely the scarcity of bankable projects, suggesting a fixed supply. It is more accurate to view project supply as partially a function of the operations of the PSW itself. The capacity to pilot innovative business models or new goods and services, adapt them to market feedback, and take them to commercial viability would expand project pipelines.

Collaborate systematically with other PSWs for scale and efficiency

PSWs compete more than collaborate – rational behaviour in a world where their capital and their capital increases are dependent on their business volume. To change these dynamics, shareholders should mandate the creation of standardised asset pools for all institutions, common or at least complementary country strategies, and the sharing of project pipelines, due diligence and risk.

Build compacts that link reforms to project opportunities

The unique MDB comparative advantage is their ability to support policy and institutional reforms (PIRs) as well as finance projects. They would do well to consider the Millennium Challenge Corporation (MCC) compact model. This brings sectoral PIRs and project discussions together in the compact negotiation between the MCC and the partner country. The result is greater country ownership and greater synergies between policy and projects.

Integrate gender into every project

If interventions that help women to access project benefits are not explicitly incorporated in project design, women often gain less than men. We cannot assume that the same interventions are equally effective for men and women. Paying attention to the specific obstacles confronting women, women-owned firms and women farmers creates additional gains that make everyone better off.

Note: This is an original contribution by the author based on her article The eight virtues of highly effective DFIs, published in Development Finance Magazine in July 2018.

[1] Nancy Lee is Senior Policy Fellow at the Center for Global Development and Senior Advisor at the Center for Strategic and International Studies.

2. Ensuring social and environmental safeguards as well as development impact of private sector operations

Increasing resources through private finance mobilisation is not enough to achieve the 2030 Agenda. Additional resources need to be aligned with national priorities, avoid environmental and social disruption, and promote development gains. Principles 1, 3 and 5 of the OECD ‘blended finance principles’ state that development finance operations that aim to increase commercial finance should be anchored to a development rationale, tailored to local context and the results measured (OECD, 2017[27]). This is because the commercial motives of private companies and financial institutions can conflict with local priorities and development objectives. It is important for multilateral development partners to integrate these principles in the design and implementation of private sector operations and put in place effective monitoring and evaluation systems. Current systems are rudimentary in terms of coverage, quality and comparability (OECD, 2018[28]). Beyond ensuring that operations to mobilise private finance “do good”, it is also important that they “do not harm”, particularly in sectors with high private sector participation, such as infrastructure.

3.3.7. Improving resource mobilisation for concessional resources, including through more and better-pooled-funding mechanisms

As discussed, the deterioration in quantity and quality of donor contributions is an issue for those organisations that rely on donor contributions for highly concessional operations, particularly the UNDS. Highly concessional operations are required to: support countries and people in the most challenging contexts, such as fragile contexts and humanitarian settings; test innovative programmes and initiatives that bear high risks (including from the private sector); or fund activities that would be otherwise difficult to support, such as normative work and GPGs. The increase in earmarked funding poses challenges to ensuring predictable financial flows for highly concessional operations and promoting coherent multilateral programming and implementation. This is because earmarked funding is often provided in a fragmented fashion, e.g. through single-donor trust funds that reflect the interest and priority of the single contributor. In a context of competing priorities, there is a need to find financing mechanisms that balance donor needs (e.g. supporting donor agendas, increasing international visibility, etc.) with those of multilateral organisations and those of recipient countries. This is essential in ensuring system-wide approaches in line with both multilateral operational strategies and with local needs.

In this contexts, multilateral pooled funding mechanisms (MPFM) can support a crosscutting and integrated development agenda but need good governance and financing structures to succeed. MPFMs are financing vehicles that earmark development finance to support sectoral, crosscutting or system-wide programming and implementation. Providers contribute resources to an autonomous account or through more complex fund structures similar to multilateral institutions. The account or fund has specific purposes, modes of disbursement and accountability mechanisms. These mechanisms offer the opportunity to increase the quantity and the quality of financing for a crosscutting and integrated development agenda by consolidating scattered earmarked funding; promoting innovation; fostering policy coherence and co-ordination; and increasing financial mobilisation (OECD, 2015[65]). However, they can increase transaction costs and fragmentation if poorly designed and managed. They also need governance mechanisms that ensure country ownership and co-ordination and require donor financing streams that are predictable and flexible.

Among MPFMs, interagency configurations are more complex financing mechanisms involving a variety of official and private actors with different degrees of participation. Some of the funds are institutional articulations emanating from a group of affiliated multilateral institutions, e.g. UN Multi-Partner Trust Funds and UN Joint Programmes. Others have a high degree of independence and institutional complexity, allowing them to be considered multilateral institutions in their own right, e.g. Global Fund, Green Climate Fund, etc. In both cases, fund responsibilities are spread among several actors, usually: 1) one institution responsible for fiduciary management; 2) a multi-stakeholder steering committee deciding on funding allocations; and 3) national governments, aid agencies, CSOs or multilateral agencies implementing the projects.

The results of pooled-funding mechanisms have been mixed (OECD, 2015[65]). Large global pooled funds, such the Global Fund, GAVI and the climate funds (e.g. CIFs, Green Climate Fund, GEF, etc.) have managed to promote innovative solutions and mobilise important resources for sectoral and thematic issues, notably on health and environmental issues (Sachs and Schmidt-Traub, 2017[66]). However, because of their narrow thematic scope and a top-down governance structure, these funds have been criticised. They are accused of disregarding crosscutting issues and increasing transaction costs, notably by channelling high amounts of financing for specific projects and increasing administrative burdens for donors and recipients [(Kennedy, 2017[67]); (OECD, 2015[65]); (Browne and Cordon, 2015[68])].

Conversely, smaller, country-specific funds, have been more successful in promoting country ownership and co-ordination. However, they have not been successful in mobilising adequate resources, promoting innovation and ensuring a flexible use of finance due to donor earmarking practices (OECD, 2015[65]). The interest in the use of multilateral pooled funds is growing, especially at the UN level. The proposed UN reform aims to double the share of financing received from donors through multi-donor trust funds in various sectors to reduce earmarked funding. One initiative is boosting an SDG fund to pool resources from various donors in order to support crosscutting programmes and partnerships in various SDG-relevant themes.

3.4. Lessons for more effective multilateral co-operation in the era of the 2030 Agenda

The 2030 Agenda calls for both quantity and quality of multilateral development finance, including an appropriate balance between concessional and non-concessional resources

The complexity of the current development agenda calls for more and better multilateralism, which requires more and better financing. Overall, increasing sourcing of development finance from capital markets and profit-making activities of multilateral development partners, particularly MDBs, is contributing to an increasing level of loans for economic sectors. Conversely, UN entities, which are grant dependent, are experiencing a deterioration in the quantity and quality of their resources. This is impairing their capacity to contribute to a crosscutting and integrated development agenda, which still requires highly concessional resources, such as grants. This issue resonates among multilateral organisations financing GPGs – which are mainly supported by grants – where innovative funding mechanisms are needed to ensure adequate and predictable funding streams.

Increased focus of multilateral organisations on fragile contexts requires adapting funding systems and administrative practices, as well as managing increased risks

Multilateral development providers are increasingly called on to work in challenging contexts and to provide GPGs, but need to adapt their funding and operational practices to do this. This will include streamlining fiduciary systems, breaking country and regional silos and investing in staff with specialised knowledge of fragile contexts. For grant providers (e.g. UNDS entities and vertical funds), this means increasing operational risks arising from a portfolio that is increasingly focused on these contexts. Moreover, UNDS entities will need to find ways to increase the quality and quantity of grant finance from donors, including by creating trust funds with governance and financing structures that ensure predictability of resources. Finally, working in challenging contexts requires good co-ordination and co-operation among multilateral organisations based on respective comparative advantages. These include the financial and technical resources of MDBs and the political knowledge and legitimacy of UNDS entities in fragile contexts.

Multilateral development partners need to improve their contribution to the climate agenda

Multilateral development partners play a crucial role of in promoting the climate agenda in developing countries, acting as conveners, financers and implementers of climate-related projects and programmes. However, only a small portion of their resources is allocated to climate-related projects. The need for multilateral co-operation has never been more important in this area. Climate change requires collective and urgent action to avoid catastrophic and irreversible effects.

To increase their contribution, MDBs will need to green their infrastructure and production portfolio. Ways to do this include avoiding financing carbon-intensive projects that could lock countries in to unsustainable patterns. MDBs should also increase support for low-carbon and climate-resilient infrastructure. There is an increasingly crowded architecture of funds with overlapping mandates and activities and these should be streamlined by building on the newly created GCF. However, the GCF needs to prove its added value by improving governance and operational modalities that have created inefficient management and slow disbursement.

Working with countries increases volumes of financing, is aligned with national priorities and improves development impact

Multilateral development partners provide high shares of their financing to countries for PSD. This is mainly for policy and institutional development in PSD areas and for investment projects in financial services and infrastructure. Moreover, an important portion of these operations is provided through direct engagement with the private sector to promote market-based solutions and mobilise additional finance for development.

Previous and current practices of multilateral development partners highlight the need to ensure that policies and institutional development operations are aligned with national priorities. They should not cause collateral damage to the most vulnerable segments of the recipient countries. It is also important to ensure that political motives do supersede development motives. Similarly, private sector operations – where multilateral development partners are active – should be designed, implemented, monitored and evaluated to ensure that commercial objectives do not dilute development outcomes or threaten the environment and local communities.

A global and crosscutting development agenda entails moving from transaction-based to system-wide approaches

A crosscutting and integrated development agenda calls for development approaches that are tailored to local contexts and implemented through partnerships that are coherent and build on comparative advantage. This requires an understanding what needs multilateral organisations can respond to and organisations' respective comparative advantages in a crowded development co-operation architecture.

A development agenda global in nature should ensure that GPGs are provided and financed. As sovereign states cannot individually support this agenda, collective action is needed through multilateral organisations. In this context, multilateral organisations need to collaborate with shareholders. Issues include clarifying the scope of GPGs, ensuring a division of roles in financing and implementation, and introducing institutional mechanisms for steering global governance on these issues.

Further, development partners should continue to support coherent partnerships and understand respective comparative advantages. New multilateral development partners and increased use of partnerships among multilateral organisations are introducing new perspectives on how multilateral development organisations can work together. This is happening among MDBs – including with the newly created AIIB – and also among other multilateral groups, such as between the World Bank Group and the UN.

Finally, multilateral development partners need to promote crosscutting and integrated approaches through more and better-pooled-funding mechanisms. This is particularly important at the UN level, where piecemeal and transaction-heavy earmarking is impairing the capacity of the UNDS to contribute to a crosscutting, integrated development agenda. Both bilateral donors and multilateral organisations need to work together to find suitable funding mechanisms and governance structures to create effective pooled-funding mechanisms.

3.5. Statistical methodology

Scope of multilateral outflows and operations

Chapter 3 concentrates on the outflows and operations of multilateral organisations. The report traditionally focuses on inflows; this is the first time it has offered such a broad analysis of outflows. To measure the magnitude of outflows and operations of multilateral organisations, the dataset included both core-funded operations of multilateral organisations reporting to the OECD Creditor Reporting System (CRS) and funding earmarked through multilateral organisations by DAC countries and other bilateral providers reporting to the CRS. While multilateral funding earmarked by bilateral providers is counted as bilateral development finance in the CRS, Chapter 3 uses these amounts to measure the value of operations of multilateral organisations for development. Excluding bilateral development finance earmarked trough multilateral organisations would significantly underestimate the magnitude of operations of multilateral organisations that are mainly financed through earmarked finance, particularly within the UNDS.

Clustering of multilateral organisations

For analytical purposes, multilateral organisations are clustered into five groups in this analysis: i) the World Bank Group, ii) regional development banks, iii) EU institutions, iv) United Nations Development System, and v) vertical funds. "Vertical Funds" include: the Adaptation Fund, Climate Investment Funds, GAVI, the Vaccine Alliance, GEF, the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the Green Climate Fund. "Others" include: the Arab Bank for Economic Development in Africa; Arab Fund; Global Green Growth Institute; IMF (Concessional Trust Funds); Montreal Protocol; Nordic Development Fund; OPEC Fund for International Development; and Organization for Security and Co-operation in Europe.

Scope and type of financial flows

The data analysis is based on concessional and non-concessional official finance provided for development purposes by bilateral and multilateral development partners (i.e. official development finance). Private finance mobilised through official development finance, collected through an OECD survey carried out by (Benn, Sangaré and Hos, 2017[31]) is used in 3.14 and the related analysis.

The flow basis for Chapter 3 is deflated commitments (2016 prices). The choice of commitments over disbursements was made for three reasons: First, commitments better reflect geopolitical events in the period covered in the analysis (e.g. financial crisis, humanitarian crises, etc.). Second the data coverage is much more comprehensive than for disbursement. Third, commitments are comparable with data on private finance mobilised and markers, which are measured on a commitment basis.

Clustering of countries and sectors

Country-level analysis covers ODA-recipient countries, in line with other OECD publications based on OECD CRS data. The list of fragile contexts used is drawn from the "2018 States of Fragility Report" (OECD, 2018[23]).

Sectoral analyses used the following clusters, based on DAC CRS sector codes (in brackets):

- **governance**: governance and civil society (150); general budget support (510)
- **humanitarian**: emergency response (720); reconstruction relief and rehabilitation (730); disaster prevention and preparedness (740)
- **infrastructure**: water (140); transport (210); communications (220); energy (230)
- **multisector**: general environment protection (410); other multisector, excl. rural development (430)
- **production**: banking and financial services (240); business and other services (250); agriculture, forestry, fishing (310); industry, mining, construction (320); trade policy and regulations (331); tourism (332); other multisector, only rural development (430)
- **social**: education (110); health (120); population policies and reproductive health (130); other social infrastructure and services (160)

- **other**: food aid (520); other commodity assistance (530); action relating to debt (600); administrative costs of donors (910); refugees in donor countries (930); unallocated or unspecified (998).

Calculation of multilateral climate finance (Figures 3.13 and 3.14)

The method used for tracking climate finance is different for bilateral and multilateral development partners. MDBs (including EIB) report the climate components of their projects, which are the portions of financing specifically spent for climate purposes. All the other bilateral and multilateral development partners use Rio markers that consider the whole financing for projects with principle or significant climate objectives. For the purpose of this report, only multilateral organisations that report climate data to the DAC have been considered in both the calculation of absolute amounts and the relative shares of climate finance within their portfolios. Climate finance is both concessional and non-concessional development finance for development.

Estimations

The analysis uses statistical data as reported by development partners to the OECD CRS. A small number of estimates were made to fill data gaps and integrate analysis based on data beyond the CRS data, as follows:

Multilateral organisations

Gross disbursements were used as proxy for commitments in all figures for the Montreal Protocol, International Atomic Energy Agency, GAVI and Arab Bank for Economic Development in Africa, United Nations Population Fund, United Nations Environment Programme, World Food Programme, Council of Europe Development Bank (only in 2013) due to data gaps. For the African Development Fund and CIFs, commitments were used for concessional finance and gross disbursements for non-concessional finance.

USD value of concessional and non-concessional operations of multilateral development partners, 2008-2016 (Figure 3.2)

Due to data gaps in non-concessional finance for EBRD (2008), IFAD (in 2013-2014), IFC (2008-2011) and OFID (2008), the authors made some estimates using available data as a proxy when possible and reasonable or drew on secondary sources. In particular:

- EBRD non-concessional finance in 2008 was estimated using data from the annual report (EBRD, 2009[69]). An exchange rate of 1.47 was used to convert EUR in USD and a share of 52% was applied to capture the portion of financing flowing to developing countries. The share of 52% was calculated using data in the annual report (EBRD, 2009[69]).
- IFAD commitments for 2012 reported in the CRS were used as a proxy to fill data gaps for commitments in 2013 and 2014.
- IFC non-concessional finance in 2008-2011 was estimated using figures estimated by (Kenny, Kalow and Ramachandran, 2018[70]). Shares of financing to developing countries were estimated using data available on IFC's website, https://finances.worldbank.org/es/widgets/fphv-p24n.
- OFID non-concessional finance amount in 2009 was used to fill 2008 data gaps.

Concessional and non-concessional development finance provided to the private sector (Figure 3.15)

Amounts channelled to private sector companies by bilateral and multilateral development partners in 2016 are actual and estimated figures representing amounts for private sector operations. Figures for the African Development Bank (AfDB), Asian Development Bank (ADB), CDC Group, Compañía Española de Financiación del Desarrollo (COFIDES), European Bank for Reconstruction and Development (EBRD), Entrepreneurial Development Bank (FMO), Norfund, the Development Bank of Austria (OeEB), SIMEST, the Belgian Corporation for International Investment (BIO and BMI-SBI), the Investment Fund for Developing Countries (IFU), the Islamic Development Bank (IsDB), the Finnish Fund for Industrial Cooperation (Finnfund), the Swiss Investment Fund for Emerging Markets (SIFEM), Sociedade para o Financiamento do Desenvolvimento (SOFID) are for 2015 either for data availability reasons or because they seemed figures more reliable.

The amounts were calculated using various methods depending on the specific data availability drawing from OECD CRS and secondary data. In particular:

- Measuring amounts through the private sector channel (60 000) in the CRS was the default method to estimate amounts for private sector operations;
- Amounts from AfDB and ADB were calculated using the CRS data for the channel 52 000 “others”, as private sector operations by the institutions were reported through this channel;
- IFC amounts were considered 100% channelled to the private sector as the institution did not report on channels in 2016 and because it operates predominantly with the private sector;
- Amounts from Belgian Investment Company for Developing Countries and Société Belge d'Investissement International, CDC, Compañía Española de Financiación del Desarrollo, Finnfund, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), Investment Fund for Developing Countries (IFU), Norfund, Oesterreichische Entwicklungsbank AG (OeEB), Swiss Investment Fund for Emerging Markets (SIFEM), Società Italiana per le Imprese all'Estero (SIMEST) and Sociedade para o Financiamento do Desenvolvimento (SOFID) are estimates calculated by converting EUR figures from (EDFI, 2016[71]) to USD and by applying the shares of sectors and instruments provided in the report;
- CAF was estimated using figures from 2016 annual report (CAF, 2017[72]).

Annual investment and financing gaps in infrastructure in developing countries and shares of financing needs in infrastructure in developing country by country (Figure 3.18)

Annual investments and financing gaps in infrastructure in developing countries are based on estimates made by (UNCTAD, 2014[36]) through a meta-analysis that combines estimates made by several studies available in the literature. As UNCTAD (2014) provides ranges of current investments and financing gaps in each infrastructure sector, Figure 3.18 shows the average of these ranges. Amounts include only capital spending, leaving out operating costs.

Shares of shares of financing needs in infrastructure in developing country by country were calculated using estimates in (McKinsey, 2017[37]). While countries that are not ODA-eligible were excluded when visible, estimates might include some countries in that group.

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Part II. Towards principles of good multilateral donorship

Chapter 4. Good multilateral donorship for the 2030 Agenda

This chapter introduces the concept of good multilateral donorship and discusses why it is needed to forge a more effective multilateral development co-operation system that can achieve the 2030 Agenda. The chapter reviews existing international commitments to and principles of good multilateral donorship, identifying a policy gap in this area. It goes on to define building blocks of good multilateral donorship for the 2030 Agenda era. These building blocks are developed in Chapters 5 and 6 of this report.

4.1. What is good multilateral donorship?

From trends to a change in behaviour: the need for good multilateral donorship

Part I of this report examined the funding trends in the multilateral development co-operation system. It highlighted how the landscape of financing to multilateral institutions is evolving. It reviewed funding from Development Assistance Committee (DAC) members and from other sovereign states, South-South providers, corporations and private philanthropy, as well as from other multilateral institutions. It suggested that these resources are, overall, growing at a limited pace compared to what is needed to achieve the 2030 Agenda. In addition, they come with challenges and opportunities. For instance, much of the official development assistance (ODA) funding and new sources of financing to the multilateral system are scattered and piecemeal. This incentivises the delivery of project-based interventions and jeopardises the ability of the multilateral system to provide transformative, holistic and integrated solutions to achieve the 2030 Agenda (Chapter 2). Part I then focused on how these funding trends are affecting the finance provided by the multilateral development co-operation system, in terms of its scope and nature. It depicted the current overall financing and division of labour of multilateral organisations. It then discussed how these will need to evolve to respond to changing country and global needs (Chapter 3).

A major responsibility for implementing the changes required to achieve the 2030 Agenda rests with multilateral organisations. A shift from funding to financing, for instance, will require substantial strengthening and re-profiling of skill sets and the scaling-up of related resources. It will also require adjustments and improvements in the co-ordination and accountability mechanisms of these institutions, as well as in their financing models and instruments.

At the same time, sovereign states will need to ensure adequate levels of financial support to multilateral institutions. Funding needs to be provided in ways that enable the effective functioning of the system. Sovereign states will need to contribute, through their policies and practices, to an enabling environment for a strong and effective multilateral system. In other words, they will need to be good multilateral donors. But what does this mean in practice? Is there evidence of what "good multilateral donorship" is? And what does it mean in the context of the 2030 Agenda and the trends observed in the first part of this report? Part II of this report attempts to answer these questions. It argues for the need to re-affirm a commitment towards multilateralism for the effective delivery of the 2030 Agenda. It suggests, however, that this commitment needs to build on evidence. Part II begins by introducing this concept and reviewing existing principles of and commitments to good multilateral donorship (Chapter 4). It builds an evidence base on two sets of building blocks for good multilateral donorship in the era of the 2030 Agenda. The evidence for the first set of building blocks is developed in Chapter 5 and concerns sovereign states' policies, decision-making processes and monitoring practices with respect to the multilateral system. The evidence base for the second set of building blocks is developed in Chapter 6 and relates to good multilateral funding. This evidence constitutes the basis for the "Principles of good multilateral donorship for the era of the 2030 Agenda" presented in the Overview of this report.

Good multilateral donorship is part of the mutual responsibility needed for a more effective multilateral system able to achieve the 2030 Agenda

Good multilateral donorship is about how sovereign states, and providers in general, engage with and influence multilateral organisations, including through their role in the governing bodies of these organisations, their policies and their financing. Sovereign states are largely the owners, shareholders, financiers and influencers of multilateral organisations. The aggregate results of individual donors' policies and funding practices bear profound consequences for individual multilateral organisations' performance, and for the whole system and its ability to function well.

Good multilateral donorship is thus critical to the effectiveness of the multilateral development co-operation system. It forms an essential part of the mutual responsibility that both sovereign states and multilateral organisations hold towards forging a more effective, inclusive and accountable multilateral development co-operation system. To achieve the 2030 Agenda for Sustainable Development, the multilateral co-operation system will need to evolve. At the same time, the multilateral system can only succeed with the support – or "good donorship" – of the sovereign states that created it and who continue to shape it as its members, funders and shareholders.

Achieving the 2030 Agenda requires a new "pact" on multilateralism. A pact founded on the recognition that sovereign states and multilateral institutions hold a mutual responsibility for a stronger and more effective multilateral system.

Good multilateral donorship is critical because achieving the 2030 Agenda will require more and better multilateralism

Multilateralism is not new, and the influence of sovereign states has largely shaped what it looks like today (see Box 4.1 for an historical perspective). As the world becomes more interconnected and the global challenges we face more complex, good multilateral donorship grows in importance. The 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) call for transformative shifts and integrated solutions both at country level and globally. They require, in each country, domestic policies and financing approaches that are truly holistic and sustainable. These policies should encompass development, peace, environment and humanitarian domains, and yield social, economic and environmental value. In this new context, multilateral organisations will need to adapt and strengthen their capacity to provide partner countries with policy advice to implement holistic development solutions. They should consolidate multiple sources of financing and partnerships to achieve the SDGs. They will need break silos and enhance the coherence of their approaches and interventions. They should strengthen their role in encouraging global solutions and policy co-ordination to tackle the interconnected and cross-border challenges of our time. These challenges include climate change, food security and migration, and extend to new areas essential for shared and equitable prosperity, such as science and technology, financial regulations, trade and tax evasion. Thus, the need for multilateral co-operation is greater than ever.

Good multilateral donorship is of utmost relevance in the era of the 2030 Agenda. A strong, effective and accountable multilateral system is critical to achieving integrated solutions and the cross-border responses to the most pressing challenges of our time. However, multilateralism is under strain. A rising wave of mistrust in the shared benefits of international co-operation is leading countries to pursue policy goals through unilateral or ad hoc measures, rather than by working together. These new developments put the benefits that multilateral institutions can provide at risk.

It is encouraging that DAC members share the belief that the 2030 Agenda requires more – and not less – multilateralism (Figure 4.1.). This is the opinion expressed by all, but one, respondents to the 2018 OECD Survey. Responding DAC members emphasised that it is the integrated nature of the SDGs and the complexity of the global challenges, including the provision of GPGs, that make multilateralism indispensable. Further, respondents stressed that the multilateral development co-operation system is key in establishing strategic partnerships to combine expertise and resources from multiple sources and to co-ordinate efforts towards integrated solutions.

Figure 4.1. Respondents to the 2018 OECD Survey highlight the need for multilateralism to achieve the Sustainable Development Goals

Source: OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" (unpublished).

Box 4.1. A historical perspective on multilateralism

Throughout history, multilateralism has emerged to manage relations between states in areas where interdependence is inescapable. Multilateral arrangements can be traced back to as early as the 17th century, when they were developed to manage property issues, such as the governance of the oceans. However, it was only in the 19th century that new multilateral treaties – on trade, transport and public health, among others – became more frequent. The International Telegraph Union, the Universal Postal Union and the International Office of Public Hygiene all had their origins in the 1800s.

Multilateralism in the 19th century was prompted by the political, social and economic transformations generated by the Industrial Revolution. Rising volumes of international transactions increased the scope for disputes between states, and impelled states to protect their sovereignty, even as they agreed to common rules to facilitate economic exchange.

Most multilateral agreements in the 19th century did not generate formal organisations. The most important, the Concert of Europe, was an almost purely informal framework in which four European powers – Austria, Great Britain, Prussia, Russia (later joined by France) – agreed to consult and negotiate on matters of European peace and security. The result was peace in Europe for nearly 40 years. However, the Concert was imposed by statesmen on docile publics. Its legitimacy was gravely damaged by the revolutions of 1848 and the surge in nationalism they generated. The Concert never became a truly multilateral organisation, but it paved the way for 20th century multilateralism by establishing that issues of peace and security could be discussed in international fora. It also recognised the special roles, rights and obligations of Great Powers.

Wilsonianism and the League of Nations: In contrast to prior forms, multilateralism in the early 20th century yielded multiple formal organisations. Multilateralism thus was transformed. It came "to embody a procedural norm in its own right – though often a hotly contested one – in some instances carrying with it an international legitimacy not enjoyed by other means" ((Ruggie, 1992[1]); emphasis in original). The advocacy of the US President Woodrow Wilson was crucial in this transformation. In 1918 Wilson urged the creation of "a general association of nations". Wilsonianism thus became a doctrine that prescribed the spread of democracy, free trade and strong international law to create an international order that "would replace older forms of order based on the balance of power, military rivalry and alliances […] power and security competition would be decomposed and replaced by a community of nations". Specifically, Wilson championed an international body with universal membership, binding rules and a dispute settlement mechanism. The result was the League of Nations. Its Covenant committed member states not only to renounce war, but also to accept "the understandings of international law as the actual rule of conduct among Governments". Article 10 of the Covenant's preamble required members "to respect and preserve as against external aggression the territorial integrity and existing political independence of all Members of the League". States were threatened with political and economic sanctions if they resorted to war, with force used only as a last resort. In no sense did the League's Covenant find universal approval. Its collective security provisions were the primary reason for the US Senate's rejection of American membership. Wilson himself was pivotal in establishing the conditions for negotiations on a new international system based on collective security with the League as a mechanism for dispute resolution. However, he failed to achieve the domestic political conditions required for US entry (see George and George 1964; Cooper 2002). The League was disbanded in 1946. It failed, first, because membership was not universal: the US never joined and major players such as the Soviet Union and Germany withdrew. Second, the League faced multiple crises during an economic depression and became deeply unpopular in a number of countries including Germany. Finally, the League's Covenant was plagued by loopholes, ambiguity and over-ambition.

Whatever its failings, the League of Nations was an essential precursor to international institution-building after 1945. In less than a decade, multilateral accords creating the Bretton Wood agreements and the General Agreement on Tariffs and Trade (GATT), the United Nations (UN) and North Atlantic Treaty Organization (NATO) were agreed.

Source: (Bouchard and Peterson, 2011[2]), "Conceptualising Multilateralism, Can We All Just Get Along?" MERCURY-paper No.1 http://mercury.uni-koeln.de/fileadmin/user_upload/E_paper_no_1__Revised_Version.pdf

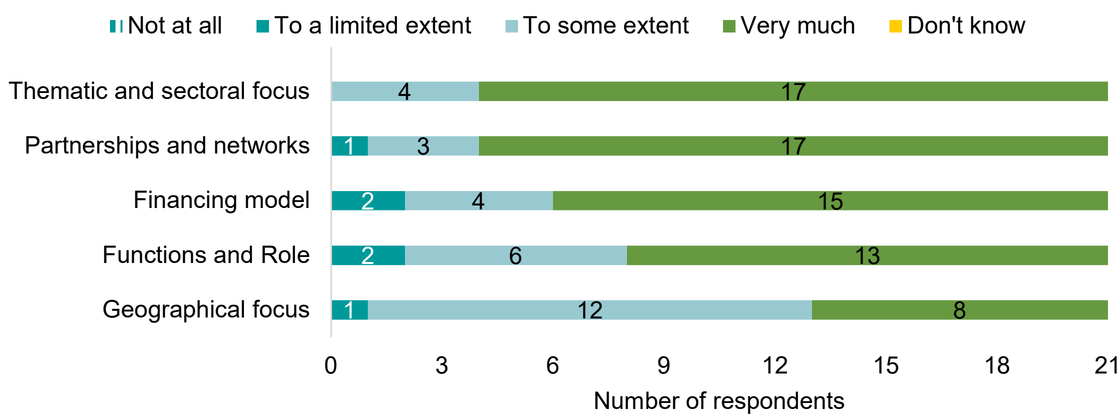
Good multilateral donorship is also about supporting multilateral organisations' reforms to achieve the 2030 Agenda

Multilateral organisations need to work in a changing global context, to respond to new development challenges, and to change their working practices in order to operate effectively. Multilateral organisations will need to break a silo approach and support countries in developing holistic solutions for sustainable development. Synergies, trade-offs and spill-over effects across policies, previously unacknowledged or avoided, will need to be explicitly considered and accounted for. Integrated solutions will need to be mirrored in financing approaches so that, as posited in the Addis Ababa Agenda for Action (AAAA), all financing sources – public, private, domestic and international – converge towards a unified development agenda. This will require a greater and more effective level of co-ordination to work as a cohesive system. It will also require new and different skill sets to be developed to provide integrated policy advice to countries, engage with a broader set of partners and respond to new challenges. This is especially important in fragile and post-conflict states, where poverty reduction has proven to be the most elusive development goal. In addition, to achieve the SDGs, multilateral organisations will need to promote governance based on global principles and standards and global co-operative action. They need to extend their normative functions to new areas essential to the achievement of the 2030 Agenda, such as climate change, food security and migration, as well as tax evasion, trade, financial regulations, and science and technology.

Responses to the 2018 OECD Survey suggest that DAC members agree that the 2030 Agenda has considerable implications for multilateral organisations on several fronts. It will affect their thematic and sector focus, partnerships and networks, financing model, functions and roles, and geographic focus (Figure 4.2). According to respondents, multilateral organisations' thematic and sector focus of will be affected the most. This is followed by the partnerships and networks of multilateral organisations, which will need to evolve to be more inclusive and embrace a greater range of partners. Respondents also stated that the 2030 Agenda will affect the financing model of multilateral organisations, as they facilitate greater mobilisation of financial resources from all sources. The geographical focus of multilateral organisations, instead, is the area that respondents believe will be affected the least by the 2030 Agenda.

To achieve the 2030 Agenda, multilateral organisations are reforming. For instance, the United Nations Development System (UNDS) is launching a reform package that will affect how this system works in countries, at the regional and at the global level (see Box 4.2). MDB reforms are needed to mobilise the trillions required to meet the SDGs (World Bank, 2015[3]). This set of reforms can only bear results if sovereign states support it by implementing their share of changes.

Figure 4.2. DAC members believe that multilateral organisations will need to make adjustments to be fit for purpose to deliver on the 2030 Agenda



Source: OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" (unpublished).

StatLink https://doi.org/10.1787/888933875036

Box 4.2. Repositioning the United Nations Development System (UNDS) to achieve the 2030 Agenda

As the world subscribed to a broader, universal development agenda, the United Nations development system has reflected on how it can contribute and the institutional adjustments required to ensure it is "fit for purpose".

This process started in 2015 within the UN Economic and Social Council (ECOSOC), where the United Nations initiated a dialogue on the "longer-term positioning of the UNDS" to explore: 1) how the post-2015 development agenda would affect the functions of the UNDS; and 2) how the changing functions could be aligned effectively. A critical milestone in the UNDS repositioning process was the endorsement of strategic guidelines and policy orientations established in the 2016 Quadrennial Comprehensive Policy Review (QCPR).

On 31 May 2018, the UN General Assembly adopted the final draft text of the resolution on the repositioning of the UNDS. This proposed reform in five macro areas:

- **A new generation of United Nations country teams:** A new generation of more strategic, flexible and results-oriented United Nations Development Assistance Framework will be developed as the fundamental instrument for the planning and implementation of United Nations development activities in each country. The configuration of country teams will be reassessed, and appropriate criteria will be established, according to country development priorities and long-term needs. These will be used to determine the presence and composition of UN country teams and the approved UN Development Assistance Framework. Each UN entity will need to strengthen capacities, resources and skill sets to support countries in achieving the SDGs. Common operations will be promoted to generate greater efficiencies, synergies and coherence.

- **Reinvigorating the role of the resident co-ordinator system:** The agreed text requested the Secretary-General "to strengthen the authority and leadership of RCs [resident co-ordinators], as the highest-ranking representatives of the UNDS, over UN country teams", with reforms to enhance responsibility for supporting on-the-ground implementation of the 2030 Agenda. The RCs would have an independent, impartial and empowered co-ordination function, separate from the UNDP representative's role. The managerial and oversight functions of the RC system would be undertaken by a transformed Development Operations Coordination Office. This would be under the leadership of an Assistant Secretary-General and the ownership of the members of the "UN Sustainable Development Group". They would form a stand-alone co-ordination office within the Secretariat, reporting to the Chair of the Group (the Deputy Secretary-General). The agreed arrangement to fund this reinvigorated RC system is hybrid. Starting from 1 January 2019, on an annual basis, it calls for: 1) a 1% co-ordination levy on tightly earmarked third-party non-core contributions to the UNDS; 2) doubling the current cost-sharing among UNDS entities; and 3) voluntary, predictable, multi-year contributions to a dedicated trust fund.

- **Revamping the regional approach:** The resolution reaffirms the role and functions of the United Nations regional economic commissions and the regional teams. It emphasises the need to close gaps and avoid overlaps at the regional level by optimising functions, enhancing collaboration and providing options, on a region-by-region basis, for longer-term re-profiling and restructuring of regional assets.

- **Strategic direction, oversight and accountability for system-wide results:** Independent system-wide evaluation measures will be implemented. These will include improving existing capacities to better monitor and report system-wide results.

- **Funding the United Nations Development System:** The resolution also addresses the funding model of the UNDS, reaffirming the need to increase voluntary and grant-based funding to reposition the UNDS. On the eve of the July 2017 ECOSOC meeting, the Secretary-General called for the UNDS to be reformed to overcome the fragmentation of funding and, ultimately, the system. He proposed the "Funding Compact", a pact between the UNDS and its member states to ensure the level, predictability and flexibility of funding. In return, UNDS would provide increased transparency and accountability for spending and results. The resolution welcomed the proposal. It entails increasing core resources to a level of at least 30% in the next 5 years. In addition, it will double both interagency pooled funds (to a total of USD 3.4 billion) and entity-specific thematic funds (to USD 800 million) by 2023. Member states are invited to contribute to the capitalisation of the Joint Fund for the 2030 Agenda and to establish a co-ordination fund dedicated to the RC system. The UNDS is requested to provide annual reporting on system-wide results by 2021; to enhance transparency and allow access to financial information in all entities, to undergo evaluations of results; to further harmonise cost recovery; to allocate at least 15% of non-core resources for development joint activities; and to enhance the visibility of member states' core contributions. The Secretary-General also proposed a Funding Dialogue to operationalise and follow up on the commitments taken in the Funding Compact.

In June 2018, the Secretary-General announced the setting up of a team that will initiate, manage and oversee the implementation of all provisions of the UNGA Resolution on the Repositioning of the UNDS. In the upcoming months, the Deputy Secretary-General is expected to launch discussions on the practical, concrete steps to be taken to implement the UNDS reform process.

The reform of the RC system, which posits that RCs will now be Secretariat and not UNDP, is one of the biggest changes of the reform package in operational terms. It has significant implications for how donors interact with the system. This reform may also affect the composition of funding received by the UN Secretariat, which has received significantly less earmarked funding than the funds and programmes. This situation might change after 2019. The funding arrangement for the new RC system also creates a disincentive for hard earmarking. The 1% co-ordination levy will only be imposed on non-core resources that are "tightly earmarked" and not on vertical or thematic trust funds or on self-financed or South-South contributions.

Overall, reactions to this reform package are mixed. Some remark an insufficient level of ambition and highlight the limitations of incremental, rather than transformational, measures (Baumann and Weinlich, 2018[4]). Some member states, such as the United States, expect the reforms to bring sizeable benefits, while others have highlighted some issues. For instance, the Group of 77 and China, supported by Ethiopia for the African Group, have stressed that "the UN Development Assistance Framework shall be decided in full consultation and agreement with national governments, through an open and inclusive dialogue". Bangladesh, for the least developed countries (LDCs), has highlighted concerns about the potential additional financial burdens for LDCs and reduction in the country presence of the UNDS. Moreover, Maldives for the Alliance of Small Island States called for reform of multi-country offices. The CANZ highlighted that the Funding Dialogue should ensure an expanded funding base, beyond traditional donors. In addition, Devex has reported that other countries have called for a change in institutional culture, more transparency and a bigger focus of mandates, rather than cost minimisation. Moreover, the European Union has suggested improving co-ordination within the UN to fight sexual exploitation, abuse and harassment.

In 2017 a Dalberg report outlined the functions and capacities of the UNDS, focusing on gaps in the coverage of the 2030 Agenda by the UNDS and overlaps in the work of different UNDS entities. The Dalberg review and its proposals concluded that the UNDS has a lot to offer, yet it needs substantial reforms to provide "whole-of-government" guidance on how to achieve the 2030 Agenda. The conclusions from the report have been widely discussed within the UN and the Secretary-General has drawn on them for the "Report on the UNDS Repositioning".

4.2. Existing commitments and principles on good multilateral donorship leave a policy vacuum

The Busan effectiveness commitments highlighted the need for "an enabling environment" for a well-functioning multilateral system

Various attempts have been made internationally to affirm the need for donor actions to facilitate coherent and effective multilateral co-operation, and to establish international principles to achieve this. The broadest and most widely endorsed international commitment is enshrined in the 2011 outcome document of the Global Partnership for Effective Development Co-operation. This document marked the transition from the "aid effectiveness agenda" of the Paris Declaration (OECD, 2008[5]) to broader "effective development co-operation" principles (Global Partnership for Effective Development Co-operation, 2011[6]) among all stakeholders. It highlighted the importance of providing an enabling environment for a well-functioning multilateral co-operation system. Specifically, it committed all development partners to improve the coherence of their policies with respect to multilateral institutions, global funds and programmes. Partners are to make effective use of existing multilateral channels, focusing on those that are performing well (§25b).

To support the implementation of the commitment set out in the Busan outcome document, in 2013 members of the OECD DAC agreed to work to reduce the proliferation of multilateral channels and frameworks for programme design, delivery and assessments of development co-operation. They did so by endorsing a set of principles developed in the 2013 OECD Multilateral Aid Report (OECD, 2013[7]) and illustrated in Figure 4.3. Since then, the OECD has regularly monitored several of these principles. It has done this through the work conducted in the framework of OECD Multilateral Aid Reports, or through DAC peer reviews. The methodological framework of DAC peer reviews draws on elements from the 2013 OECD Multilateral Aid Report principles (OECD, 2017[8]). However, no formal accountability framework was ever established for these principles nor for the Busan outcome document specifically on the multilateral co-operation system.

Figure 4.3. 2013 OECD DAC Principles to reduce the proliferation of multilateral channels

1	**Use existing channels as the default, adjusting channels where necessary, and address any legal and administrative barriers that may prevent their use.**
2	**Use the international community's appetite for the new initiatives to innovate and reform the existing multilateral system, allowing for donor visibility.**
3	**Regularly review the number of multilateral organisations, funds and programmes with the aim of reducing their number through consolidation without decreasing the overall volume of resources.**
4	**Provide core or un-earmarked contributions to multilateral organisations, where relevant and possible.**
5	**Ensure that new multilateral programmes and channels are multi-donor arrangements; are time-bound, and should contain provisions for a mid-term review; and do not impose excessive reporting requirements if the creation of multilateral programmes and channels is unavoidable.**
6	**Support country-level harmonisation among all providers of development co-operation, including through representation on governing boards of multilateral organisations, funds and programmes.**
7	**Monitor trends and progress to curb the proliferation of channels at the global level; inform monitoring in partner countries.**

Source: Authors adapted from (OECD, 2015[9]), *Multilateral Aid 2015: Better Partnerships for a Post-2015 World*, http://dx.doi.org/10.1787/9789264235212-en.

At the request of DAC members, the 2015 OECD Multilateral Aid Report (OECD, 2015[9]) further informed international discussions on how development partners can provide an enabling environment for a well-functioning multilateral co-operation system. The report provided a set of recommendations (Figure 4.4), which included a specific segment on the effective use of earmarked funding. Unable to reach agreement, the DAC never officially endorsed these recommendations. In an effort to overcome this impasse, the German government produced a shorter version of the recommendations (Figure 4.5). In late 2015, these were presented to the Senior Level Donor Group on Multilateral Effectiveness, a group of like-minded DAC members that meets annually to discuss multilateral effectiveness issues. However, even within this smaller group, the recommendations were not endorsed, because of concerns over the binding character of the recommendations and because some representatives had insufficient decision-making power.

Figure 4.4. Recommendations from the 2015 Multilateral Aid Report

Bilateral practices in support of greater effectiveness of multilateral organisations

- 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.

Making earmarked funding more effective

- 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.

Effective use of vertical funds and other earmarked funding mechanisms at country level

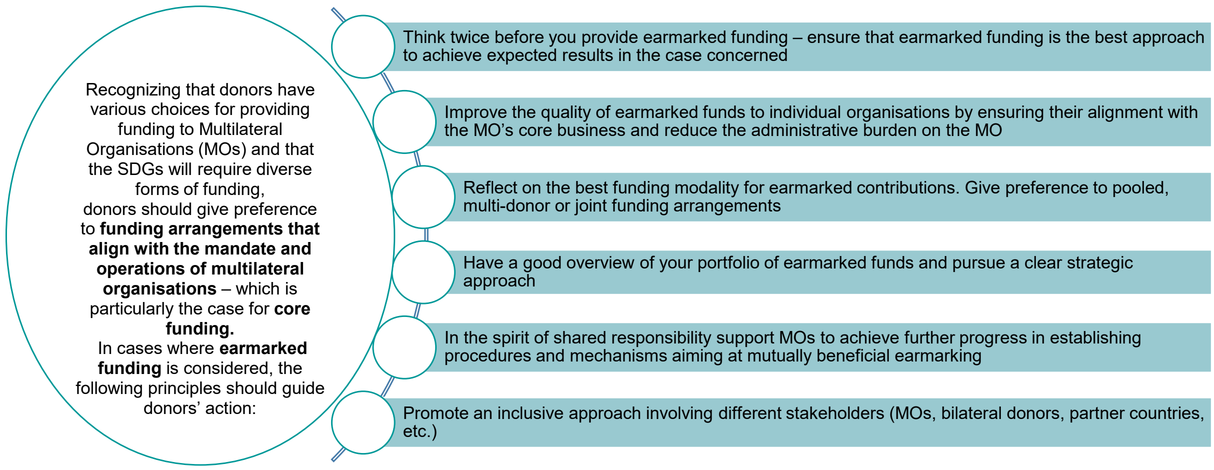
- Use earmarked funding based on evidence and considerations about when and why earmarked funding may be the most suitable option;
- Provide guidance on the use of earmarked funding with a view to support good practices and enhance internal coherence;
- When extending earmarked funding, consider carefully 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.

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

- 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.

Source: (OECD, 2015[9]), *Multilateral Aid 2015: Better Partnerships for a Post-2015 World*, http://dx.doi.org/10.1787/9789264235212-en.

Figure 4.5. Guiding principles for better management and quality of earmarked funding presented by Germany at the Senior Level Donor Meeting on Multilateral Effectiveness



Source: Authors based on (Germany's Federal Ministry for Economic Cooperation and Development (BMZ), 2015[10]), *Guiding principles for better management and quality of earmarked funding*, (unpublished).

Good Humanitarian Donorship principles and the Grand Bargain

In 2003, the international community agreed on international principles of "good donorship" and on an additional set of actions to change partners' behaviour ("Grand Bargain") in the area of humanitarian assistance. These principles and commitments "set the rules" for all donor entities involved in humanitarian action, and they do have implications for bilateral-multilateral partnerships, including their funding practices.

The Good Humanitarian Donorship (GHD) principles (see Box 4.3) were initially endorsed by the European Union and 17 other donors in 2003. They are now indorsed by 41 countries. They are monitored and promoted by the GHD Initiative, which acts as a donor forum and network. It provides a platform for donors to meet regularly to exchange information on policies and practices in relation to the implementation of the GHD principles. It thus encourages principled donor behaviour and contributes to improved humanitarian action. These principles are also embedded in the OECD DAC Peer Review methodological framework, where they serve as a benchmark for donor behaviour on humanitarian matters (OECD, 2017[8]).

The "Grand Bargain" is a set of 53 interdependent commitments endorsed by 22 sovereign states and 31 organisations during the 2016 World Humanitarian Summit. The main aim of the Grand Bargain is to close funding gaps and encourage more effective international responses to crises as the world faces an increasing number of large-scale emergencies, including a refugee crisis, and international assistance struggles to keep up with demand. The Grand Bargain commits donors and organisations to providing 25% of global humanitarian funding to local and national responders by 2020. In addition, they should commit a greater share of unearmarked resources and increased multi-year funding to ensure greater predictability and continuity in humanitarian responses, among other commitments. The Grand Bargain also explicitly recognises the need to work together more efficiently, transparently and harmoniously with new and existing partners, including the private sector, individuals and non-traditional sources of funding.

Box 4.3. Good Humanitarian Donorship Principles

Objectives and definition of humanitarian action

1. The objectives of humanitarian action are to save lives, alleviate suffering and maintain human dignity during and in the aftermath of man-made crises and natural disasters, as well as to prevent and strengthen preparedness for the occurrence of such situations.
2. Humanitarian action should be guided by the humanitarian principles of humanity, meaning the centrality of saving human lives and alleviating suffering wherever it is found; impartiality, meaning the implementation of actions solely on the basis of need, without discrimination between or within affected populations; neutrality, meaning that humanitarian action must not favour any side in an armed conflict or other dispute where such action is carried out; and independence, meaning the autonomy of humanitarian objectives from the political, economic, military or other objectives that any actor may hold with regard to areas where humanitarian action is being implemented.
3. Humanitarian action includes the protection of civilians and those no longer taking part in hostilities, and the provision of food, water and sanitation, shelter, health services and other items of assistance, undertaken for the benefit of affected people and to facilitate the return to normal lives and livelihoods.

General principles

4. Respect and promote the implementation of international humanitarian law, refugee law and human rights.
5. While reaffirming the primary responsibility of states for the victims of humanitarian emergencies within their own borders, strive to ensure flexible and timely funding, on the basis of the collective obligation of striving to meet humanitarian needs.
6. Allocate humanitarian funding in proportion to needs and on the basis of needs assessments.
7. Request implementing humanitarian organisations to ensure, to the greatest possible extent, adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of humanitarian response.
8. Strengthen the capacity of affected countries and local communities to prevent, prepare for, mitigate and respond to humanitarian crises, with the goal of ensuring that governments and local communities are better able to meet their responsibilities and co-ordinate effectively with humanitarian partners.
9. Provide humanitarian assistance in ways that are supportive of recovery and long-term development, striving to ensure support, where appropriate, to the maintenance and return of sustainable livelihoods and transitions from humanitarian relief to recovery and development activities.
10. Support and promote the central and unique role of the United Nations in providing leadership and co-ordination of international humanitarian action, the special role of the International Committee of the Red Cross, and the vital role of the United

Nations, the International Red Cross and Red Crescent Movement and non-governmental organisations (NGOs) in implementing humanitarian action.

Good practices in donor financing, management and accountability funding

11. Strive to ensure that funding of humanitarian action in new crises does not adversely affect the meeting of needs in ongoing crises.
12. Recognising the necessity of dynamic and flexible response to changing needs in humanitarian crises, strive to ensure predictability and flexibility in funding to United Nations agencies, funds and programmes and to other key humanitarian organisations.
13. While stressing the importance of transparent and strategic priority-setting and financial planning by implementing organisations, explore the possibility of reducing, or enhancing the flexibility of, earmarking, and of introducing longer-term funding arrangements.
14. Contribute responsibly, and on the basis of burden-sharing, to United Nations Consolidated Inter- Agency Appeals and to International Red Cross and Red Crescent Movement appeals, and actively support the formulation of Common Humanitarian Action Plans (CHAP) as the primary instrument for strategic planning, prioritisation and co-ordination in complex emergencies.

Promoting standards and enhancing implementation

15. Request that implementing humanitarian organisations fully adhere to good practice and are committed to promoting accountability, efficiency and effectiveness in implementing humanitarian action.
16. Promote the use of Inter-Agency Standing Committee guidelines and principles on humanitarian activities, the Guiding Principles on Internal Displacement and the 1994 Code of Conduct for the International Red Cross and Red Crescent Movement and Non-Governmental Organisations (NGOs) in Disaster Relief.
17. Maintain readiness to offer support to the implementation of humanitarian action, including the facilitation of safe humanitarian access.
18. Support mechanisms for contingency planning by humanitarian organisations, including, as appropriate, allocation of funding, to strengthen capacities for response.
19. Affirm the primary position of civilian organisations in implementing humanitarian action, particularly in areas affected by armed conflict. In situations where military capacity and assets are used to support the implementation of humanitarian action, ensure that such use is in conformity with international humanitarian law and humanitarian principles, and recognises the leading role of humanitarian organisations.
20. Support the implementation of the 1994 Guidelines on the Use of Military and Civil Defence Assets in Disaster Relief and the 2003 Guidelines on the Use of Military and Civil Defence Assets to Support United Nations Humanitarian Activities in Complex Emergencies. Learning and Accountability.

21. Support learning and accountability initiatives for the effective and efficient implementation of humanitarian action.
22. Encourage regular evaluations of international responses to humanitarian crises, including assessments of donor performance.
23. Ensure a high degree of accuracy, timeliness, and transparency in donor reporting on official humanitarian assistance spending, and encourage the development of standardised formats for such reporting.

Source: (Good Humanitarian Donorship (GHD) Initiative, 2003[11]), *Principles on Good Practice of Humanitarian Donorship*, https://www.ghdinitiative.org/assets/files/GHD%20Principles%20and%20Good%20Practice/79.%2023%20Principles%20and%20Good%20Practice%20of%20Humanitarian%20Donorship.pdf

4.3. Lessons for good multilateral donorship to support the 2030 Agenda

Re-affirm a strong commitment towards multilateralism to achieve the 2030 Agenda

This chapter highlighted how good multilateral donorship is critical to the effectiveness of the multilateral development co-operation system. It is an essential part of the responsibility that both sovereign states and multilateral organisations hold towards forging a more effective, inclusive and accountable multilateral development co-operation system.

However, the review presented in this chapter shows that "good multilateral donorship" is only partially covered by the commitments and effectiveness principles currently available internationally. This leaves a substantial gap in the system of soft laws in support of multilateralism. How sovereign states should behave to facilitate an effective multilateral co-operation system is either not the primary focus of the principles available (e.g. GHD) or is formulated in high-level terms that have limited actionability (e.g. Busan commitment).

The current principles and commitments relating to good donorship, however, do highlight the importance of some specific elements. These include donors' funding practices and policies, with respect to the multilateral system. Therefore, to elucidate what good multilateral donorship means in the context of the 2030 Agenda, the next two chapters build an evidence base on some specific elements. They identify two sets of building blocks for good multilateral donorship. The first set, developed in Chapter 5, concerns sovereign states' policies, decision-making processes and monitoring practices vis-à-vis the multilateral system. The second set, developed in Chapter 6, relates to good multilateral funding. This evidence constitutes the basis for the "Principles of good multilateral donorship for the era of the 2030 Agenda".

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Chapter 5. Building an evidence base on policies, decision-making and monitoring practices

This chapter presents evidence for good multilateral donorship on policies, decision-making processes and monitoring practices with respect to the multilateral development co-operation system. It does so by examining sovereign states' current practices in these areas and the implications of these practices for the quality and effectiveness of multilateral partnerships. Building on this evidence, the chapter concludes by highlighting lessons on policies, decision-making processes and monitoring practices. These lessons constitute a first set of building blocks for good multilateral donorship in the era of the 2030 Agenda.

Box 5.1. OECD "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System"

In 2018, the OECD carried out a survey on sovereign states' policies and practices with respect to the multilateral development system to inform this Multilateral Development Finance report. The survey (henceforth "OECD/DAC 2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" or, for brevity "2018 OECD Survey") elicited information on three main topics:

- Why and how sovereign states partner with and fund multilateral organisations;
- Sovereign states' views on the implications of the 2030 Agenda for partnerships with multilateral organisations;
- Reflections on the findings emerging from a case study on the World Health Organization (WHO) on measuring and encouraging good multilateral funding.

This last section was submitted only to the eleven top contributors to WHO for which such metrics was calculated.

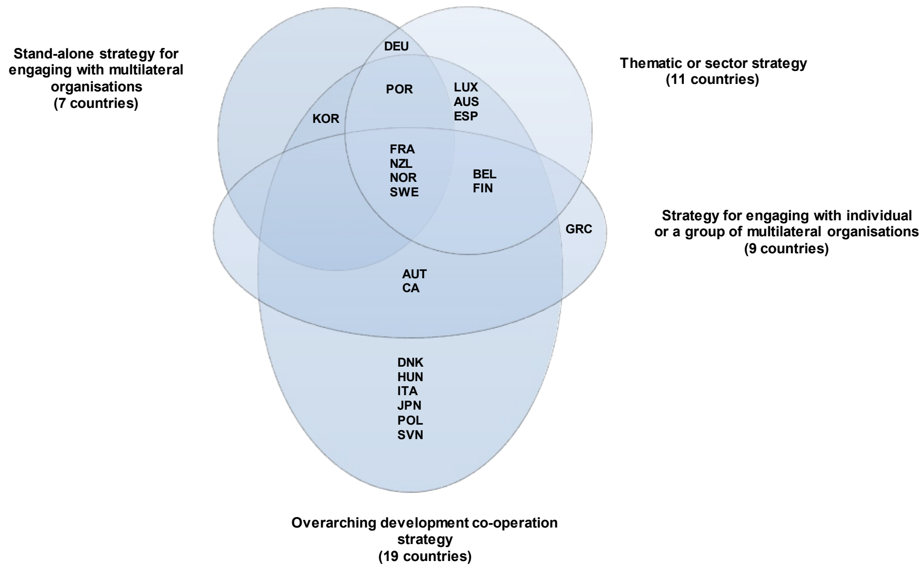
The Survey was submitted to all members and associates of the OECD DAC. The response rate, based on a total of 30 DAC members, was 73%. Twenty-two DAC members responded, namely: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Japan, Korea, Luxembourg, New Zealand, Norway, Poland, Portugal, Slovenia, Spain, Sweden and Switzerland. As one DAC member[1] provided responses only on the third section of the survey, the analysis of responses on the first two sections is based on a total of 21 responses. Romania became a participant in the DAC in April 2018 and Bulgaria did so in June 2018, therefore they were not included in the targeted sample. A similar survey was also conducted in late 2013 to inform the 2015 Multilateral Aid Report. Twenty-nine DAC members responded to the 2013 survey.

5.1. Sovereign states' engagement with multilateral institutions at policy level

Sovereign states share a strong commitment to multilateralism enshrined in various development policy documents

Sovereign states articulate their engagement with multilateral organisations through a multitude of policy documents. Almost all respondents to the 2018 OECD Survey stated that this engagement is articulated in their overarching development co-operation strategy. There, they express their commitment to the principles of multilateralism and acknowledge the importance of multilateral organisations for advancing global sustainable development. They also emphasise that multilateral organisations are critical partners for achieving the objectives of their national development agendas and for channelling development co-operation (see Box 5.1). The articulation of Development Assistance Committee (DAC) countries' multilateral engagement in their overarching development co-operation strategy presents different degrees of detail. For instance, Finland, briefly describes support to specific multilateral organisations (among the European Union [EU], the United Nations Development System [UNDS], the multilateral development banks [MDBs], etc.) in its overarching strategy. In contrast, Japan devotes a section of its 'Development Co-operation Charter' to the partnerships with international, regional and sub-regional organisations, but without referring to specific institutions.

Figure 5.1. DAC countries articulate their engagement with multilateral organisations in various development policy documents



Source: OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" (unpublished).

In addition to the overarching development co-operation strategy, several members describe their engagement with multilateral institutions in other policy documents. These include 1) stand-alone multilateral strategies; 2) strategies for engaging with individual or a group of multilaterals, and 3) thematic or sector strategies. Figure 5.1 illustrates the overlaps among policy documents in which DAC members articulate their engagement with multilateral organisations. More specifically, among the 19 respondents that detail their engagement in their overarching strategy, 10 also outline the role of partnerships with multilateral organisations also in a thematic or sector strategy. For instance, Australia articulates the role of multilateral partnerships to achieve the objectives of the Department of Foreign Affairs and Trade's strategy on health (Australian Government, Department of Foreign Affairs and Trade , 2015[1]). Moreover, nine respondents have developed a specific strategy for engaging with individual, or a group, of multilateral organisations. For example, Austria's Federal Ministry of Finance has a policy document providing strategic guidelines for international financing institutions (IFIs), thus the International Monetary Fund (IMF), World Bank Group, regional development banks and other MDBs (Austrian Federal Ministry of Finance, 2015[2]). Finally, seven DAC members have a stand-alone strategy for engaging with multilateral organisations. For instance, Germany and Sweden have policy documents outlining their strategies for multilateral development co-operation.

As further discussed at the end of this chapter, developing a strategy for engaging with multilateral organisations which contains a comprehensive vision of common goals and priorities can be an important element of effective partnerships with multilateral organisations. More policy documents are no guarantee of more effective use of the multilateral aid system. However, a well-articulated vision can help providers mainstream their goals and priorities with the administration and can help ensure that this is reflected in actual funding allocations. Furthermore, having a multilateral policy in place can increase transparency with respect to both multilateral partners and domestic constituencies. It can signal to the public that the portion of the official development assistance (ODA) budget being channelled multilaterally is carefully considered and monitored.

Box 5.2. Why multilateralism?

Evidence from DAC members' responses to the "2018 OECD Survey on Policies and Practices vis-à-vis the Multilateral Development System"

Increasingly, what happens in one part of the world can affect the lives of distant people and places. We are interdependent and the fortunes of countries are increasingly intertwined. Global interdependence creates a need for collective action and international policy co-operation to achieve fundamental global public goods (GPGs). These include economic stability and development, peace and security, and environmental sustainability. To provide security, for instance, keeping peace at home is not enough: the cross-border impacts of conflict elsewhere[2], transnational terrorist networks and the diffusion of deadly weaponry become concerns of each state.

When asked, in the 2018 OECD Survey, an open question regarding why they support the multilateral system, DAC countries acknowledged the need for collective action and for multilateral norms and standards to govern a peaceful and fair world. The most-cited reason was multilateral organisations' role in setting and monitoring international norms and standards – including on gender, humanitarian and migration issues – needed to achieve peace, security and prosperity. Peace, security, and climate, were among the GPGs that respondent donors highlighted most often when describing comparative advantages of multilateral organisations. Further, respondents mentioned the relevance of multilateral organisations' neutrality and impartiality, which gives them legitimacy on the global stage. They also stressed the importance of the convening power of multilateral organisations to tackle development challenges and to co-ordinate and leverage bilateral efforts to achieve the 2030 Agenda.

Another frequently cited reason for engaging with the multilateral development system is the ability of multilateral organisations to extend the reach of bilateral co-operation. Through their support to multilateral organisations, bilateral donors can help meet needs in countries where they do not have a bilateral presence. They can reach more risky contexts or contribute to sensitive situations where they do not have enough capacity or neutrality to operate. This is consistent with findings in (Dietrich, 2013[3]), which show that donors delegate more resources to international organisations when recipient countries are poorly governed. This is because these organisations are more likely to ensure that foreign aid achieves its intended outcome. Through support to multilateral organisations, bilateral donors can also contribute to larger and more complex programmes and operations. This is possible because multilateral organisations are able to combine multiple resources and contribute to larger-scale and more rapid interventions.

Some respondents also highlighted a greater effectiveness of multilateral channels compared to bilateral ones. They mainly cited the multilateral organisations' broad range of expertise and knowledge, wider networks and the cost-effectiveness of their operations that results from economies of scale. The greater effectiveness of multilateral channels was first highlighted by Rodrik (Rodrik, 1995[4]) . It was further identified as a prompt for countries' delegation to multilateral organisations for effective development by several authors [(Winters, 2010[5]), (Dietrich, 2013[3]), (Dietrich and Joseph, 2015[6])]. Smaller donors, in particular, highlighted the importance of partnering with multilateral organisations in order to reach countries where they have limited diplomatic presence or little experience and expertise working, such as in least developed countries (LDCs) and fragile contexts.

5.2. Decision making between inclusiveness and fragmentation

Who decides how much to allocate to the multilateral development system?

Decisions around ODA funding to multilateral organisations are generally centralised in one ministry or institution, primarily the Ministry of Foreign Affairs or the national development aid agency. Allocations to development banks, in contrast, are generally under the responsibility of the Ministry of Finance. Not all sovereign states adhere to this "concentrated model", however. In some, like France and the United States, the responsibility for engaging with international organisations is more diffused among government departments.

Funds to be allocated as core contributions to multilateral organisations are usually approved by the parliament, as part of the endorsement of the ODA budget. This process was identified by most respondents to the 2018 OECD Survey (17 out of 21) as an occasion to explicitly discuss the balance between bilateral and multilateral ODA allocations within their governments. In addition, a few respondents highlighted that discussions on the split between bilateral and multilateral ODA allocations can also take place occasionally. For example, they might follow external reviews, such as the OECD DAC Peer Review. This is an opportunity to reconsider the strategic direction of the national portfolio on development co-operation. However, these discussions rarely consider the split between total funding to the multilateral development system (core plus earmarked) and bilateral ODA, or between core contributions and earmarked funding.

Almost all respondents to the 2018 OECD Survey reported that there were no legal or discretionary limits on their contributions to multilateral organisations beyond the limits of the overall ODA budget. These limits and the volume of multilateral allocations are decided by parliament through the annual budget approval process discussed above. Of course, however, contributions to multilateral organisations and the ODA budget are constrained by the overall national budget. Situations of public finance consolidation and public debt control therefore constrain contributions. These were explicitly mentioned by Greece, Spain and Slovenia in their survey responses.

In 2013, Germany lifted a cap that set its ODA allocations at two-thirds for bilateral and one-third for multilateral aid. This provision had been endorsed by parliament in 2006, and reaffirmed by the coalition agreement of the Federal Government in 2009. In 2018 France committed to a substantial increase in the ODA budget over 2018-22. It has decided to allocate two-thirds of the average increase of engagements cumulated in the 2018-2022 period bilaterally. France stated that the aim of this was to counter a progressive erosion in the bilateral-to-multilateral ratio of France's ODA and to increase France's ability to target its priority countries (Interministerial International Cooperation and Development Committee (CICID), 2018[7]).

Deciding how to allocate resources across multilateral organisations

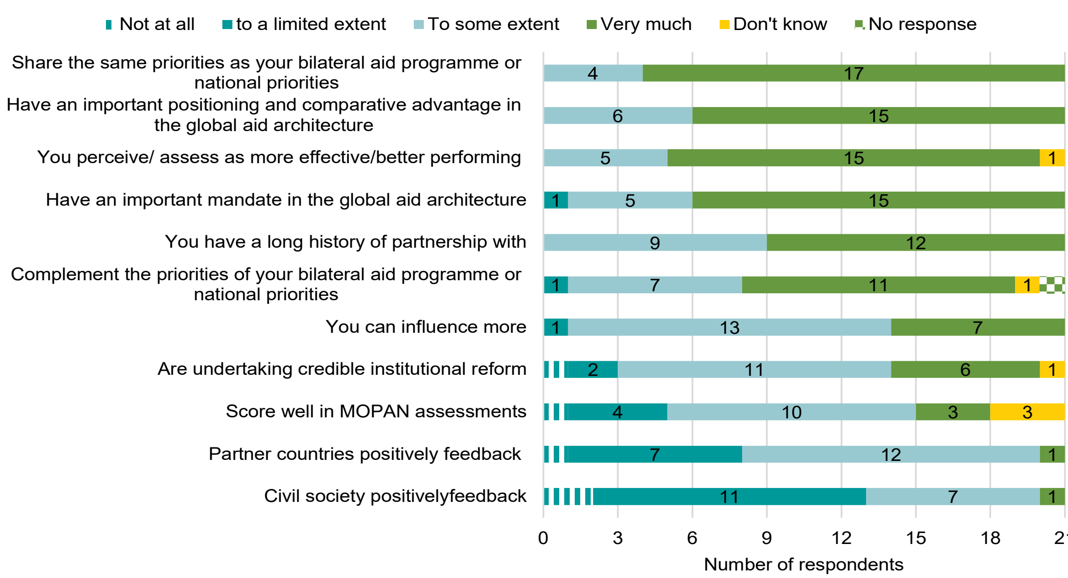
How do sovereign states determine the resource allocation across multilateral organisations? Hundreds of multilateral organisations exist, some with distinct mandates and functions and some with a high degree of overlap with other institutions. Providers' strategies to build a multilateral portfolio involve questions on the number of multilateral organisations to support; how much funding to contribute to each one beyond assessed contributions (i.e. the membership fees); what type of multilateral organisations to support, i.e. forum organisations (e.g. United Nations Conference on Trade and Development

[UNCTAD]) versus service organisations (e.g. United Nations Development Programme [UNDP]); and finally in which ways to support multilateral organisations.

Responses to the 2018 OECD Survey suggest that such decisions are based on several considerations and sources of evidence. The most common factor DAC members (13 out of 21 respondents) cited is the alignment of a multilateral organisation's mandate and agenda with the donor country's development policy objectives. Another important factor, mentioned by 13 respondents, is the evaluation of the effectiveness and impact of the programmes of the multilateral organisation. Some DAC members highlighted that they draw such information from the Multilateral Organisation Performance Assessment Network (MOPAN) assessments.

More specifically, DAC members stated that they partner more with multilateral organisations that share the same priorities as donor bilateral aid programmes. This "revealed preference" is consistent with findings from recent research conducted on the financial contributions of 22 OECD countries to 12 multilateral organisations from 1970 to 2008 (Schneider and Tobin, 2016[8]). This study shows that countries tend to delegate more resources to those with higher levels of portfolio similarity. In addition, responses to the survey suggested that providers also prefer to partner with multilateral institutions that they perceive as having a significant positioning and comparative advantage in international development. Other relevant factors considered by DAC members are: the degree of relevance of the organisation's mandate in global aid and the history of partnership between the organisation and the donor. In contrast, they little consider positive feedback shared by civil society or given by partner countries (Figure 5.2).

Figure 5.2. DAC members reveal they partner more with multilateral organisations that focus on the same priorities as their bilateral development programmes



Source: OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" (unpublished).

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Although the bulk of multilateral funding generally falls within the authority of one national entity, funding can be thinly spread across many extending agencies

While the bulk of multilateral funding is decided and provided by one ministry/institution, several more ministries and institutions extend ODA funds to multilateral organisations, and the total number is on the rise. In 2013-2016, 20 DAC countries extended 70% or more of all core contributions from one ministry or institution. At the same time, however, the number of DAC countries' government agencies and ministries extending core funding increased from 125 during the period 2011-2013 to 140 during 2013-2016 (+12%). The total number of agencies extending earmarked funding went from 142 to 168 (+18%) over the same time period.[3]

These figures suggest that earmarked funding tends to be extended by a large number of ministries and agencies. This confirms that donor decision making on earmarked funding is largely scattered and decentralised among various departments and institutions (OECD, 2015[9]). Although the average number of agencies extending core funding (5) is approximately the same for earmarked funding (6), there is great degree of variation among DAC countries for earmarked funding (standard deviation of 3 for core, 4 for earmarked funding). Further, there seems to be a larger number of government entities that provide earmarked funding in an ad hoc and sporadic fashion: in 2013-16, 16 DAC countries had one or more agencies/ministries extending earmarked funding only once throughout the period, against 9 for core resources.

Spain and Germany are the DAC countries with the highest number of government agencies and ministries extending multilateral funding. Spain has 11 for core and 15 for earmarked funding; Germany has 12 for core, 14 for earmarked funding. At the other end of the spectrum, Luxembourg displays the most "consolidated" multilateral portfolio, as the Ministry of Foreign Affairs is the only national entity extending both core and earmarked funding. Luxembourg is followed by the Netherlands and New Zealand, which both have two government entities extending core resources and one providing earmarked funding.

This plurality of extending agencies and ministries is viewed differently across multilateral organisations. In informal consultations conducted for this report, some representatives of multilateral organisations suggested that this fragmented funding configuration reduces clarity over the overall objectives of the partnership with donor governments and thus diminishes its impact. In contrast, other multilateral organisations view this plurality more opportunistically, with more donor sources potentially meaning greater funding overall.

Table 5.1. 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 agencies	Non-core: number of extending agencies	Core: share provided by the largest agency		Non-core: share provided by the largest agency	
Australia	2	2	90%	Australian Government	99%	Australian Government
Austria	9	13	94%	Federal Ministry of Finance	46%	Federal Ministry of Finance
Belgium	6	6	55%	Directorate General for Co-operation and Development	86%	Directorate General for Co-operation and Development
Canada	5	6	58%	Global Affairs Canada	98%	Global Affairs Canada
Czech Republic	7	5	89%	Ministry of Finance	72%	Ministry of Foreign Affairs
Denmark	3	1	99%	Ministry of Foreign Affairs	100%	Ministry of Foreign Affairs
EU Institutions	2	3	56%	Commission of the European Communities	44%	European Investment Bank
Finland	2	2	74%	Ministry of Foreign Affairs	100%	Ministry of Foreign Affairs
France	5	8	34%	Government	51%	Ministry of Foreign Affairs
Germany	12	14	91%	Ministry for Economic cooperation and development	40%	Foreign Office
Greece	13	7	92%	Ministry of Finance	75%	Ministry of Finance
Hungary	7	8	43%	Ministry for National Economy	48%	Miscellaneous
Iceland	2	3	97%	Ministry of Foreign Affairs	86%	Ministry of Foreign Affairs
Ireland	4	3	40%	Miscellaneous	98%	Department of Foreign Affairs
Italy	4	6	63%	Central Administration	59%	Directorate General for Development Co-operation
Japan	5	5	64%	Other Ministries	73%	Ministry of Foreign Affairs
Korea	4	4	50%	Ministry of Strategy and Finance	63%	Ministry of Foreign Affairs and Trade
Luxembourg	1	1	100%	Ministry of Foreign Affairs	100%	Ministry of Foreign Affairs
Netherlands	2	1	84%	Ministry of Foreign Affairs	100%	Ministry of Foreign Affairs
New Zealand	2	1	97%	Ministry of Foreign Affairs and Trade	100%	Ministry of Foreign Affairs and Trade
Norway	2	5	98%	Ministry of Foreign Affairs	84%	Ministry of Foreign Affairs
Poland	6	6	79%	Ministry of Finance	89%	Ministry of Foreign Affairs
Portugal	2	3	100%	Government	88%	Government
Slovak Republic	6	4	91%	Ministry of Finance	50%	Ministry of Foreign and European Affairs
Slovenia	5	5	74%	Ministry of Finance	41%	Miscellaneous
Spain	11	15	74%	Ministry of Public Administration	63%	Spanish Agency for International Development Co-operation
Sweden	2	11	98%	Ministry of Foreign Affairs	92%	Swedish International Development Authority
Switzerland	4	4	87%	Swiss Agency for Development and Co-operation	61%	Swiss Agency for Development and Co-operation
United Kingdom	9	11	82%	Department for International Development	88%	Department for International Development
United States	3	13	48%	Department of Treasury	60%	Agency for International Development
Average	5	6	77%		75%	

Note: Sum of funding in 2013-2016. The "number of extending agencies" refers to the number of agencies that have extended multilateral funding at least once over the period 2013-2016.
Source: Authors' calculations based on (OECD, 2018[10]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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When asked about how they ensure co-ordination and coherence of their multilateral portfolio among national entities, respondents were not explicit about the challenges or opportunities entailed by a plurality of extending agencies. Responses suggest that co-ordination takes place differently among DAC members. Some respondents indicated the Ministry of Foreign Affairs was in charge of co-ordination with other ministries. Other DAC countries, such as Italy, Portugal and Spain, stated that they have established inter-ministerial committees to ensure co-ordination. Responses suggest, overall, that co-ordination mostly takes place through regular exchanges of information and meetings. Several respondents also indicated that differences exist in terms of co-ordination mechanisms concerning core and earmarked resources. For instance, France highlighted that some earmarked contributions, such as programmed food aid, are decided by ad hoc committees that involve the concerned ministries (e.g. Ministry of Agriculture).

A positive development is that, increasingly, discussions on multilateral ODA are held by participatory bodies, although these bodies only have an advisory role. In their Survey responses, seven DAC members indicated that they have set up inter-ministerial committees or commissions with an advisory role on the scope of multilateral engagement and other aid-related topics. These generally involve the Ministry of Foreign Affairs and the Ministry of Finance, but can also include a broader range of actors. For instance, Korea’s major ODA policies, including those relating to multilateral aid, are decided by the Committee for International Development Cooperation, which is composed of 25 members including the prime minister, ministers of related ministries, heads of ODA implementing agencies and civilian experts. This committee holds meetings approximately three times a year to deliberate and decide upon the framework plans and annual comprehensive implementation plans and evaluate the ODA policies. Spain decides the scope of the multilateral aid portfolio within the Ministry of Foreign Affairs and the Spanish Agency for International Cooperation and Development. It also holds regular discussions on the balance between bilateral and multilateral ODA within the Inter-Ministerial and Inter Territorial Commissions for International Cooperation, comprising regions and local governments, and within the Council for Cooperation, which includes a broader range of actors.

5.3. Monitoring and accountability practices to ensure impact of resources allocated multilaterally

A proliferation of bilateral assessments of multilateral organisations decreases slightly

The increased public scrutiny of aid budgets and the budget constraints faced by several OECD countries in recent years have indeed pushed donors to request greater transparency and accountability from multilateral organisations. Bilateral providers have a responsibility to ensure that public resources are well spent when allocated to multilateral organisations, these trends have unfortunately encouraged a proliferation of bilateral assessments that often did not produce the intended benefits. In most cases, it was found that multilateral organisations were not informed of the criteria against which they were being assessed. In addition, the outcomes of assessments were often not shared with the multilateral organisations upon completion. A lack of transparency on methodologies, outcomes and implications of these assessments, therefore reduced opportunities for learning and for performance enhancement. These assessments also failed to inform discussions with the broader membership of the reviewed organisation on reforms needed to perform better. In addition, the transaction costs associated with providing primary data to numerous consultants for these assessments can be high and drain substantial resources away from multilateral organisations' core activities. Further, it often remains unclear how the donors conducting these assessments use them internally. Limited evidence is available on the impacts of these assessments on the behaviour of the donors, including in terms of funding decisions.

New data drawn from the 2018 OECD Survey highlight that the number of bilateral assessments and reviews of multilateral organisations remains high, totalling 128 in 2015-18. This, however, represents an encouraging decrease from the 202 figure for the 2011-2014 period (which covers the same respondents). According to responses to the 2018 OECD Survey, over the 2011-18 period, ten DAC members conducted bilateral assessments of multilateral assessments, slightly more than half of all respondents. It is positive that two respondents to the survey, one a MOPAN member (Canada) and one a non-MOPAN member (Spain), explicitly stated that they do not conduct bilateral assessments as they relied on MOPAN's reviews (Table 5.2).

Table 5.2. The number of bilateral assessments of multilateral organisations conducted by DAC members remains high

	2011	2012	2013	2014	2015	2016	2017	2018
Number of DAC members that conducted at least one assessment *(out of the 21 respondents to the 2018 OECD/DAC Survey)*	4	2	2	5	4	4	5	5
Number of bilateral assessments conducted	87	45	30	40	30	14	35	49

Source: Author's calculations based on responses to the OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System" (unpublished).

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There is wide variation in the scope and depth, as well as methodology, of assessments carried out by DAC members

Many bilateral assessments are essentially desk reviews that rely heavily on secondary sources, but some do imply the collection of primary data and impose high transaction-costs on multilateral organisations. These differences may not be fully captured in the overall trends above. However, bilateral corporate reviews of multilateral organisations are relatively similar in substance, looking at some variation of two themes: how well an organisation is performing and how well its work is aligned to national objectives, compares to bilateral interventions, or otherwise fulfils national priorities.

For instance, in 2012, the Australian Department of Foreign Affairs and Trade carried out the Australian Multilateral Assessment. This was a major review assessing the performance and effectiveness of Australia's main multilateral partners, in order to inform decisions on future funding allocations. This review used both primary and secondary data and assessed 42 multilateral organisations, comprising the UN system, MDBs and vertical funds. It is positive that in 2015 Australia introduced the Australian Multilateral Performance Assessment (MPA) process. This allows for more contained and streamlined assessments that primarily draw on secondary sources, such as the MOPAN assessments. Therefore, with the MPA, Australia has reduced the burden imposed on multilateral organisations, while still allowing the performance of Australia's key multilateral partners to be assessed.

This informs Australia's partnership engagement with key multilateral organisations, including budget decisions on voluntary core funding.

The United Kingdom has been a frontrunner in the development of a comprehensive framework for the assessment of multilateral organisations, the Multilateral Aid Review. The Multilateral Aid Review was put in place in the context of increasing levels of United Kingdom's aid spending. It was part of the aim to meet the government's pledge to reach the UN target of 0.7% of GNI ODA as by 2013 (which it successfully met). The Multilateral Aid Review was launched in 2011 and assessed the performance of 43 organisations, ranging from IFIs and MDBs to UN specialised agencies and humanitarian organisations. The outcomes of these assessments have affected the United Kingdom's funding decisions. Following the 2011 Review, the United Kingdom discontinued core contributions to six of the nine organisations that were assessed as "poor value for money".

An update of the Multilateral Aid Review was published in 2013 and a new full cycle was conducted in 2016 (entitled "Raising the standard: the Multilateral Development Review"). The 2016 Review examined every agency that receives more than GBP 1 million of annual core funding from the Department for International Development (DFID), making 38 in total. It considered two indices: how their work "aligned with UK development and humanitarian objectives"; and their "organisational strengths". The United Kingdom's Multilateral Aid Review, in contrast to its peers, does provide some indication of its methodology of the outcomes and the implications of the assessments, and some organisations have pointed out that these reviews have led to fruitful internal reflections on performance weaknesses and strengths. Multilateral organisations have a clear incentive to implement the Review's recommendations so as not to lose United Kingdom funding. However, some multilateral organisations have stated that there were tensions between some of the assessment's recommendations and the priorities for change expressed by the broader membership through the governing board.

At the end of 2017, the United States introduced the Multilateral Aid Review Act. The bill to establish regular evaluations of the effectiveness of multilateral institutions had bipartisan support. These evaluations would be supported by the United States, i.e. the Multilateral Aid Reviews (MARs). The stated purpose of these reviews is to publicly assess the value of the United States' Government investments in multilateral entities to: 1) guide United States' decision making and prioritisation with regard to funding multilateral entities and provide a methodological basis for allocating scarce budgetary resources to entities that advance relevant United States' foreign policy objectives; 2) incentivise improvements in the performance of multilateral entities to achieve better outcomes on the ground in developing, fragile, and crisis-afflicted regions; and 3) protect United States' taxpayer investments in foreign assistance by improving transparency with regard to the funding of multilateral entities. The MARs will be conducted by a United States' interagency task force (chaired by the Secretary of State or a senior official and with members chosen by the President), and a peer review group with eight volunteer NGO members appointed by senate and house majority and minority leaders. The bill specifies 38 multilateral institutions to be reviewed, including the World Bank and several entities within the UN. The review will create an assessment scorecard to determine the effectiveness of institutions, programmes and aid. Grades will be based on the relationship between stated goals and actual results, whether institutions have responsible management, the accountability and transparency of institutions, alignment of institutions with United States' foreign policy objectives, whether a multilateral or bilateral approach would be more effective and whether there are any redundancies or overlaps between institutions or programmes.

The United States' MAR could be a powerful instrument to maintain strong engagement by the United States in the multilateral sphere. It could strengthen United States' support for organisations promoting development world wide, based on principles of transparency and effectiveness. At the same time, however, it is important that this review applies the lessons learnt through other assessments. Its objectives should be twofold: meeting domestic need for greater transparency and accountability, and strengthening the "multilateral character" of organisations, by reinforcing the multilateral accountability mechanisms of these organisations. The proposed criteria by which an organisation would be assessed covers alignment to national interest as well as more general organisational performance. In the latter, there is substantial overlap with existing efforts, by for instance MOPAN, and so it is critical that the methodology used would explicitly avoid duplication by relying on existing data wherever possible and focus resources on issues best examined through a bilateral exercise.

Bilateral assessments can be powerful instruments to achieve strong multilateral engagement based on principles of transparency and effectiveness, but they should focus on where they add value and avoid duplicating work done by multilateral efforts like MOPAN. This means concentrating on the national perspective and relying heavily on secondary data collection and existing assessments for questions of organisational performance and results.

Multilateral assessments – such as MOPAN assessments - can lead to more cost-effective accountability and performance improvements

MOPAN was launched in 2002, through a network of like-minded donor country members, for monitoring the performance of multilateral development organisations. Recently, MOPAN has taken important steps to become more ambitious and professional, adopting a refined assessment approach, and establishing a permanent Secretariat, hosted by the OECD since 2013. The latest set of revisions to MOPAN's methodology were significant in their scope and potential impact. They expanded the range of organisations assessed, allowed more data to be collected from more partners and focused on the relevance, efficiency, effectiveness and impact of the development programmes. MOPAN assessments also avoid the pitfalls of many bilateral exercises, emphasising transparency, collaboration and learning through the assessment process.

The 2018 OECD Survey indicates a strong reliance by DAC members on MOPAN assessments to evaluate multilateral organisations' performance and to inform their engagement with multilateral institutions. For instance, it is extremely positive that, since 2017, Sweden no longer conducts bilateral assessments and exclusively relies on MOPAN assessments. Research conducted by MOPAN also finds evidence that donors are increasingly either replacing or scaling back their bilateral exercises as their needs are increasingly met by MOPAN in terms volume, methodology and substance.

The large costs arising from the proliferation of bilateral assessments and the optimisation of resources using MOPAN joint assessments suggest that increased reliance on MOPAN could lead to more cost effective accountability. It could also encourage a dialogue between donors and multilateral organisations on how to improve performance. While MOPAN assessments are not meant to be granular at the project level and should not capture alignment to specific national priorities, donors should maximise the degree to which MOPAN meets their needs in terms of which organisations are assessed and to what frequency. This savings would allow bilateral assessments/reviews to focus on the areas where they add value, i.e. the national fit and alignment. There is a particular opportunity for MOPAN members to ensure that the instrument further meet their needs as MOPAN is entering a new strategic cycle in 2020.

5.4. Lessons for good multilateral donorship in the era of the 2030 Agenda: policies, decision-making processes and monitoring practices

This chapter has illustrated how sovereign states articulate their engagement with multilateral organisations in policy documents, in the internal architecture of decision making, and through accountability measures for ensuring impact of multilateral allocations. The following section reviews how the policies, decision-making processes and monitoring practices of sovereign states need to evolve to support effective multilateral development co-operation to achieve the 2030 Agenda. These elements, summarised in Figure 5.4, provide building blocks for the principles of good multilateral donorship presented in the overview chapter.

1) Define the expected outcomes and modalities for engaging with multilateral organisations in light of an inclusive whole-of-government dialogue open to non-state actors and to relevant stakeholders

The integrated nature of the 2030 Agenda calls for progress on social, economic and environmental dimensions to achieve sustainability. This will require a broader range of partners to contribute expertise and resources towards the achievement of these ambitions. Although the Ministry of Foreign Affairs generally has responsibility for engagement with multilateral development organisations, line ministries could establish direct partnerships with relevant international institutions to advance specific SDGs. To provide integrated solutions and approaches to managing policy trade-offs, line ministries could increasingly be called upon to work together and collaborate with multilateral organisations to promote sustainable development. For these reasons, it will be important to encourage whole-of-government strategic thinking on the expected outcomes and modalities for engaging with multilateral organisations. As non-state actors are also called upon to contribute to the 2030 Agenda, it is important that countries find ways to transform their inputs into coherent partnerships.

The examples offered by some DAC members on participatory bodies and fora where discussions on multilateral ODA are held (section 5.2.) provide good practices. Sovereign states can explore and adapt these to the state's specific contexts. Discussions on the balance between bilateral and multilateral ODA will specifically need to be encouraged in these contexts. This will clarify the objectives and scope of multilateral engagement and encourage a cohesive use of the multilateral co-operation system.

These discussions are central to the development of clear, evidence-based policy documents and guidelines on partnerships with multilateral organisations. Section 5.1. illustrated that DAC members articulate their engagement with multilateral organisations in a range of policy documents. It is thus critical to ensure that these policy documents incorporate the outcomes of discussions with the range of actors engaging with multilateral organisations. These policy documents also need to build on evidence, provide clarity and transparency and establish a basis for guidelines. Policy documents can help providers mainstream their goals and priorities throughout the administration and ensure that these are reflected in actual funding allocations.

2) Establish adequate co-ordination and accountability mechanisms to ensure a responsible and coherent whole-of-government approach to engagement with multilateral organisations

As documented in section 5.2, the Ministry of Foreign Affairs is usually responsible for engagement with multilateral organisations on development co-operation matters. Several donor ministries and institutions, however, do extend funding to multilateral organisations. The allocation of earmarked resources is generally even more scattered, owing to the decentralised and more ad hoc nature of this kind of funding.

A plurality of entities extending funding is not necessarily bad and it may be needed to harness expertise and resources from a broader range of partners in support of the 2030 Agenda. However, uncoordinated funding from many different donor interfaces – such as different ministries and institutions – can reduce overall coherence and strategic focus. It can also weaken the continuity, transparency and trust required for effective partnerships. Therefore, sovereign states need to encourage effective co-ordination mechanisms to maximise the benefits of engaging many donor entities, while minimising fragmentation and duplication costs.

Besides co-ordination and coherence among different actors, it is critical to ensure adequate communication and coherence at different levels within the administration. When asked about how the quality and effectiveness of partnerships with multilateral organisations could be enhanced, all respondents to the 2018 Survey highlighted effective communication and coherence in donor-multilateral organisation relations at all levels: country, headquarters and governing boards.

3) Establish cost-effective monitoring and accountability processes

Sovereign states need to ensure that scarce public resources are spent effectively. This necessitates processes and mechanisms to monitor the effectiveness of multilateral spending and ensure accountability. At the same time, the analysis in section 5.3 highlighted a proliferation of bilateral assessments that impose high transaction costs on organisations. These assessments often fail to achieve both greater performance-based donor allocations and greater effectiveness of the multilateral organisations. When conducted by large funders requesting specific improvements, these risk creating a parallel track of reforms that may diverge from the orientations of the full membership. This can create tensions that erode the multilateral accountability frameworks of the organisation. Concerns have also been raised over the risk that new bilateral assessments may be used to undermine the case for multilateralism (Scott, 2017[11]). To guard against this risk, Scott (2017) suggests: 1) reviewing both bilateral and multilateral aid (but recognising the impracticality of like-to-like comparisons); and 2) establishing an ex-ante policy commitment to devote a share of United States' assistance to multilateral channels.

Sovereign states need to put accountability mechanisms in place for their multilateral spending that: do not impose excessive burdens on multilateral organisations and allow a constructive dialogue on performance through multilateral accountability mechanisms internal to the multilateral organisations. In particular, sovereign states and other concerned stakeholders should consider to:

- Use executive boards' discussions to encourage changes that will improve the performance of multilateral organisations. Donors should use the findings of their bilateral reviews to engage the membership in discussion on performance to strengthen the evidence base for the board's decisions on reforms.

- Rely on existing sources for their bilateral assessments to the maximum extent possible. Donors should support jointly, through governing bodies, independent evaluation units, enabling them to provide the primary information donors need for their assessments. Donors should make either the totality or parts of their bilateral assessments publicly available, in order to provide useful information for other donors' reviews.

Ultimately, sovereign states and other contributors will need to move away from project-by-project controls to programmatic and strategic guidance. An important step is to develop better results frameworks that could be aggregated over the system to identify gaps.

4) Understand and tackling systemic gaps and overlaps and to encourage multilateral organisations to work better as a system

Good multilateral donorship requires efforts to understand and tackle systemic gaps and overlaps and to encourage multilateral organisations to work better as a system. In this respect, the G20 Eminent Persons Group on global economic governance represents a positive start. It has called on the MDBs to collaborate more closely on "principles, procedures, and country platforms" and to work more "as a system".

There is a need, however, to intensify these efforts. The adoption of harmonised working practices to reduce the burden on developing countries should be promoted. This is not enough yet. A reflection is needed on whether, on the basis of their mandates and relative comparative advantages, imbalances exist across multilateral institutions – in terms of their financial capacity and functions – and if gaps exist in the delivery of results for the new integrated sustainable development agenda.

The Global Action Plan for SDG3 could provide, in this respect, a positive example. This Global Action Plan is consistent with the current Quadrennial Comprehensive Policy Review (QCPR) and UN reform, and could be extended to other SDGs and areas. This Global Action Plan aims to align the programme budget of institutions with a mandate on health and encourage a smart and effective collaboration across these multilateral institutions and other relevant partners. It defines the strategic priorities what each institution needs to achieve to effectively contribute to SDG 3. This could, in turn, guide the distribution of donor resources among these institutions. What would matter, then, would be that each player is adequately funded to deliver its contribution to the SDG 3 and that, together, the world meets the SDGs. This could be accompanied by monitoring frameworks that aggregate results of institutions to identify gaps (as discussed above). This approach could be complemented by country platforms that identify projects, and pool funds and expertise from multilateral institutions and other stakeholders.

Finally, while this chapter identified building blocks of good donorship that are valid for all multilateral organisations, good multilateral donorship may require specific actions for specific multilateral institutions. Box 5.3 highlights elements from recent research on what good donorship may mean in the context of MDBs for the achievement of greener infrastructure.

Box 5.3. Donor shareholders' role in promoting environmental risk management in multilateral development banks

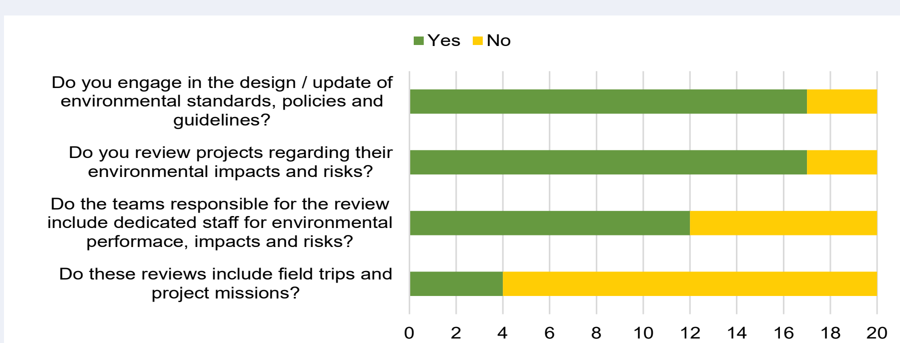
The way infrastructure is built in the next ten years will determine whether developing countries achieve economic and development gains through more sustainable development pathways. Multilateral development banks (MDBs) – the World Bank and the regional development banks - are critical actors in this regard, helping to support project pipelines and affect the needed policy reform. At the same time, many large-scale infrastructure development projects continue to be associated with significant environmental and social impacts, such as the degradation of natural capital and biodiversity, air and water pollution, greenhouse gas emissions, involuntary resettlement of communities and impacts on indigenous peoples, among others. MDBs have put in place environmental and social safeguard systems to minimise the impacts of their projects on the environment. However, these systems often come under pressure due to the perceived delays they may cause.

Donor shareholder governments, i.e. those that provide finance but are not eligible for finance themselves, play an important role in supporting MDBs to better implement their safeguards systems and minimise potential negative impacts. Donor shareholders support MDBs in mainstreaming environmental issues into their projects and portfolios through the provision of concessional finance targeted at different themes. They engage with MDBs on environmental issues:

- at a strategic level (on policy) by reviewing environmental policies and strategies of the banks;
- at an operational level (on projects) by reviewing individual MDB projects when they are presented to boards for discussion.

The survey of OECD DAC members demonstrated that the way donor shareholders engage with MDBs on safeguard issues varies significantly across members. Some members engage in detailed project review and others engage only in certain cases. While project-level review can be resource intensive for donor countries, they can act as an added layer of accountability, and strengthen safeguards for a project. Going forward, working together, across ministries and even across countries, to share information on projects could help focal agencies engaging with development banks and development finance institutions (DFIs) to better understand the risks of projects.

Figure 5.3. DAC member engagement in the review of environmental impact of policies and projects of MDBs



Note: This figure is based on survey responses from 20 OECD DAC members.
Source: (Crishna Morgado, forthcoming[12]), "Promoting environmental safeguards in development banks and development finance institutions (DFIs) – what role for donor shareholders?"

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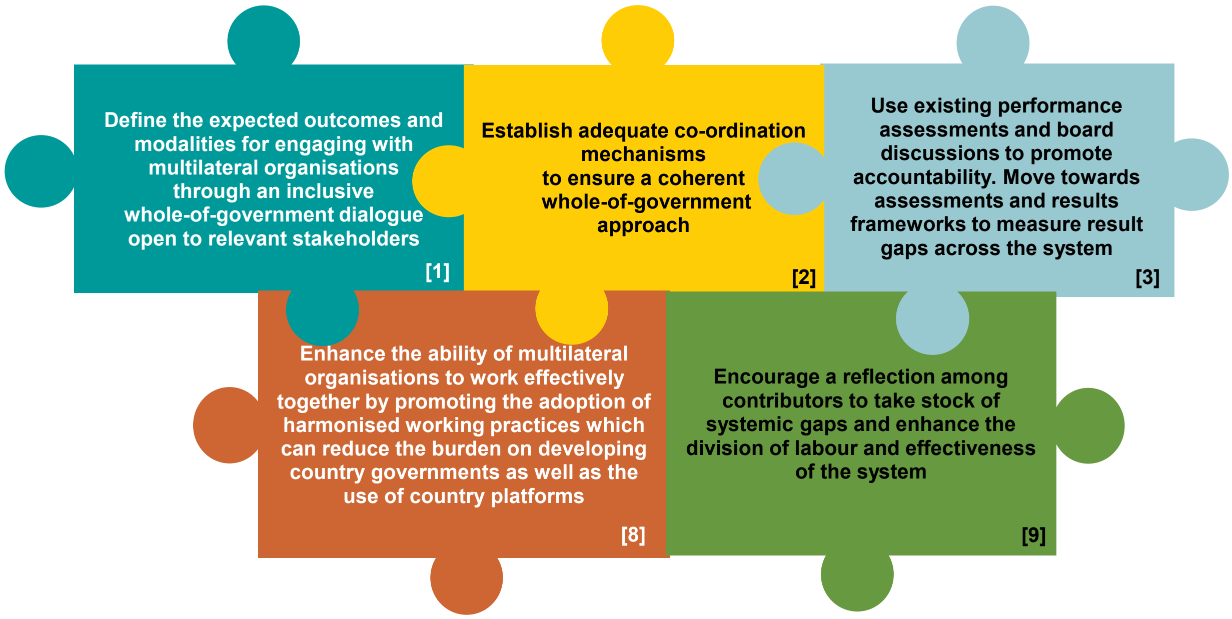
Figure 5.4. Summary of recommendations



Note: Numbers in the puzzle pieces indicate the recommendations in section 1.4.
Source: Authors

Notes

[1] Switzerland

[2] https://www.cgdev.org/sites/default/files/more-mobilizing-less-lending-pragmatic-proposal-mdbs.pdf.

[3] These totals exclude Hungary, to allow comparison between 2011-2013 and 2013-2016.

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Chapter 6. Building an evidence base on good multilateral funding

Through an innovative multi-dimensional metrics, this chapter develops new evidence for a cornerstone of good multilateral donorship: good multilateral funding. This multi-dimensional approach represents a pioneering attempt to quantify and operationalise elements that have been broadly acknowledged as key components of good multilateral funding. Both the literature and policy discourse identify these components as predictability, flexibility, alignment to the mandate and the agreed programme of work of a multilateral organisation. This new OECD metrics is developed from a case study on the World Health Organization (WHO). The health sector and WHO's funding situation can act as a "tracer" on effectiveness, offering insights and lessons for other sectors and institutions that face similar funding challenges. Based on the findings from the new metrics, the chapter closes by offering evidence-based building blocks on good multilateral funding for good multilateral donorship in the era of the 2030 Agenda for Sustainable Development.

6.1. Why good multilateral funding is a critical aspect of good multilateral donorship and what defines it

Good multilateral funding is a critical aspect of good multilateral donorship

Funding practices crucially affect the ability of multilateral organisations to deliver development results. Although the complexity and scope of the development challenges multilateral organisations are called to address have increased over time, funding that is predictable and aligned to the strategic orientations of multilateral organisations has been falling. Large increases in transaction-heavy and piecemeal funding that is tied to specific themes and projects (i.e. earmarked funding, or non-core funding) and little predictability of financing are increasingly challenging the ability of multilateral organisation to perform well and to deliver on their mandates. If funding is predominantly provided in a piecemeal and project-based fashion, how can multilateral organisation achieve on the integrated and holistic solutions required by the 2030 Agenda and Addis Ababa Agenda for Action (AAAA)? As shown in Chapter 2, earmarked funding has grown in volume and as a share of total funding to multilateral organisations. It is largely concentrated in the United Nations (UN), for which it now accounts for 80% of total funding.

This is why policy communities, particularly within the United Nations Development System (UNDS), have stressed the importance of ensuring adequate resources for the multilateral system and good practices in its delivery, especially on earmarked funding. The Quadrennial Comprehensive Policy Reviews of Operational Activities for Development of the United Nations System (QCPR) – through which the United Nations General Assembly (UNGA) assesses the effectiveness and impact of UN operational activities for development – has raised serious concerns about the funding situation of the UNDS (see UN 2012 and UN 2016). The 2016 QCPR emphasised that achieving the 2030 Agenda requires ensuring resources that are adequate in volume, predictable, flexible, less earmarked and better aligned with programme priorities regulated by intergovernmental bodies and processes.

Overall, both the UNDS and the multilateral development banks (MDBs) have acknowledged financing challenges as potential stumbling blocks to the delivery of the 2030 Agenda. They have placed reforms to attract more and better financing at the core of the strategies they developed to be fit for purpose to achieve the 2030 Agenda. The General Assembly Resolution 71/243 on the QCPR and the 2018 follow up reports of the United Nations Secretary-General (see UN 2017a and UN 2017b) specifically called for “a system-wide strategy to support the implementation of the 2030 Agenda”. To support this strategy, a package of reforms has been proposed, which includes the “Funding Compact”. This is a set of measures to respond to the funding challenges the UNDS faces, including the erosion of core funding and increasing reliance on earmarked resources. With the Funding Compact, UN member states are encouraged to enhance the volume, predictability and flexibility of the financial resources they provide. A 1% co-ordination levy that is part of the funding arrangement of the new system of resident co-ordinators (RCs). It is intended to create a disincentive for hard earmarking (see the “In My View” piece by Silke Weinlich). Recognising the role of MDBs for the 2030 Agenda, the G20 has called on shareholders to advance reforms on representation, capital increases and an effective use of capital resources. To ensure that limited MDB capital resources are used efficiently, MDBs must optimise balance sheets to expand their lending capacity without substantially increasing risks or jeopardising credit ratings (see Section 2 of Chapter 2 of this report for a discussion).

Box 6.1. In My View: The new UN co-ordination levy - can it set the right incentives?
By Silke Weinlich[1]

In May 2018, as part of the larger reform package on the UNDS, UN member states introduced a 1% levy on tightly earmarked financial contributions for development-related activities. While small in scope, the levy is an unprecedented instrument to set actual financial incentives for more efficient, multilateralism- and development-friendly ways of funding the whole UNDS. If effectively implemented by member states and agencies, it could set an example for other multilateral organisations and policy fields, such as humanitarian affairs, that also suffer from fragmentation.

The decision to introduce the levy came as part of a last minute compromise for ensuring adequate, predictable and sustainable funding for the reinvigorated resident co-ordinator system (RCS), which was at the same time detached from the UN development programme. Instead of using assessed contributions as proposed by the UN Secretary-General, a hybrid model to fund the new RCS was adopted. It consists of 1) the co-ordination levy; 2) doubling of cost-sharing contributions from UN entities; and 3) voluntary contributions to raise an estimated USD 290 million annually. This sum supposedly covers the costs for the UN's 129 RCs and their small teams of five people, as well as for the UN development operations coordination office. It also provides some support funds for co-ordination within UN country teams – a cornerstone of the reform package. Based on data from 2016, it is expected that the levy will generate between USD 60 and 80 million.

The levy has a direct and a more indirect objective. Directly, it pays for co-ordination efforts: while small in scale, it is to help securing the vital RCS functioning and thereby provide the ground for a successful reform implementation. It can be seen as a form of royalty for system-wide co-ordination, charged for those financial contributions that could potentially undermine co-operation within the UNDS to the greatest degree. These include bilateral agency- and project-specific contributions, which currently account for nearly 80% of all earmarked contributions for development-related activities. Indirectly, the levy aims to change funding patterns and donor behaviour: by making tight earmarking more expensive it should steer contributors away from less desired funding modalities towards more flexible and predictable forms. In turn, this reinforces the Secretary-General's proposal to increase core and pooled funding in the context of the envisaged Funding Compact. Since the levy was authorised as a system-wide approach by the General Assembly, it applies to all agencies and thereby has a potentially unifying role. It will be charged in addition to agency-specific cost-sharing provisions that compensate for (some of the) direct and indirect costs of a project. In a way, the money raised by the levy can be regarded as system-wide core funds – and an investment in turning the UNDS into something greater than the sum of its parts.

For the levy to realise its potential, it is crucial that it is put into practice in a system-wide, transparent, efficient and effective way, leaving as few loopholes as possible. Time is of the essence: the RCS system needs resources from 2019 on, and the hybrid funding model will be revisited two years from now. A number of questions still need to be answered, most importantly, who pays, to what type of funding will the levy apply, and what are the modalities for collecting the levy?

The levy is aimed at governments. Foundations, civil society and private sector, as well as transfers between UN agencies, are to be initially excluded according to a UN Secretariat proposal. It will be mostly OECD DAC contributors who pay, since contributions for

South-South co-operation and local costs (contributed by developing country governments for disbursement within their own borders) are also exempted. The exceptions seem logical in light of the necessity to diversify funding patterns beyond the handful of OECD DAC donors that currently fund the largest part of the UNDS. Yet in the mid to long run, the cost for co-ordination should be borne by all contributors of tightly earmarked contributions; UN agencies should already take this into account in their preparations.

The levy will be applied to all development-related activities – some indeed argue that this also covers humanitarian affairs. In line with the intention to incentivise more flexible forms of funding, interagency pooled funds and agency-specific thematic funding will be excluded; there is still debate on how to treat vertical funds. Clear and transparent criteria need to be established throughout the UNDS to distinguish development-related activities from humanitarian ones, and also to prevent re-labelling of contributions. The UNDS agencies must also take a unified approach to applying the levy to more tightly earmarked contributions within pooled-funding arrangements.

It will be more complicated to decide on how the levy will be collected, by whom and who is responsible for administrating and reporting. The resolution specifies that the levy is collected “at source”, suggesting that governments play a key role. Some argue that governments should make lump sum contributions, calculated on the basis of their previous years’ tightly earmarked contributions and paid directly to the Secretariat. Others argue for a more decentralised arrangement, whereby the levy is included in a new contribution agreement, and paid either to the respective UN entity, the RC office or the Secretariat. All proposals have up- and downsides: While a centralised approach could be a transparent and cost-effective solution, it might be difficult for governments, e.g. those where many ministries make contributions, to justify and allocate such an additional amount of money, especially when the chances for extra funding seem small. And what do you do with governments that do not pay? A decentralised approach could lead to additional bureaucracy, especially for UN agencies that in all likelihood end up shouldering the administrative burden. If not transparently managed, decentralisation also creates incentives for non-compliance and free-riding by agencies, contributors and programme countries.

Introducing the levy to the UN’s toolbox of soft incentives testifies to member states’ willingness to balance and modify current funding practices that undermine the UNDS’ effectiveness. This is crucial for implementing the 2030 Agenda for sustainable development. Despite challenges, the levy can be put into practice in a way that raises RCS funds in a timely, reliable and transparent manner. It could have a positive effect on funding practices and encourage a unified approach over the whole system. Unfortunately, success is far from guaranteed. Our research on earmarked funding has shown that governments are often caught up in their own rationalities and path dependencies, as are UN agencies. It remains to be seen whether member states decide on an effective operationalisation of the levy to turn it into successful model. It could very well happen that the Secretary-General must remind member states that the levy is only a small yet crucial detail in a much larger attempt to make the UNDS fit for the 2030 Agenda they subscribed to.

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What defines good multilateral funding?

Policy research and institutional domains agree on identifying “good-quality funding” as funding that is predictable, flexible, aligned to the mandate and the agreed programme of work and budget of the organisation, transparent, and not excessively transaction heavy or fragmented. It must be sufficient in quantitative terms, for the programme of work and budget that the multilateral organisation has agreed with their membership. These characteristics are often identified explicitly, such as in the Good Humanitarian Donorship (GHD) principles. In these, sovereign states are called upon to “ensure predictability and flexibility in funding to UN agencies, funds and programmes and to other key humanitarian organisations”. The aims should be “reducing, or enhancing the flexibility of, earmarking, and of introducing longer-term funding arrangements”. An explicit reference is also found in the 2018 General Assembly Resolution presenting the elements of the Funding Compact. At other times the characteristics of good-quality funding are identified indirectly, by highlighting the perils and challenges of funding that is *not* aligned, or that *is* transaction heavy and strongly earmarked. While not an exhaustive mapping, Table 6.1 provides an overview of the elements of good multilateral funding that emerge in key official policy documents and the literature.

Table 6.1. Several recurrent ‘dimensions’ of good multilateral funding have been identified through policy process and in the literature

	Dimensions of good multilateral funding						
Source	Predictability	Flexibility	Alignment	Reduced fragmentation*	Programme budget financing and implementation	Reduced vulnerability **	Transparency and accountability ***
Funding Compact	X	X		X			X
Good Humanitarian Donorship	X	X				X	
Grand Bargain	X	X				X	X
OECD recommendations	X		X	X			
Germany’s principles of good earmarked funding			X	X			
WHO Financing Dialogue Principles	X	X	X			X	X
Sweden’s strategy for multilateral development cooperation	X	X		X	X		
Reinsberg (ODI, 2017)	X	X		X			
Thalwitz (2013)			X	X			X

Note: * Only for contributors; ** Only for the funding of the multilateral organisation overall
*** Only for the Secretariat of multilateral organisation
Source: (United Nations, 2018[1]); (Good Humanitarian Donorship (GHD) Initiative, 2003[2]); (The Grand Bargain, 2016[3]); (OECD, 2015[4]); (World Health Organization, 2013[5]); (Government Offices of Sweden, 2007[6]); (Reinsberg, 2017[7]); (Thalwitz, 2013[8]).

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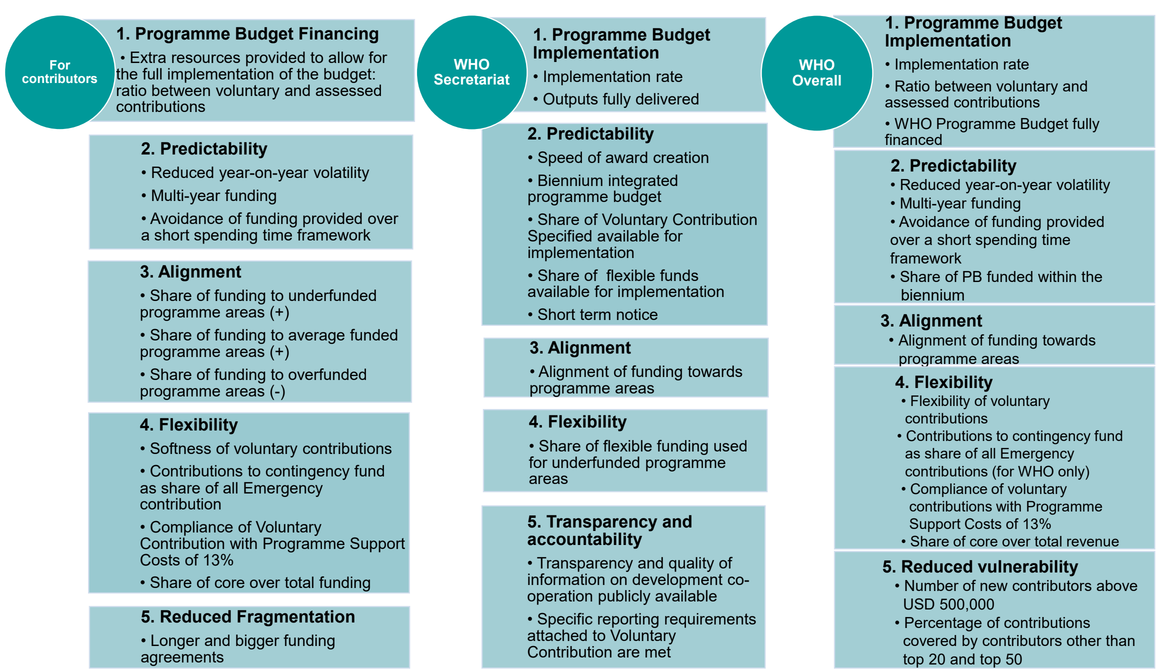
While there is convergence on predictability, flexibility and alignment as elements of good multilateral funding, what each of those dimensions means in practice, and how to measure them, remain unexplored. To fill this gap, pioneering analytical work has been conducted for this report based on an in-depth pilot study on one organisation, WHO. This work is presented below.

6.2. A new multi-dimensional approach for measuring and encouraging effective multilateral funding

Through an innovative multi-dimensional metrics, this chapter develops new evidence for the cornerstone of good multilateral donorship: good multilateral funding. This multi-dimensional approach[1] represents a pioneering attempt to quantify and operationalise elements that have been broadly acknowledged, both in the literature and the policy discourse, as key components of good multilateral funding. These include predictability, flexibility, and alignment to the mandate and the agreed programme of work of the multilateral organisation (Figure 6.1). This approach is innovative also in that it assesses the performance of both contributors (i.e. donors) *and* the multilateral organisation against each of the quality dimensions.

This new OECD metrics is developed on the basis of the financing situation and the statistical data of a case study of WHO. Overall, the health sector and WHO's funding situation can act as a "tracer" on effectiveness, offering insights and lessons for other sectors and institutions that face similar challenges in terms of insufficient co-ordination, alignment, flexibility, etc. Findings from this case study can thus elucidate the broader discussion on effectiveness and leverage action for a more co-ordinated and coherent approach to the global development co-operation architecture overall. Further details on this multi-dimensional approach and the findings drawn from its application are presented in the following sections.

Figure 6.1. Quality dimensions of the OECD metrics on good multilateral funding



Source: Authors

Underpinnings of a new approach for measuring and encouraging good multilateral funding

A number of considerations underpin the new OECD metrics on good multilateral funding. this work. First, **multilateral organisation and sovereign states have a common responsibility** to ensure that multilateral financing is provided in ways that enable greater development results. Both can take actions to achieve this. This mutual responsibility is also embedded in the 2018 Funding Compact which is conceived as a "pact" between member states and multilateral organisations. It calls on donors to improve their practices in providing good multilateral finance. It also urges the UN governing bodies to enhance transparency and find ways to incentivise contributors to provide adequate and predictable funding on a multi-year basis and to broaden and diversify the donor base in order to reduce the reliance of the system on a limited number of donors. Therefore, the analytical framework proposed measures the performance of both donors and of the multilateral organisation's Secretariat. It also assesses the quality of the overall funding situation resulting from the actions of both sets of stakeholders.

Second, the approach proposed posits that **while not all funding is the same, there is no "good" or "bad" funding per se.** The ways in which funding is provided by donors affect the ability of multilateral organisations to invest it effectively. Increasing transparency, predictability and flexibility of funding also increases the ability of multilateral organisations to plan and allocate resources. Given their specific political and organisational situations, however, different donors have different levels of flexibility to improve the way they provide funding. One donor, for example, may be able to improve funding along one dimension – e.g. predictability – but not on the others. In addition, while a funding award from a donor could be good because it helps the organisation fill a gap in an underfunded programme area and it contributes to overall funding volumes, it could be bad because it attaches too many conditions or because it has been given at a short notice. Therefore, by using a multi-dimensional approach to disentangle the different quality components of multilateral funding, multilateral organisations and their donors can identify successful practices and areas that need improvement. They can identify trade-offs and tensions. They can also identify specific areas that each donor or the multilateral institution itself can improve on, encouraging an evidence-based dialogue that considers the political and practical constraints faced by donors and multilateral organisations alike. The full list of considerations that guided the development of this approach is presented in Box 6.2.

Box 6.2. Underpinnings of the OECD metrics on good multilateral funding

The OECD metrics on good multilateral funding has been developed to reflect the following considerations and aims:

Multilateral organisations and donors have a common responsibility to ensure that multilateral financing is provided in ways that enable greater development results. Both can take actions to this end. Therefore, the metrics is based on three main sets of composite indicators to assess: 1) how well donors are adopting the financing dialogue's principles; 2) how well the Secretariat is adopting the financing dialogue's principles; 3) the organisation's overall funding situation.

Not all funding is the same, and yet there is no "good" or "bad" funding per se. The ways in which funding is provided by donors affect the ability of multilateral organisation to invest it effectively. Increasing transparency, predictability and flexibility of funding also increases the ability of multilateral organisations to plan and allocate resources, as identified by the funding principles. Given their specific political and organisational situations, however, different donors have different room for manoeuvre to improve on the way they provide funding. One donor, for example, may be able to improve funding along one dimension – let's say predictability – but not on the others. Therefore, disentangling the different dimensions of good multilateral funding (e.g. predictability, alignment, flexibility, etc.) allows the identification of the specific areas that each donor, or the multilateral organisation itself, can improve on.

The aim of the metrics is to enable constructive dialogue among donors and multilateral organisations, and encourage better behaviour of both is the aim of the metrics, not "public bashing". The metrics avoids donor ranking and yet allows for an aggregate snapshot of performance against the dimensions of good financing. A multi-dimensional overview across donors is provided.

Striking an adequate balance between comprehensiveness and simplicity. While the indicators need to provide an accurate picture, it is also important to prioritise ease of understanding and communication of the indicators. Therefore, the number of indicators and sub-indicators selected reflects the need.

Encouraging replicability and creating a common language. The metrics has been developed using WHO's data and context as a critical reference. At the same time, the metrics operationalises widely recognised dimensions of good multilateral funding. Therefore, the metrics aims to be, to the greatest possible extent, applicable to other multilateral organisations. The metrics could constitute a "common language" for international dialogue among sovereign states and multilateral organisations to improve funding practices and thus the ability of multilateral organisations to contribute to achieve the 2030 Agenda.

The health sector and WHO as a "tracer" on effectiveness

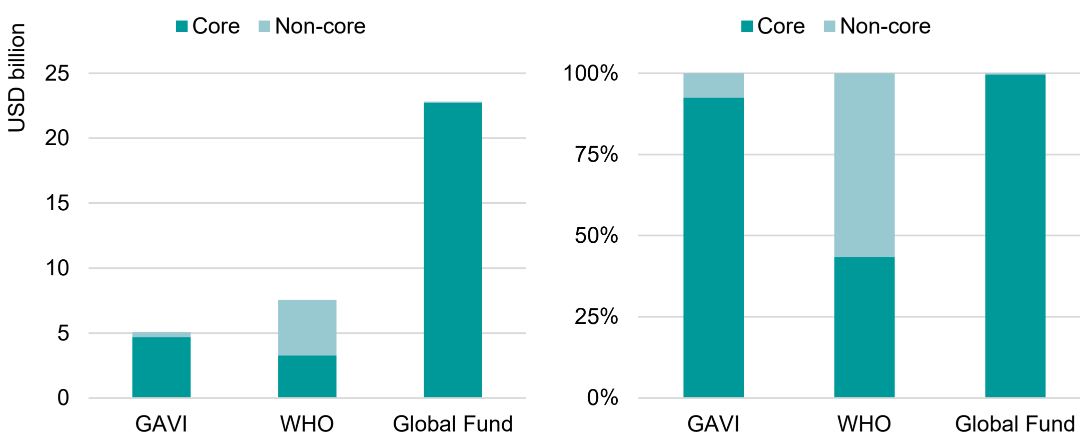
This new OECD metrics uses the financing situation and the statistical data of WHO as a case study. Overall, the health sector and WHO's funding situation can act as a "tracer" on effectiveness, offering insights and lessons for other sectors and institutions that face similar challenges in terms of insufficient co-ordination, alignment, flexibility, etc. Findings from this case study can thus help shed light on the broader discussions on effectiveness and prompt action for a more co-ordinated and coherent approach to the global development co-operation architecture. This approach is similar to the one adopted by the Task Team on Health as a Tracer Sector in the framework of studies on aid effectiveness (OECD , 2012[9]).

WHO was also chosen as a pilot because of its strong commitment towards the Financing Dialogues. This is an initiative created by WHO with member states and key non-state contributors in 2013 to ensure a better match between donor funding and the deliverables of its programme budget. Another financing dialogue was held in November 2015 in preparation for the 2016-2017 budget. This initiative, which is a pillar of WHO's internal reform, was centred on key principles to enhance funding and ultimately WHO's ability to deliver. It is also a major step towards greater transparency. As in the Financing Dialogue, the WHO Secretariat and donors engage in discussion informed by an innovative use of real-time data and effective visual tools, such as the WHO Programme Budget web portal[2]. Ultimately, through this initiative, the WHO Secretariat was also able to provide the OECD with more granular data than is available in the OECD Creditor Reporting System (CRS). This allowed an analysis of good multilateral financing that would not have been possible using OECD data alone.

Indeed, WHO faces several challenges that are common to other multilateral organisations. WHO has been operating in an increasingly complex and diversified global co-operation architecture. In recent years, many initiatives and organisations focusing on global health issues have been established, making global co-operation on health a much more crowded space. New institutions also spurred greater diversification in terms of the mandates and structures of the multilateral bodies that were part of this larger multilateral universe. For instance, vertical funds established in the early 2000s, such as the Global Fund and Global Alliance for Vaccines and Immunisation (GAVI), came with highly innovative partnership models. These were based on inclusive governance structures that encompassed private philanthropy, corporations and communities of beneficiaries, along with sovereign states. Therefore, in the last two decades WHO has had to redefine its place in the global health architecture. For instance, funding to WHO has grown modestly compared to resources for the Global Fund and GAVI. Overall, ODA funding to WHO is less than one-third of that provided to the Global Fund. Funding to WHO is also considerably more earmarked than the resource envelope provided to GAVI (Figure 6.2).

Figure 6.2. In a crowded global architecture of co-operation on health, WHO receives less than one-third of the ODA funding allocated to the Global Fund and a greater share of earmarked resources than GAVI

Core and non-core ODA from DAC countries to GAVI, the Global Funds and the WHO (2009-2016)



Note: ODA disbursements (2016). Only health and reproductive health
Source: Authors' calculations based on (OECD, 2018[10]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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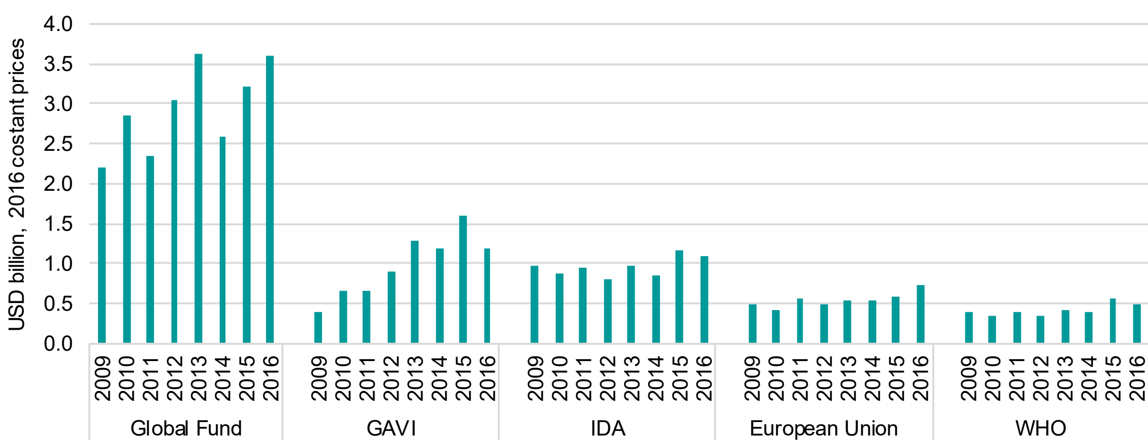
An evolving global health co-operation architecture has also re-shaped the weight of WHO's contributions to developing countries, compared to other multilateral organisations. A global health co-operation architecture populated by a larger number of multilateral players has overall led to greater global support for health in developing countries. Multilateral development partners collectively took concessional funding levels for health to almost USD 8 billion in 2016 (up from USD 5.4 billion in 2009). While WHO has increased its disbursements to developing countries over time, greater donor resources to the Global Fund have also translated into greater health spending from the Global Fund. Together with the World Banks's International Development Association (IDA) and

GAVI, the Global Fund makes up more than two-thirds of concessional finance for health from multilateral donors (Figure 6.3). Overall, disbursements from WHO did not keep pace with increases in funding from the global vertical funds: GAVI's disbursements for health quadrupled from USD 400 million in 2009 to USD 1.2 billion in 2016. Financing from the Global Fund also increased substantially from USD 2.2 billion in 2009 to 3.6 in 2016. Over the same period, WHO's disbursements plateaued at around USD 400 million with a peak of USD 575 million in 2015. However, as WHO is an organisation engaged in normative and policy work, amounts are not fully comparable with those of operational organisations.

Figure 6.3. WHO's disbursements to developing countries did not keep the pace with disbursements by vertical funds

Concessional finance for health by major multilateral organisations (2009-2016)



Note: ODA disbursements (2016). Only health and reproductive health.
Source: Authors' calculations based on (OECD, 2018[10]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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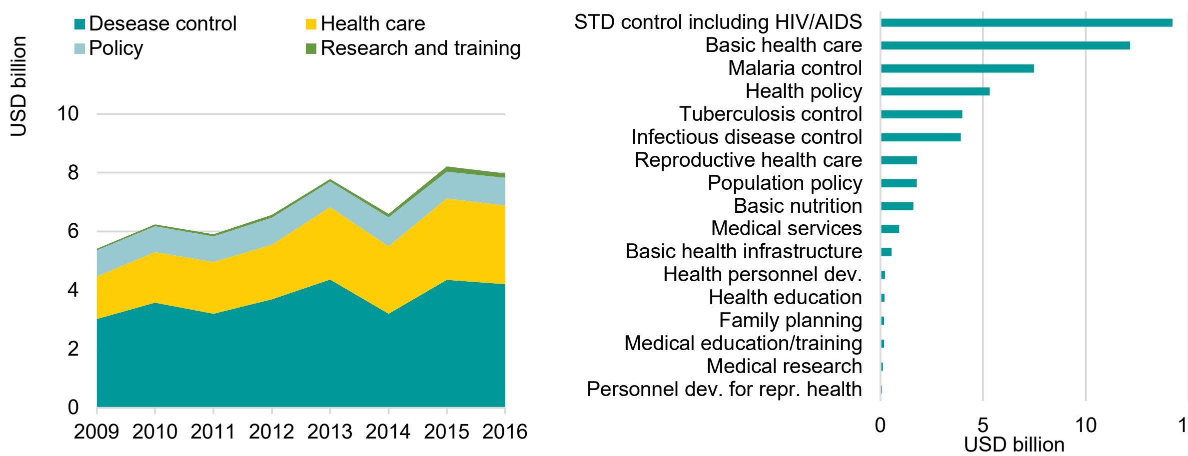
Like other multilateral organisation, **WHO has faced tension between delivering long-term investments and achieving measurable and short-term results that donors would be more likely to fund**. Longer-term programmes and policy and normative work, which is more uncertain and difficult to quantify, has received proportionally less funding. At the same time, a growing emphasis has been placed on delivering health care and disease control programmes, as shown in Figure 6.4. As for other multilateral organisations, WHO has faced a number of financing challenges. These are discussed in more detail in the following section, as part of the results from the OECD metrics.

Figure 6.4. Concessional finance from multilateral organisations for health increasingly targets quantifiable outputs (2009-2016)

Concessional finance for health by multilateral organisations (2009-2016)



Note: ODA disbursements (2016). Only health and reproductive health

Source: Authors' calculations based on (OECD, 2018[10]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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6.3. What can we learn from measuring the quality of multilateral funding?

By applying the new OECD multi-dimensional metrics to the WHO case study, the following findings emerge:

- Although WHO is operating in an increasingly crowded global health architecture, it has been able to maintain adequate funding levels and to fund, on average, its programme of work. However, beyond volumes, there are critical issues on the quality of the funding received.
- "Hard" earmarking of funds has strongly reduced the quality of funding because of a misalignment of resources. Hard-earmarked resources have largely targeted specific projects in overfunded areas, restricting the organisation's ability to shift resources to respond to needs and to fully achieve results.
- While not all funding is equally "good", earmarked funding is not necessarily bad. The metrics show examples of earmarked funding that is provided as large and predictable streams of funds, thus enhancing overall predictability and helping to reduce fragmentation. Also, when provided as "softly" earmarked funding, it allowed for greater flexibility.
- Measuring the performance of both the contributors and the multilateral organisations has shown that progress cannot be made if adequate actions are not put in place by both parties. This highlights the necessity of a mutual commitment. For example, without contributors providing more flexible and well-aligned funding, the ability of a multilateral organisation to respond to emerging needs and deliver on underfunded areas is compromised.

- Contributors face different challenges and trade-offs to improving the quality of the multilateral funding they provide, due to the political, structural and organisational realities they are confronted with. Disentangling the quality of financing over dimensions has shed light on specific steps for improvement or good practices from contributors.

More detailed findings are presented below, organised in three sets: 1) WHO's overall financing situation; 2) the funding patterns of 12 of the top financial contributors to WHO; 3) the contribution of WHO's Secretariat to good multilateral funding.

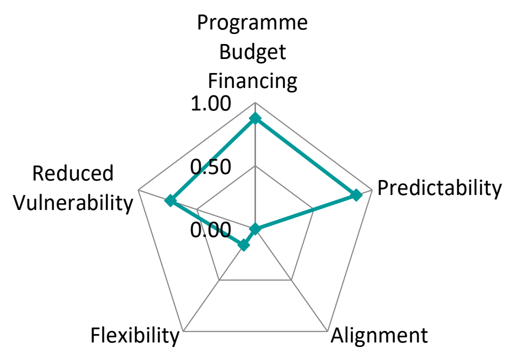
WHO's overall funding situation shows some improvements but also a worrying trend of continued misalignment and increasing hard-earmarked funding

The following situation emerges when using the OECD metrics on good multilateral funding to assess WHO's overall funding situation in the 2014-2015 programme and budget biennium, compared to the previous two biennia (Figure 6.5).

- **WHO's programme of work and budget agreed with its constituency was, on average, fully funded**. The main source of revenue for WHO are its member states, mainly DAC members, who account for two-thirds of the total funding. They have been key in fuelling WHO's revenue growth, providing between half and two-thirds of incremental revenues in 2010-15.
- **Financial vulnerability was reduced, as new contributors have funded the organisation.** Non-state actors, such as philanthropies and international organisations, mainly from the UN system, have contributed with important shares of total funding, accounting for roughly one-tenth of the total in 2010-2015. While funding from non-governmental organisations (NGOs) and partnerships (mainly with GAVI, Unitaid and the Global Fund), have been small compared to the other funding streams, it increased importantly in 2010-2015 (Figure 6.6).
- **The overall predictability of funding to WHO has increased**, as contributors seem to have moved towards the provision of longer funding agreements than in previous biennia. They have also increasingly refrained from providing funding in the last 4 months of the biennium to be spent right away – a common and highly disruptive funding practice in the past.

Figure 6.5. WHO overall funding performance

OECD multi-dimensional index on good multilateral funding



Source: Authors based on statistical data from WHO for the 2014-2015 biennium. Data were kindly provided by the WHO for this report and are not publicly available.

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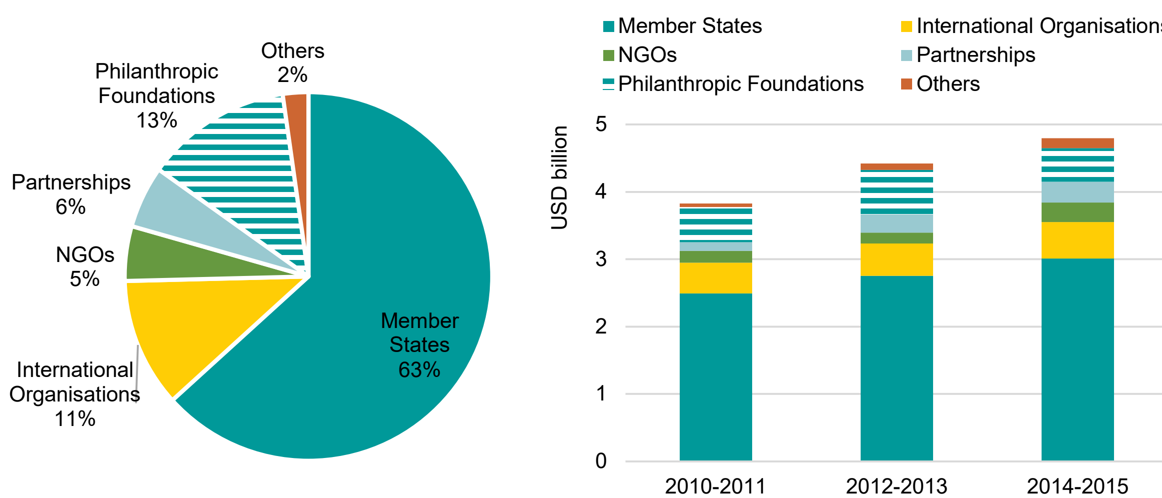
Figure 6.6. Sources beyond sovereign states are slowly helping WHO to broaden its funding base

WHO financing inflows by type of contributor (2010-2015)



Source: Authors' calculations using data provided by the WHO Secretariat.

StatLink https://doi.org/10.1787/888933875226

- **However, the overall financing situation of WHO also reveals some worrying trends, with the metrics pointing to very low scores on alignment and flexibility**. The metrics reveals that funding is increasingly misaligned to the priorities defined by WHO's membership in the work programme for the biennium.

Even more than in the past, contributors earmark funding towards already highly-overfunded areas of WHO's work programme, while other work areas remain chronically underfunded. This is an important finding, as it clearly shows something that is often mentioned as a disadvantage of earmarked funding, but which is lacking evidence. In the case of WHO, support for polio eradication and outbreak and crisis response were significantly overfunded, receiving 165% and 343% of the funding decided by the membership when the integrated budget and work framework for the biennium was defined. A share of the overfunding was due to high amounts for crisis response to the Ebola outbreak in West Africa. This also demonstrates that earmarked funding can help meet emerging and unforeseen needs. However, there were other overfunded areas, particularly polio eradication, that are overfunded because of contributors' individual preferences and unilateral priorities. Such resources could have been effectively redirected to underfunded areas, such as transparency, non-communicable diseases and social determinants of health, among others (Table 6.2).

- **Funding provided is less flexible, partly because of the funding practices of new actors.** Flexible (i.e. core) finance is the combination of assessed and voluntary core contributions and programme support costs with no strings attached. This is shrinking and resulting in a growing share of voluntary contributions tied to specific projects (i.e. earmarked funding). As Figure 6.7 shows, the share of flexible funding decreased from one-third of total funding in 2010-2011 to one-fourth in 2014-2015. Interestingly, this increase in earmarked funding is not determined solely by the behaviour of sovereign states: it is a direct consequence of the greater role that philanthropy and other sources of financing now play in the overall financing landscape of WHO. In fact, member states provide most of core voluntary contributions, which are entirely flexible, with all the others, e.g. philanthropies and international organisations, giving voluntary financing tied to specific themes and projects.
- **"Hard earmarking" is increasing**, as contributors are increasingly earmarking resources for specific projects rather than for broader thematic areas. This limits the WHO Secretariat's ability to direct funding to areas that are most in need. As shown in Figure 6.7, the volume of voluntary contributions specified for specific projects is high for WHO in the period 2010-2015. It reached an historical peak (over the three biennia considered) at 66% of all resources, both assessed and voluntary, in 2014-2015. Compared to previous studies, this analysis offers a clear quantification of the "softness" of earmarked funding, showing that funds to WHO are increasingly hard earmarked. Both the indicators of softness of voluntary contributions and the share of total core funding over non-core are worse than in the 2010-2011 and 2012-2013 biennia. Moreover, while several multilateral organisations have opened thematic windows to attract more "core-like" funding (e.g. United Nations Children's Fund [UNICEF], United Nations Development Programme [UNDP], etc.), similar thematic windows established by WHO have not been successful in attracting financing and diverting some of the hard-earmarked funding. Contributions to the Contingency Fund (a thematic window aimed at attracting more flexible funding) as a share of all emergency contributions are low.

Table 6.2. WHO level of funding by programme area (2014-2015)

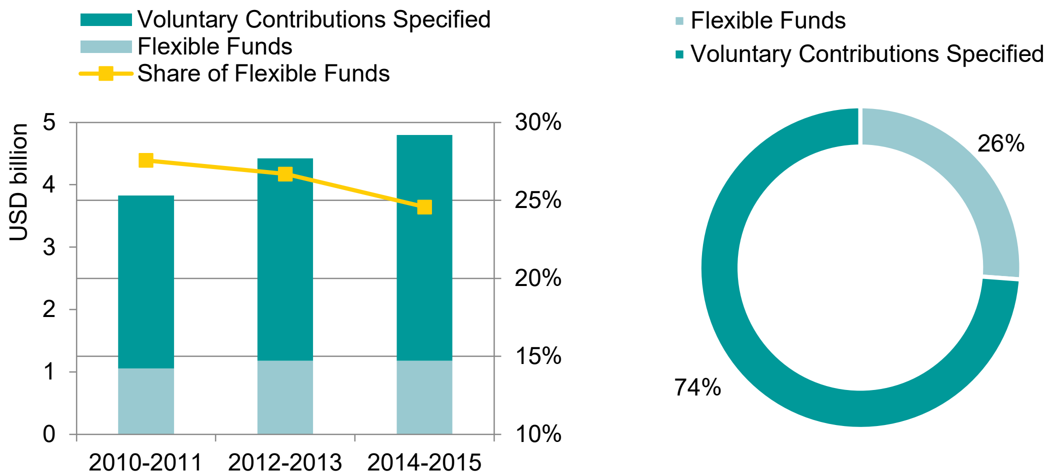
Relevant SDG targets	Programme Area	Approved Budget (USD million)	Distributed Funding (USD million)	Share of budget financed	Level of funding
16.6	Transparency, accountability and risk management	50.4	29.2	58%	Underfunded
3.b; 3.4	Non-communicable diseases	192.1	134.1	70%	
2.2; 3.9; 6.1; 6.2; 7.1; 11.6	Social determinants of health	30.3	21.2	70%	
2.1	Food safety	32.5	22.9	70%	
3.9; 6.1; 6.2; 7.1; 11.6	Health and the environment	102	80.3	79%	
3.7; 3.8	Integrated people-centred services	151.5	120.7	80%	
3.b; 3.8	Vaccine preventable diseases	346.8	287	83%	Averagely funded
3.8	Ageing and Health	9.5	8.1	86%	
3.a; 3.4; 3.5	Mental health and substance abuse	39.2	34.1	87%	
5.2; 16.1	Gender, equity and human rights mainstreaming	13.9	12.1	87%	
3.a; 3.b; 3.c; 3.d; 3.4	Leadership and governance	227.7	199.7	88%	
3.5	Alert and response capacities	98	86.4	88%	
3.3	Tuberculosis	130.9	117.7	90%	
Not relevant	Strategic planning, resource co-ordination and reporting	34.5	31.6	92%	
3.b; 3.3	Research in tropical diseases	48.7	45.7	94%	
2.2; 3.1; 3.2; 3.7	Reproductive, maternal, new-born and child health	189.9	178.5	94%	
3.c; 3.d; 3.7; 3.8	National health policies, strategies and plans	125.7	123.5	98%	
5.2; 16.1	Violence and injuries	31.1	30.8	99%	
3.d	Emergency risk and crisis management	88	89.8	102%	Overfunded
Not relevant	Management and administration	334.3	353.4	106%	
3.b; 3.8	Access to medicines and technologies and regulatory capacity	145.5	155	107%	
Not relevant	Strategic Communications	37.1	39.7	107%	
3.3	Malaria	91.6	98.7	108%	
3.3; 3.7	HIV and hepatitis	131.5	142.2	108%	
2.1; 2.2	Nutrition	40	43.6	109%	
3.8	Disability and rehabilitation	15.5	17.1	110%	
3.d; 3.7	Health systems Information and evidence	108.4	120.7	111%	
1.5; 3.3	Epidemic and pandemic- prone diseases	68.5	80.2	117%	
3.3	Neglected tropical diseases	91.3	110.2	121%	
3.b; 3.3; 3.8	Polio eradication	700.4	1 153	165%	
3.7	Research in human reproduction	42.9	77.6	181%	
3.d; 3.3	Outbreak and crisis response	227.5	780	343%	
Total		**3 977.2**	**4 825**	**121%**	**Overfunded**

Source: Analysis by the authors using data from the WHO Secretariat.

StatLink https://doi.org/10.1787/888933875245

Figure 6.7. WHO's funding is increasingly hard-earmarked, 2010-2015

WHO financing inflows by type of contribution (2010-2015)



Note: Revenues.
Source: Authors based on data from the WHO Secretariat.

StatLink https://doi.org/10.1787/888933875264

Donors experience different trade-offs in funding WHO, but large misalignment and hard earmarking of funds is an increasing challenge for most of them

Through the OECD metrics on good multilateral funding, the individual funding profiles of 12 of WHO's largest contributors were examined. These contributors were selected in a dialogue with the WHO Secretariat to serve the outreach needs of the organisation. They largely coincide with the top 12 providers to the organisation (Figure 6.8). The 12 contributors comprise 11 DAC members, including the European Union, and a private philanthropic organisation: the Bill and Melinda Gates Foundation (BMGF). This analysis allows a comparison of the overall financing situation of WHO, resulting from the behaviour of all contributors, with the behaviour of some of its top providers. The profiles measure the quality of funding provided by the contributors in the 2014-2015 biennium by comparing the best and worst performances among the contributors. This ground-breaking analysis provides a comparative assessment of the quality of financing from different contributors along quantifiable dimensions of effectiveness.

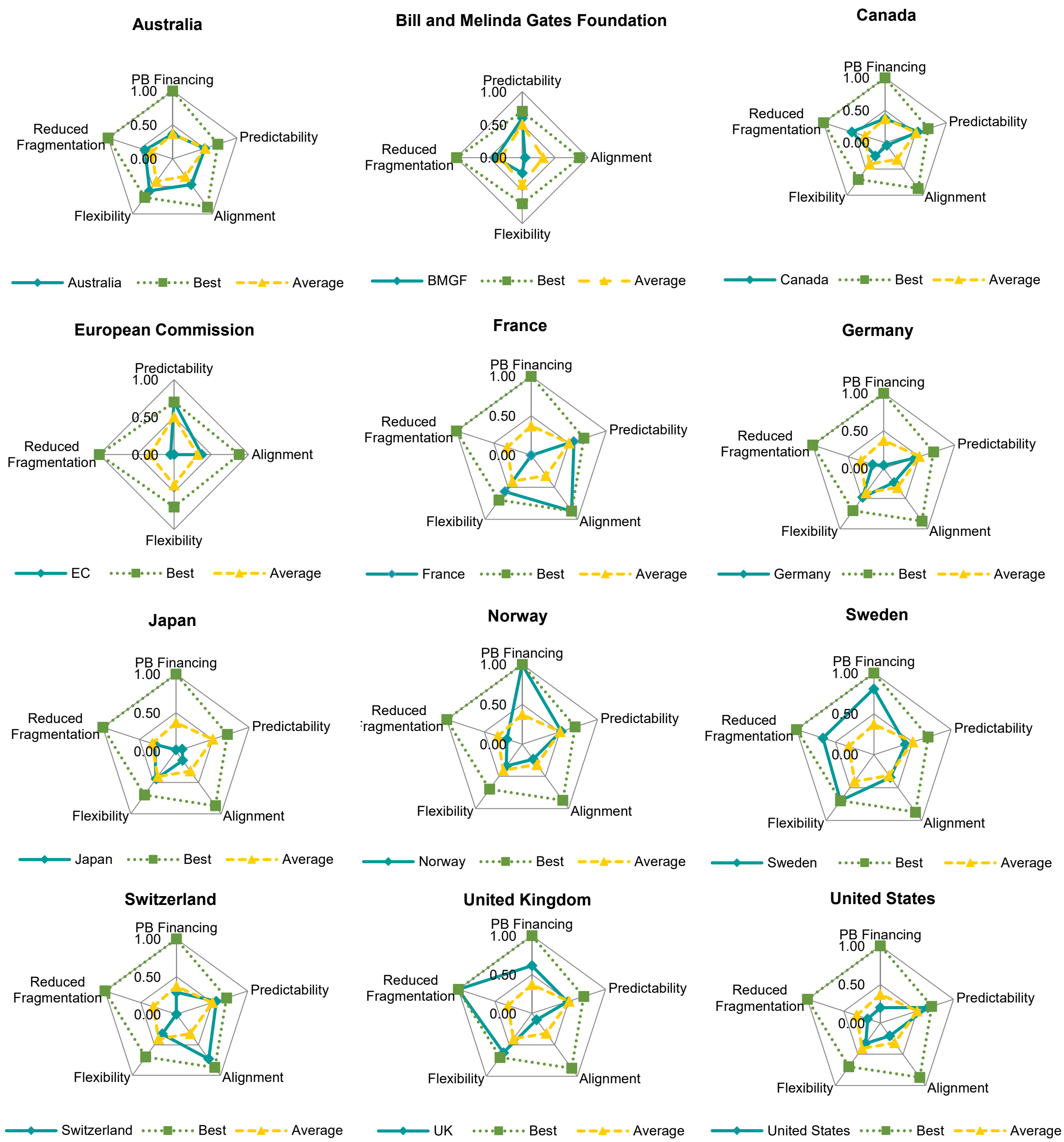
- **Large variations exist in the quality of funding provided by different contributors**. Most strikingly, almost every contributor exhibits a different profile. Effectiveness dimensions on which scores are high and others for which it is low, suggesting that the challenges and trade-offs experienced by contributors differ greatly (Figure 6.8). For instance, Norway contributes largely to the full implementation of the programme budget, providing assessed contributions as well as considerable additional amounts of voluntary contributions. While this is positive, its financing could benefit from better alignment to programme budget priorities, as currently most of its voluntary contributions target projects in overfunded or averagely funded areas. The United States provides another type of trade-off. It performs well on predictability, largely owing to long time frame agreements. However, it could further reduce fragmentation of its financing, which largely comes in small, piecemeal contributions. Among the 12 contributors considered, Australia and Sweden are the only two with a funding performance that is average or above average for all the quality dimensions examined.

- **Funding trends of the 12 contributors largely shape overall funding patterns of the organisation**, since funding from the 12 contributors accounts for the bulk of total resources to WHO. In line with the overall financing situation of WHO described above, the 12 contributors provide fairly predictable funding to the organisation. This does not mean that the 12 contributors "tick all dimensions" of funding predictability. The resources they provide do display some degree of year-on-year volatility and the length of funding agreements could be higher. However, the 12 contributors do tend to avoid providing funding with short-term notice, which means that they tend to avoid extending voluntary contributions in the last four months of the year with a time frame shorter than six months. In other words, contributors refrain from the "end of year rush", a rush to spend unallocated resources at the end of the year, which often results in supply-driven allocations with lower impact. In this respect, the 12 contributors display good practice on predictability.
- **Most of the 12 contributors provide funding with a low degree of alignment**. Scores on alignment were low for all 12 contributors. This highlights the need to better match resources to financing priority area, as identified in the programme budget. All but 3 of the 12 contributors have a low alignment score. Funding from France marks good practice in terms of providing the highest alignment with the programme budget priorities. Among the 12 contributors, just as in the overall financing situation of WHO, the most overfunded areas were outbreak and crisis response and areas related to infectious disease control, particularly polio.
- **The degree of flexibility of the funding provided by the 12 contributors is modest**. Half of the 12 contributors have a flexibility score below average. The situation appears particularly critical due to the hard earmarking imposed with the funding. This is because most voluntary contributions are designated for specific projects, rather than provided for broader thematic areas or as voluntary core contributions with no strings attached. The only positive note is the high compliance rate of earmarked funding with the standard 13% rate of programme support cost, i.e. a recovery-cost charge to cover WHO's indirect costs of implementing an agreement.
- **Widespread hard earmarking results in highly fragmented funding**, since most voluntary funds that are designated for specific purposes are provided as small, piecemeal amounts, increasing the overall level of fragmentation. For some contributors, fragmentation of funding is a direct consequence of a complex internal architecture of ministries and entities extending voluntary contributions to WHO. Each entity exclusively targets priorities and projects that are specifically relevant to its remit (this was suggested by one of the responses to the 2018 OECD Survey). Fragmentation, which is measured as the total USD volume of voluntary contributions divided by the number of agreements, is above average for all but five contributors (i.e. Australia, Bill and Melinda Gates Foundation, Canada, Sweden and Japan).

- **While the funding practices of the 12 contributors largely shape WHO's overall funding picture, they also depart from it in some interesting ways**. In particular, while WHO has been able to fully finance its programme budget, (i.e. programme budget financing indicator) half of the 12 WHO contributors considered in this exercise have low scores. This suggests that they top up assessed contributions with voluntary funding to a limited extent to allow the organisation to fully implement the programme budget. Of course, there are some notable exceptions, such as Norway, as already mentioned, and Sweden. As the metrics measures performance of each donor in relative term (i.e. compared to the "best performer") this result stems in part from the fact that Norway provides earmarked funding that is several times larger than its assessed contributions. Yet, overall, the results suggest that access to resources from a wider range of partners and to the broader membership are critical to effectively fill the funding gap that arises from an agreed programme budget that is systematically larger than the sum of assessed contributions. An agreed budget in excess of assessed contributions reflects, in part, the implementation of UN and WHO reforms on the adoption of a budget framework. This framework integrates both core and earmarked resources to limit the ability of individual donors to define activities and priorities bilaterally through earmarked funds.
- **This exercise provides a basis for comparing DAC members' funding practices with those of other contributors**. Financing from the Bill and Melinda Gates Foundation presents several advantages. It comprises voluntary funds that top up the overall level of assessed contributions. It is provided in large amounts that limit transaction costs and reduce fragmentation. It is also fairly predictable, as financing displays, in general, only limited year-on-year volatility. It is extended on longer than average time frames, and tends to exclude contributions in the last 4 months of the year with a time frame shorter than 6 months. These are interesting findings as they show, inter alia, that earmarked funding is not necessarily unpredictable or fragmented. However, on a less positive note, more so than the average 12 contributors, the Bill and Melinda Gates Foundation provides funding that largely targets overfunded areas and that is hard earmarked. This limits the flexibility of WHO to allocate financing where is needed, within the remit of the programme budget agreed with the full membership.

Figure 6.8. Contributors experience different trade-offs and challenges in funding the WHO

OECD metrics on good multilateral funding for 12 selected WHO contributors in the 2014-2015 biennium



Note: Since there are no assessed contributions for the European Commission and the Bill and Melinda Gates Foundation, it was not possible to compute the "PB financing" indicator for these two providers. This is why, for these two providers, the metrics comprises four indicators rather than five, and the chart illustrating it is thus a quadrangle and not a pentagon.

Source: Authors based on statistical data from WHO for the 2014-2015 biennium. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875283

WHO Secretariat could enhance transparency and accountability, while its ability to align funds to priorities remains constrained by contributors' behaviour

The innovation and power of the good multilateral funding metrics presented in this chapter also lie in the ability to quantify actions taken by both contributors *and* the multilateral organisation itself. This is a critical feature, as the responsibility for good multilateral funding, and thus development results, needs to be understood as a shared one among providers and multilateral organisations.

At the same time, findings from this analysis suggest that multilateral organisations face both endogenous and exogenous factors in the pursuit of better quality funding and greater development results. In other words, there are several aspects that the multilateral organisation can influence and have an impact on, or are "endogenous". In the case of the WHO Secretariat these concern actions to enhance predictability of funds, which the WHO Secretariat succeeded to improve upon through, for example, the adoption of an integrated budget. Transparency is another area where the WHO Secretariat can influence and needs to further improve.

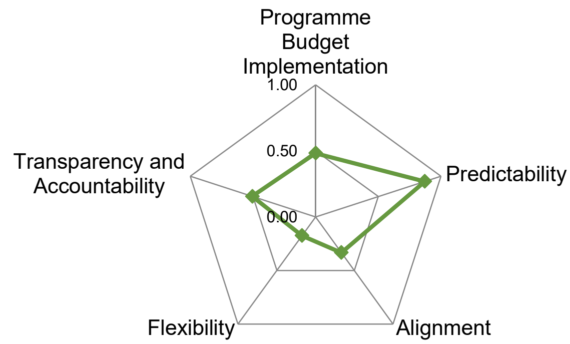
Some other factors, however, are largely outside the full control of the organisation. For instance, the WHO Secretariat's ability to use funds with enough flexibility to allocate them where needs arise or to chronically underfunded areas, and thus its ability to fully achieve results, is constrained by hard-earmarked resources from contributors.

The behaviour of the WHO Secretariat is assessed by comparing performance in 2014-2015 against performance in the two previous biennia, i.e. 2010-2011 and 2012-2013. Key findings include:

- **WHO has successfully taken action to improve predictability**. The adoption of an integrated budget framework, consistent with the 2013 QCPR resolution, is paying off. WHO adopted an integrated budget framework in 2014-15. It provides a holistic picture of all resources – core and earmarked – needed during a biennium to implement the programme of work. The integrated budget framework made it easier to examine the global situation of the budget, to understand where funding gaps lied and where available resources could be used most strategically. It also facilitated results-based management.

Figure 6.9. WHO Secretariat funding performance (2014-2015)

OECD metrics on good multilateral funding, 0=worse performance, 1=best performance



Source: Authors based on statistical data from the WHO for the 2014-2015 biennium. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875302

- **The Secretariat will need to continue to improve on other areas, especially with respect to transparency of funding and accountability for results.** WHO has made significant improvements to increase the transparency of its spending flows and development results. These include establishing Financing Dialogues with member states and key non-state contributors, where it engages with them in a discussion informed by an innovative use of real-time data and effective visual tools. However, the WHO score on transparency and accountability is only satisfactory compared to previous years. Transparency was assessed using the transparency indicators in the Global Partnership for Effective Development Co-operation monitoring assessments (Global Partnership for Effective Development , 2018[11]). These consider the scope and quality of the financing data made publicly available through the OECD CRS and the International Aid Transparency Initiative. However, the WHO overall transparency score was lowered by poorer performance against another sub-indicator of transparency. This indicator was accountability as measured as the ability to meet specific reporting requirements attached to voluntary contributions, calculated as the shares of reports due.
- **Because of contributors' hard earmarking, the WHO Secretariat's ability to allocate funds towards emerging needs or chronically underfunded areas is considerably constrained**. In fact, contributors earmarked voluntary resources for specific projects and purposes, leaving limited room for the WHO Secretariat to allocating them flexibly according to needs. This situation is exacerbated by the fact that earmarked resources often target already-overfunded programme areas. These constraints largely explain why the WHO Secretariat scores poorly on flexibility and alignment. Moreover, the lack of enough flexibility and alignment of funds stemming from the hard earmarking restricts the ability of the WHO Secretariat to fully implement the programme budget. The ability of the WHO Secretariat to ensure the implementation of the programme budget in 2014-15 was average compared to previous biennia, as many outputs were not fully achieved.

6.4. Lessons for good multilateral donorship in the era of the 2030 Agenda: good multilateral funding

For much too long, ensuring adequate resources to the multilateral system and good practices in its delivery has not advanced fast enough. Discourse is strongly polarised between proponents of core funding and its detractors; caught up in a dichotomous contraposition between calls for core resources as essential to preserve the multilateral character of the multilateral system, and appeals for the freedom to earmark funds. The analysis presented in this chapter contributes to these discussions by injecting facts and figures that shed new light onto the black box of these matters. This evidence is at the core of the recommendations for good multilateral funding summarised in Figure 6.10.

The evidence in this chapter unpacked the cumulative results of individual donors' funding practices and highlights some of their implications for the recipient multilateral organisations. It clearly shows that contributors and multilateral organisations hold a mutual responsibility for achieving good multilateral funding and thus better development results. Contributors and multilateral organisations both have a role in advancing the quality of multilateral funding along its defining dimensions of predictability, flexibility and alignment. To increase the predictability of funding, for instance, contributors can make multi-annual financial commitments and reduce year-on-year volatility. In turn, the multilateral organisation can adopt integrated budget frameworks that provide a comprehensive view of the entire funding needs for the biannual programme implementation.

Actions from both contributors and multilateral organisation are not just an option. They are a necessity. These actions are intrinsically linked. For instance, the analysis suggests that without contributors providing more flexible and well-aligned funding, the ability of a multilateral organisation to employ funding as needs arise or to specific programme areas that remain underfunded is critically undermined. Further, the overall ability of the organisation to deliver on all outputs, including those that remain underfunded, is compromised.

The analysis shows that while not all funding is equally "good", earmarked funding is not necessarily bad. Even if earmarked, funding can help reduce overall fragmentation when it comes through large and strategic contributions. It can also provide predictable funding stream if it is committed on a multi-year basis. This is, for instance, the case with voluntary contributions from the Bill and Melinda Gates Foundation to WHO, which represent fairly large and predictable allocations.

In the case of WHO, however, hard earmarking tends to be strongly associated with a misalignment of resources. Earmarked resources have largely targeted overfunded areas, restricting the multilateral organisations ability to shift resources to respond to needs and to fully achieve results.

The analysis of WHO's funding situation reveals that, to some extent, earmarked funding did help to respond to the emerging needs of the Ebola outbreak. As an unforeseen event not reflected in the programme budget, earmarked funding for the Ebola crisis appears in the data as a source of misalignment, although it was necessary and useful. The creation of a contingency fund, and of buffer trust funds, could make this kind of earmarking superfluous.

Most of the remaining hard-earmarked funding seem to derive from the individual priorities and objectives of contributors, as well as from an internal donor architecture characterised by a plurality of not-so-well-coordinated national entities extending voluntary funds in support of specific projects aligned to their own mandates and objectives.

Overall, different contributors face a different range of challenges to improving the quality of the multilateral funding they provide. Contributors are highly heterogeneous, displaying large variations in their overall co-operation budget, the share of resources they channel through the multilateral system, and the way they are organised internally. This results in different contributors facing different trade-offs and challenges in providing good multilateral funding. Indeed, the evidence in this chapter highlights that contributors have particular funding profiles and their funding presents different strengths and weaknesses. Therefore, each one of them needs to tailor a reform package to their own specific challenges.

It is positive that several donors are taking steps to improve specific elements that prevent them from providing more effective funding. For instance, in the responses to the 2018 Survey, Germany acknowledges the need for more sustainable multi-year funding to WHO. It is working on identifying solutions together with the Federal Ministry of Finance. France recognises the issue of fragmentation. It is now working to better co-ordinate the voluntary contributions of different French entities. It also aims to improve predictability, by announcing the volume and repartition of France's voluntary contributions earlier, when possible. Finally, Canada highlights that the outcomes of the World Humanitarian Summit and the Grand Bargain commitments pushed it to increase its multi-year funding for humanitarian assistance. While these are encouraging steps, more needs to be done collectively to ensure that multilateral funding trends support effective multilateralism.

Both ODA funding and new sources of financing to the multilateral system are increasingly scattered and piecemeal, creating a tension towards the delivery of project-based interventions and jeopardising the ability of the multilateral system to provide the transformative, holistic and integrated solutions that are needed to achieve the 2030 Agenda. Therefore, using the evidence from this chapter, building blocks on good multilateral funding are presented below (Figure 6.10). These building blocks provide a basis for the principles of good multilateral donorship needed as part of a new pact between sovereign states and multilateral organisations for the 2030 Agenda.

Figure 6.10. Summary of recommendations

Note: Numbers in the puzzle pieces indicate the recommendations outlined in section 1.4.
Source: Authors

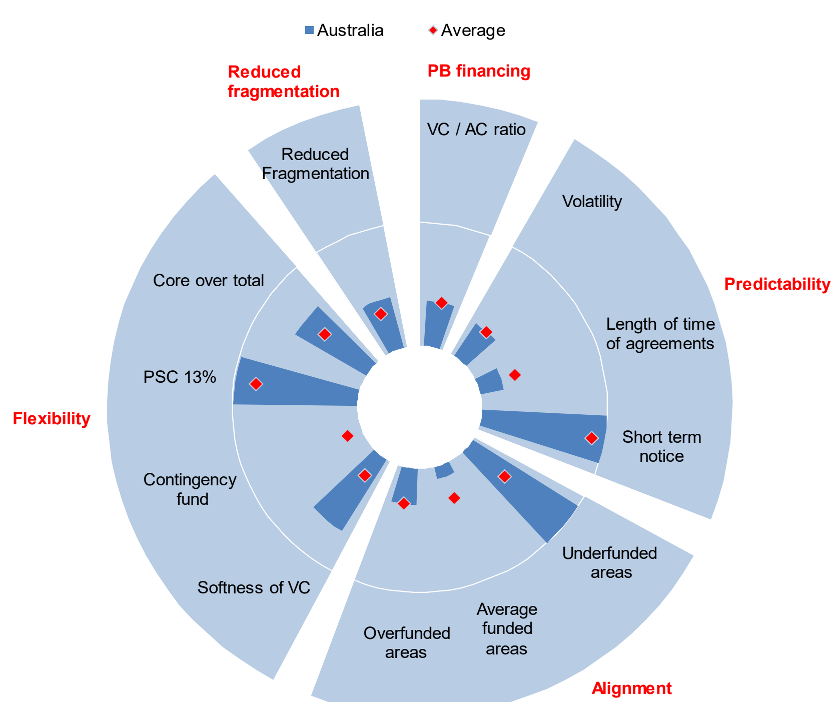
Annex 6.A. The OECD metrics on good multilateral funding: profiles of 12 selected contributors to the WHO

Australia

The quality of Australia's financing to WHO is fairly in line with that of other providers but Australia performed better than other donors to WHO in terms of alignment, flexibility and reduced fragmentation of its financing. In regard to alignment, Australia provided higher shares of voluntary contributions to WHO's underfunded programme areas compared to other donors, particularly on health and environment, integrated people-centred services and non-communicable diseases. Overall, Australia provided one-fifth of its voluntary contributions to underfunded areas against an average 6% by the other 12 contributors. Moreover, Australia's financing was more flexible than that of other donors. It provided high volumes of core voluntary contributions (40% of total voluntary contributions) and it complied to a high extent with the 13%programme support fee.

Areas where Australia could improve are predictability, by providing agreements with longer time frames, and reduced volatility of revenue, particularly on polio, which showed high levels of revenue variation. This analysis, based on the WHO 2014-15 budget, suggests that Australia could also increase support to the Contingency Fund. It is positive that, in May 2018, the then Minister for Foreign Affairs of Australia announced funding for the WHO Contingency Fund for Emergencies of AUD 4 million). It is also positive that, in May 2018, Australia signed a new Strategic Partnership Framework with WHO. This sets Australia's core voluntary contributions to USD 12.36 million annually over 5 years. This further improves the predictability and flexibility of Australia's contributions to WHO.

Annex Figure 6.A1. Australia's profile: good multilateral funding (2014-2015)



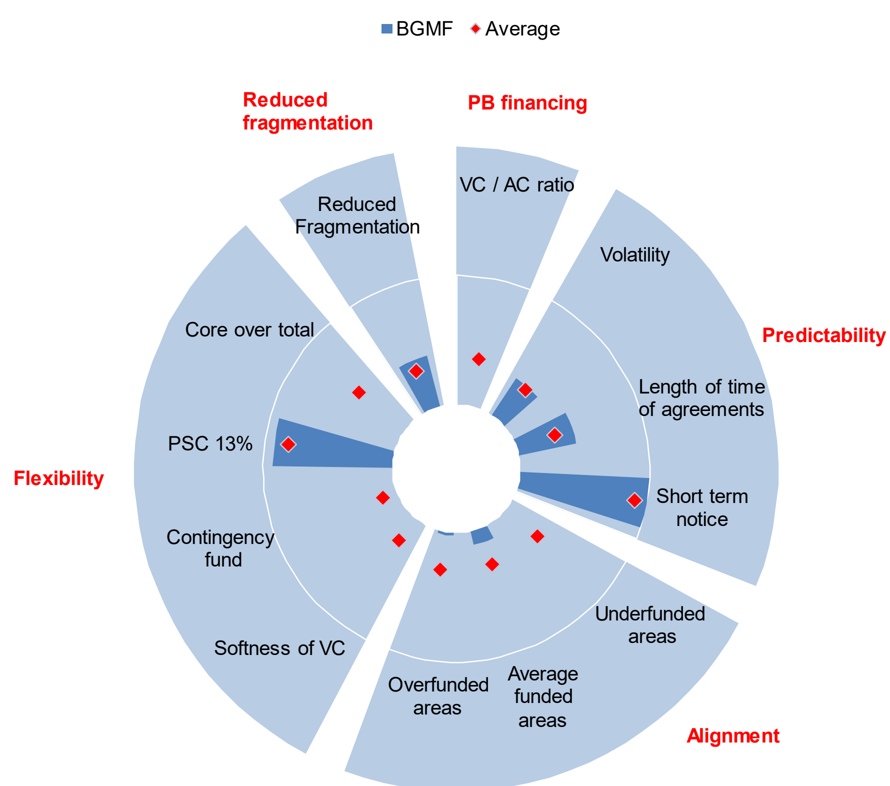
Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875321

Bill and Melinda Gates Foundation (BMGF)

BMGF received high scores on predictability, particularly on short-term notice and length of time of agreements. Its performance is low, however, on alignment and flexibility. On alignment, the low score is due to a high share of financing provided for polio eradication, which is an overfunded programme area. Moreover, BMGF does not provide financing for any underfunded programme areas. On flexibility, all the financing provided is strictly earmarked and no resources are provided to the Contingency Fund. However, the compliance with the programme support cost of 13% for voluntary contributions is high. It is important to note that, as BMGF is not a member of WHO, some indicators that integrate assessed contributions in the computations were affected. This is because non-members do not provide assessed contributions. Indicators affected were voluntary contributions over assessed contributions, which could not be computed, and core over total, which only used voluntary core resources.

Annex Figure 6.A.2. Bill and Melinda Gates Foundation's profile: good multilateral funding (2014-2015)



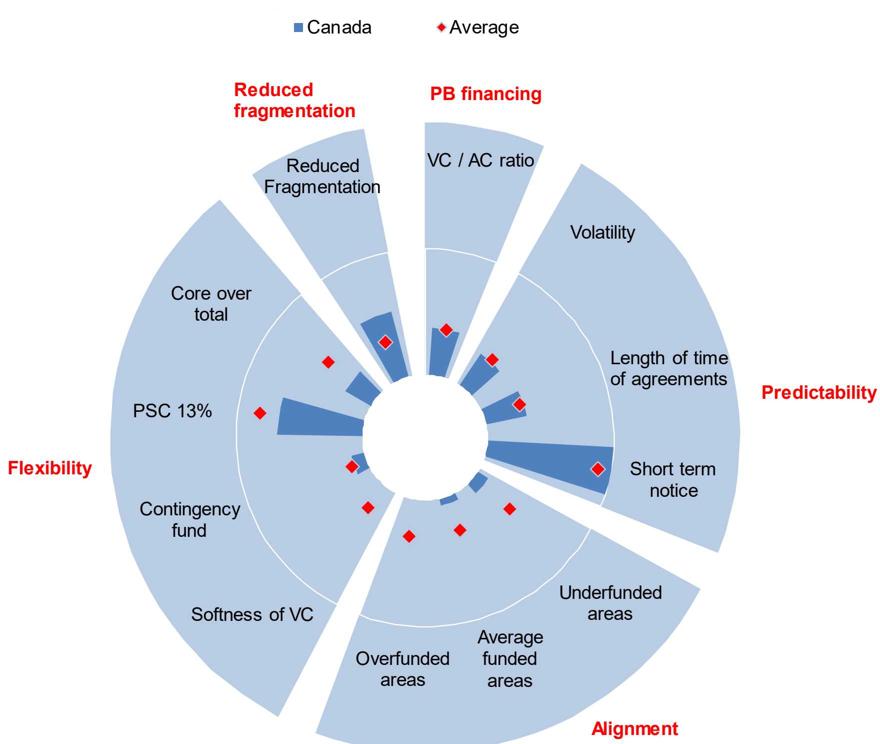
Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875340

Canada

Canada's financing to WHO is in line with that of other providers in terms of programme budget financing and predictability. However, it contributed more than other donors to reduce fragmentation of WHO's financing, by providing larger and thus less transaction-heavy and fragmented funding. In regard to flexibility, Canada has a high score on complying with the 13% programme support fee for voluntary contributions. However, all voluntary contributions are strictly earmarked, which negatively affects the indicators on softness of voluntary contributions and the share of core finance over total revenues. Canada could improve the alignment of its financing to WHO by channelling more of its resources to underfunded programme areas.

Annex Figure 6.A.3. Canada's profile: good multilateral funding (2014-2015)



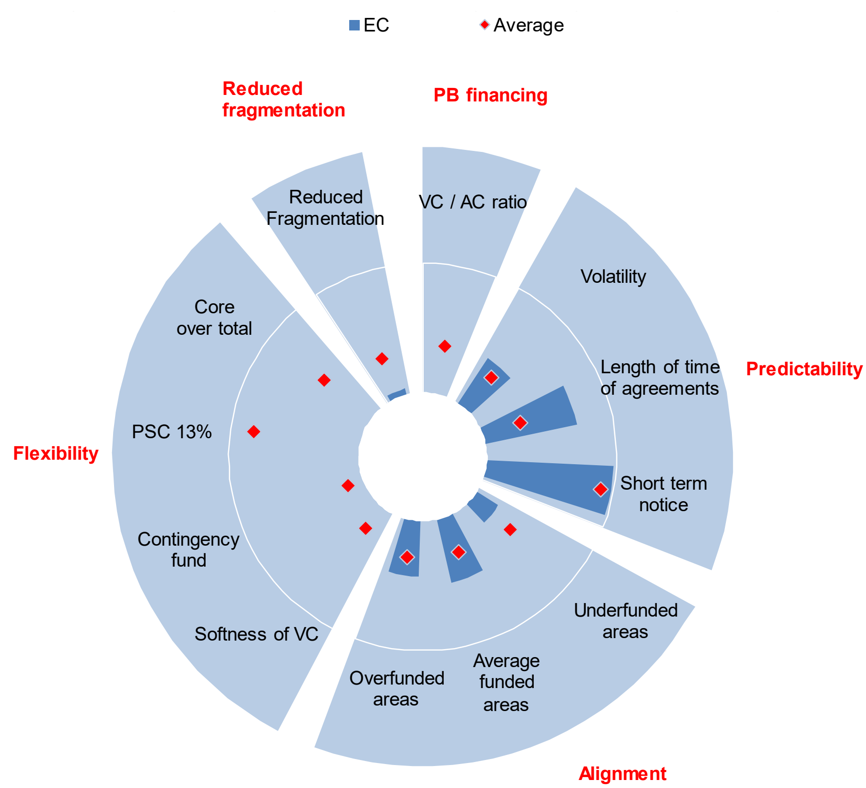
Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875359

European Commission (EC)

Like the BMGF, the EC is not a member of WHO and for this reason some indicators are affected by the lack of assessed contributions. This is the case for voluntary contributions over assessed contributions, which could not be computed, and share core over total revenues, which only used voluntary core resources. The EC's performance on predictability was strong due to high scores on short-term notice and duration of agreements compared to the other contributors examined. The score on alignment was l in the average range of the other contributors examined, although more efforts could be made to specifically support underfunded programme areas. The score on flexibility is significantly low as all resources provided were strictly earmarked and did not comply with the 13% programme support cost for voluntary contributions. Furthermore, the EC did not provide contributions to the Contingency Fund. Finally, improvements can be made on providing less fragmented financing.

Annex Figure 6.A.4. European Commission's profile: good multilateral funding (2014-2015)



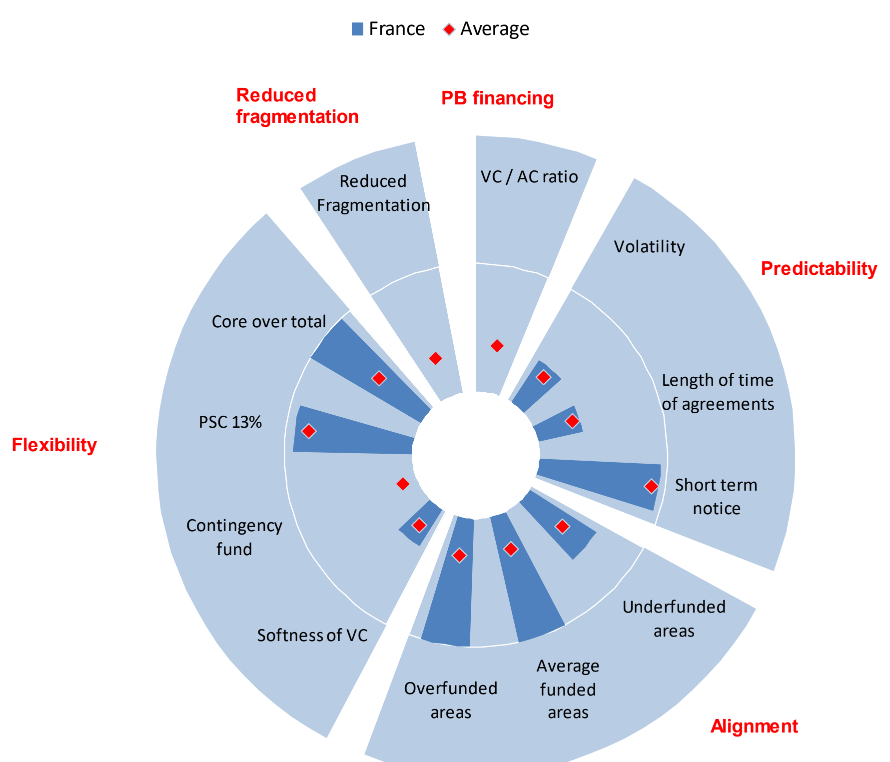
Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875378

France

France's performance was robust in terms of alignment of financing. Only one-quarter of voluntary contributions were provided for overfunded areas (against 74% average for the other 11 contributors considered) and two-thirds for averagely funded programme areas. France's financing to WHO was also highly flexible, due to high shares of core funding provided and high levels of compliance with the 13% programme support cost for voluntary contributions. However, improvements on flexibility could be made by supporting the Contingency Fund and improving the softness of voluntary contributions. France contributed, less than other providers, to the financing of the overall programme budget of WHO, due to little additional voluntary funding on top of core resources (with a ratio of 0.4 of voluntary contributions over assessed contributions, compared to an average ratio of 4.5 for the other WHO member contributors considered). However, France is the 4th largest contributor to WHO and this result reflects that France's ratio of voluntary contributions over assessed contributions is low compared to the other WHO contributors examined. France could further contribute to reducing fragmentation of WHO's financing by providing larger awards of voluntary contributions.

Annex Figure 6.A.5. France's profile: good multilateral funding (2014-2015)



Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

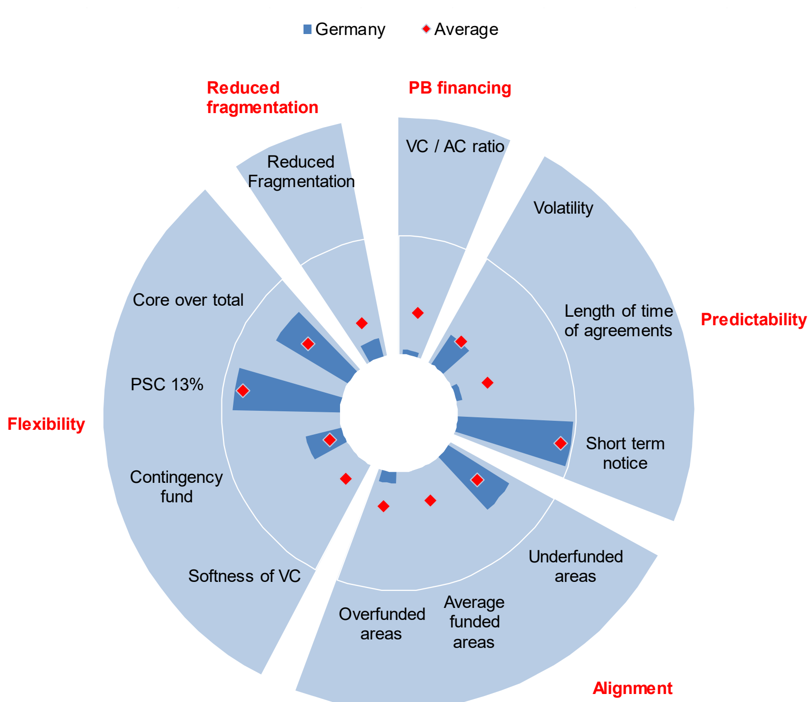
StatLink https://doi.org/10.1787/888933875397

Germany

Germany's financing to WHO is in line with that of other providers. In terms of alignment of funding, performance was around the average for other donors, mainly because Germany contributes to financing underfunded programme areas. Germany's financing was predictable, as Germany generally refrained from providing funding against short spending time frames. However, Germany could further improve the predictability of its financing by extending the duration of funding agreements (i.e. multi-year). While Germany provides a large volume of core financing (both assessed contributions and voluntary core), it could enhance the softness of its voluntary contributions. Furthermore, Germany has high levels of compliance with programme support costs of 13% but could increase its support to the WHO Contingency Fund. Germany contributed less than other providers considered in this study to WHO's programme budget financing, as it extended low volumes of voluntary contributions in addition to its assessed contributions (Germany has a 0.8:1 ratio of voluntary contributions over assessed contributions against an average ratio of 4.5:1 for the other WHO government contributors examined).

In its responses to the OECD/DAC "2018 Survey on Policies and Practices vis-à-vis the Multilateral Development System", Germany stated that since the time frame of the metrics (2014-2015), its funding practices vis-à-vis WHO have significantly changed, as the Federal Ministry of Health has overhauled its funding policy. Germany stated that it is now the largest donor to the Contingency Fund and that it has changed its earmarking practice, moving from project-specific allocations to earmarking at the programme area level.

Annex Figure 6.A.6. Germany's profile: good multilateral funding (2014-2015)



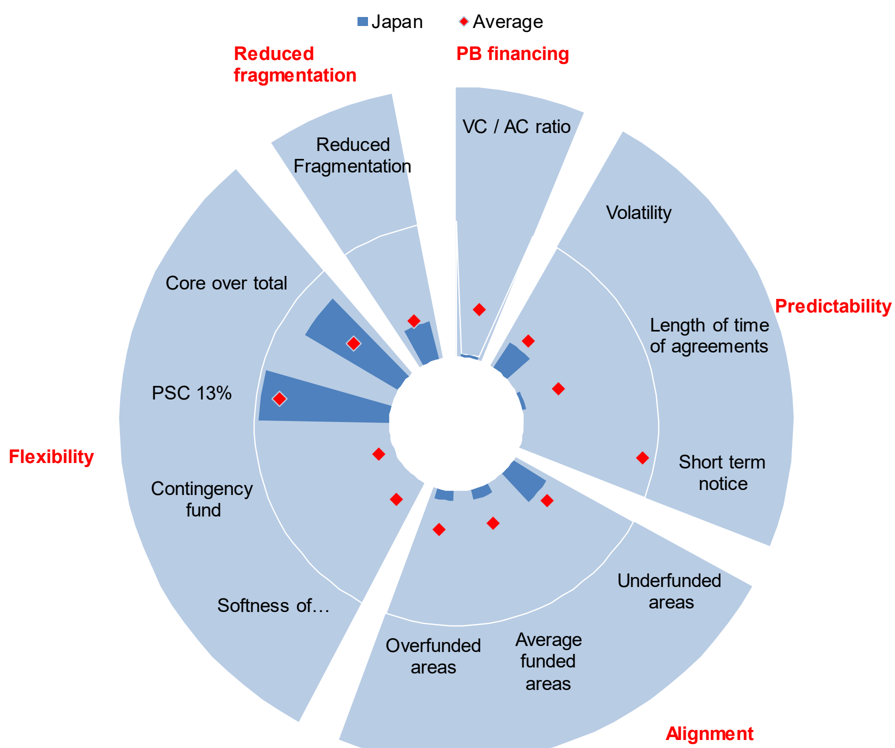
Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875416

Japan

Japan's financing to WHO is in line with that of other providers considered here in terms of flexibility and contribution to reducing fragmentation. Japan's financing is largely flexible as a large share of it is provided as core resources. However, Japan could further improve the flexibility of its financing by providing softly earmarked voluntary contributions and by channelling more resources to "soft windows", such as the Contingency Fund. Japan could also improve its contribution to ensuring the full financing of the agreed programme budget. It could enhance the predictability of its financing by not providing funding against short spending time frames and by extending the time length of its funding agreements (e.g. multi-year financing). Japan could also provide more aligned financing, as it has directed large shares of voluntary contributions to overfunded programme areas instead of supporting underfunded and averagely funded programme areas.

Annex Figure 6.A.7. Japan's profile: good multilateral funding (2014-2015)



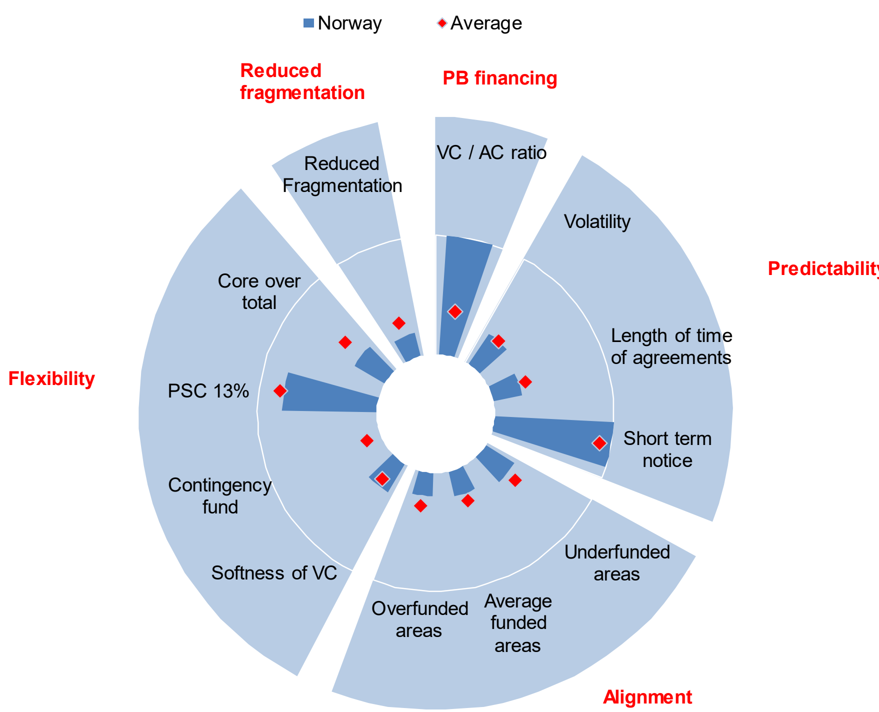
Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875435

Norway

Norway greatly contributed to the full financing of the agreed programme budget of WHO, by providing considerable additional resources on top of its assessed contributions (voluntary contributions were 12 times the volume of its assessed contributions). On other quality dimensions, Norway's financing is in line with that of other providers considered in this study. Norway's funding was predictable and it did not provide funding with short spending notice. Its funding was also flexible, as while it did not support the Contingency Fund, it mostly complied with the programme support cost of 13% and provided one-fifth of its voluntary contributions as core. Finally, Norway could improve on alignment by shifting resources from overfunded programme areas to underfunded and averagely funded programme areas. Norway could also improve its contribution to reducing fragmentation of voluntary resources by providing fewer small, piecemeal grants.

Annex Figure 6.A.8. Norway's profile: good multilateral funding (2014-2015)



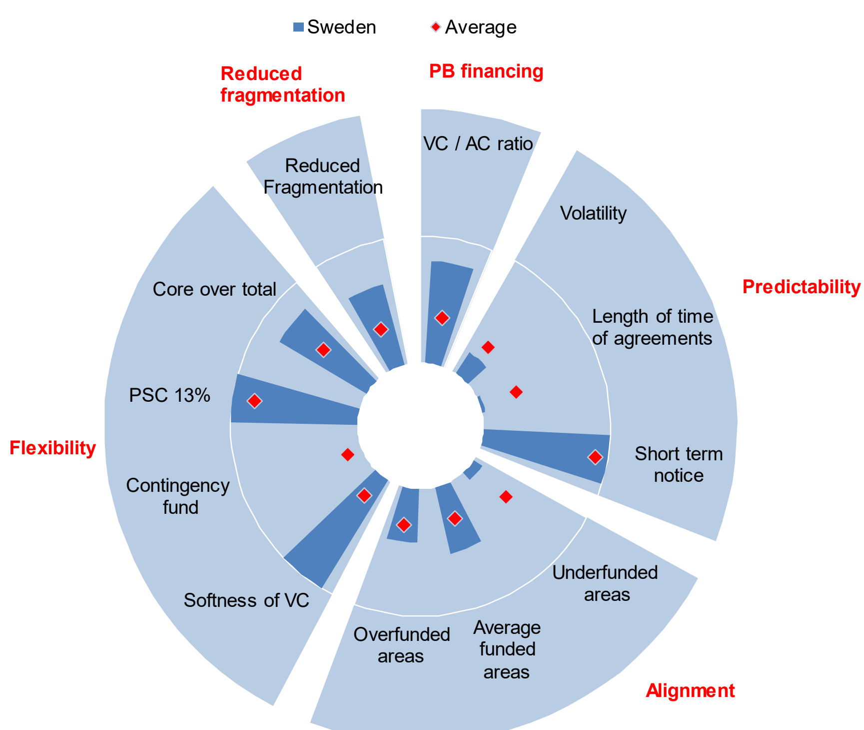
Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875454

Sweden

Sweden provided high-quality financing to WHO. It greatly contributed to financing WHO's agreed programme budget in full, providing considerable resources on top of its assessed contributions (with a 9:1 ratio of voluntary contributions to assessed contributions). Moreover, its voluntary resources were not fragmented in many agreements, compared with financing from the other providers considered in the study. Sweden's financing to WHO was highly predictable, mainly as Sweden refrained from providing funding to be spent on short timeframes. Sweden could further increase the predictability of its financing by providing agreements with longer timeframes (e.g. multi-year financing). Sweden's financing was also flexible, as it provided two-thirds of its financing as core contributions (both assessed and voluntary core) against an average 42% for the other contributors examined. Furthermore, Sweden has high levels of compliance with the programme support cost of 13% for voluntary contributions. Sweden could further improve the flexibility of its financing by supporting more "soft windows", such as the Contingency Fund. Sweden's financing presented a degree of alignment similar to that of other providers, but could be further improved by channelling more of its financing towards underfunded programme areas.

Annex Figure 6.A.9. Sweden's profile: good multilateral funding (2014-2015)



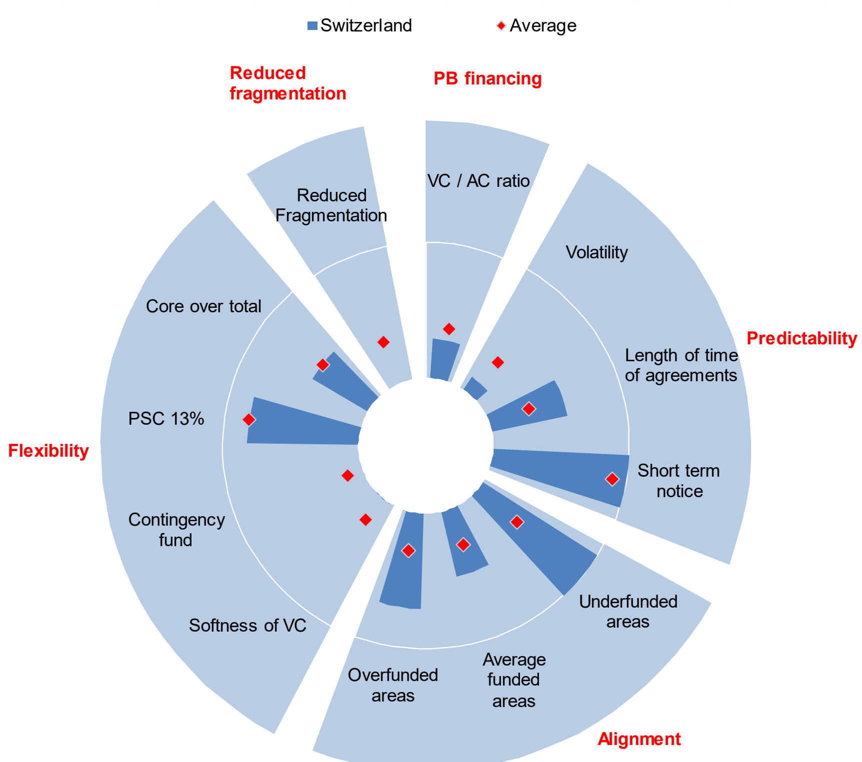
Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875473

Switzerland

Switzerland is a long-standing contributor of core resources to WHO. Its financing is highly aligned to the priorities decided in the organisation's programme budget, including because Switzerland contributed to underfunded or averagely funded programme areas. It channelled more than half of its voluntary contributions to these (compared to 28% on average for the other 10 providers considered in this study). Switzerland contributed to financing the full programme budget of WHO in line with other providers as reflected in its medium-range score on programme budget financing. Switzerland could further improve the flexibility of its financing by reducing its strictly earmarked funding and by increasing the share of its core funding. Besides improving the softness of voluntary contributions, further improvements could be made in reducing fragmentation by providing fewer small or piecemeal awards of voluntary contributions.

Annex Figure 6.A.10. Switzerland's profile: good multilateral funding (2014-2015)



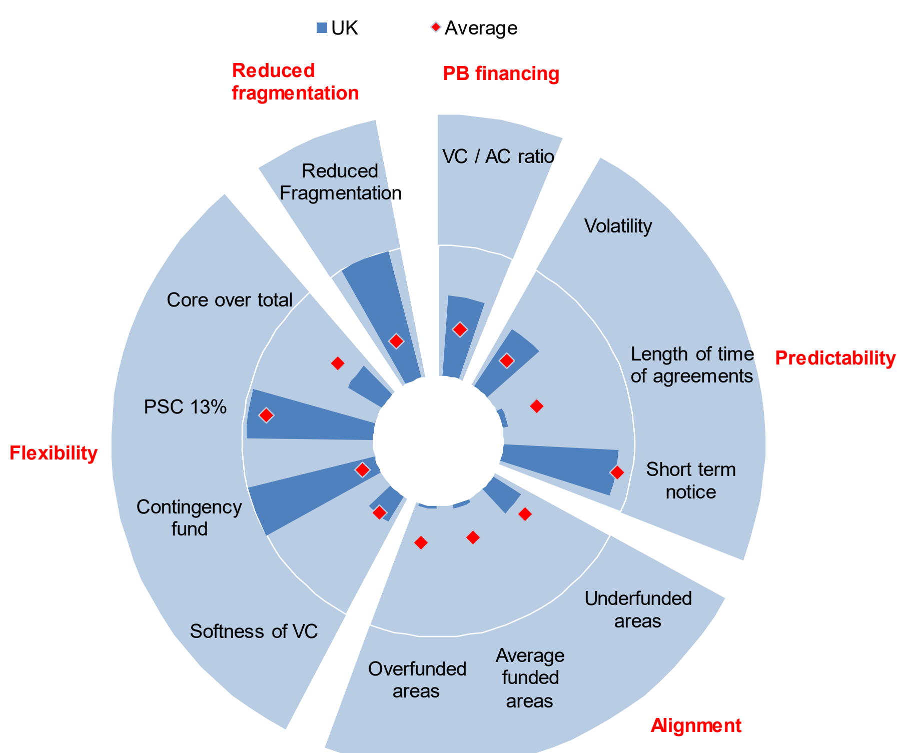
Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875492

United Kingdom

The United Kingdom performed well compared to other donors, except on alignment of voluntary funding. The United Kingdom contributed, more than other donors, to the full financing of the agreed programme budget by providing considerable voluntary contributions in addition to its assessed contributions (with a ratio of 7:1). The United Kingdom also helped reduce fragmentation of WHO financing by avoiding small and piecemeal financing and providing agreements that were larger than those of other contributors. The United Kingdom's financing to WHO was fairly predictable, as it displayed little volatility and the United Kingdom also largely avoided financing that needed to be spent at short notice in short time frames. The United Kingdom could further improve the predictability of its financing to WHO by providing financing agreements with longer spending time frames (e.g. multi-year funding). In terms of flexibility of its financing, the United Kingdom performs exceptionally well in supporting the Contingency Fund and complying with the programme support cost of 13% for voluntary contributions. However, the softness of its voluntary contributions is low (only 13% was core voluntary), although not dissimilar to the average range compared with other providers. The United Kingdom could also further improve the alignment of its financing by channelling more of its financing towards underfunded programme areas.

Annex Figure 6.A.11. The United Kingdom's profile: good multilateral funding (2014-2015)



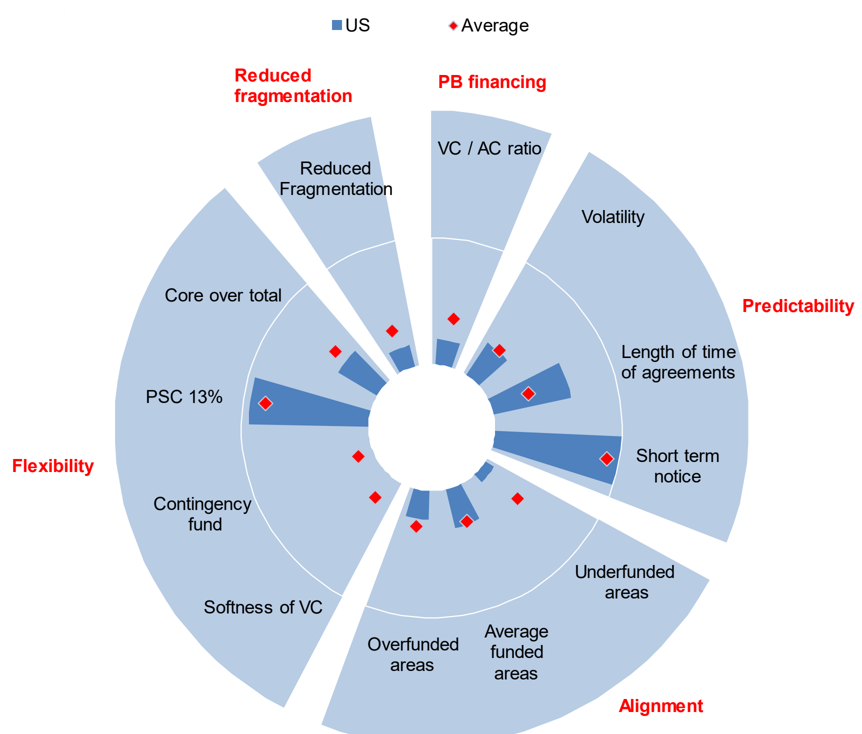
Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875511

United States

The United States' funding to WHO was highly predictable as it was provided over long time frames and funding agreements with appropriate spending time frames. The United States could further improve the predictability of its financing by reducing the volatility of resources provided (or variations among biennia). The flexibility of United States' financing is in line with other providers overall, although it strictly earmarks all of its voluntary resources and does not support "soft windows", such as the Contingency Fund. On a positive note, a high share of the United States' funding is compliant with the programme support cost of 13%. The United States could further improve the quality of its financing to WHO by helping to reduce fragmentation, for example, through larger financing agreements. It could also improve the alignment of its financing by channelling more resources to underfunded programme areas, such as non-communicable diseases.

Annex Figure 6.A.12. The United States' profile: good multilateral funding (2014-2015)



Source: Authors' calculation using data provided by the WHO Secretariat. Data were kindly provided by the WHO for this report and are not publicly available.

StatLink https://doi.org/10.1787/888933875530

Annex 6.B. Methodology for developing the OECD metrics on good multilateral funding

The metrics are organised in a hierarchical structure with broader quality dimensions (see III above) at the highest level, main indicators at the middle level, and sub-indicators at the lowest level (see Annex 1 for list of indicators). The choice of the list of the sub-indicators and the related formulas was made using the following criteria: relevance, comprehensiveness, data availability and simplicity. The main steps taken to compute, aggregate and visualise the indicators are outlined below.

Computation

Computation followed the selection of the indicators. The computation of the indicators involved calculating figures at different ranges, including absolute numbers, percentages, ratios, Yes/No types of values and other qualitative ratings. Therefore, the first step was to turn qualitative data into numerical data, e.g. Yes = 1 and No = 0, and then compute the raw figures of all the other indicators using appropriate formulas (see Annex 1). These formulas were developed to make sure that the direction of the computed value follows the direction of the quality dimension, i.e. the higher the computed values of the indicators, the higher the quality of financing. For instance, to calculate the share of reports provided on time by the Secretariat, the calculation was: 1 – the share of reports overdue.

Sometimes the computation revealed practical issues that could not be anticipated theoretically, particularly data gaps and statistical anomalies. For instance, to calculate variation of revenue for two biennia when amounts provided in one of the two biennia is 0 required attributing theoretical assignments of 0% or 100% to allow meaningful computations. For example, if a donor provided USD 0 in 2010 and USD 100 in 2011 variation was theoretically assigned to be 100% otherwise the actual result would be immeasurable (hence not meaningful analytically).

Normalisation

After the computation of the sub-indicators, the computed raw figures were normalised – which means rescaled – to convert them to the same unit and range. For example, “voluntary contributions specified as share of total voluntary contributions” is in the range of 0-1 whereas “voluntary contributions / assessed contributions ratio” can take any absolute number. By re-scaling, sub-indicators were put in the same range and could then be compared and visualised. In particular, sub-indicators were normalised into the range of 0-1. However, due to lack of data for multiple biennia, some indicators that were already in shares were not normalised. To normalise, the metrics uses the following formula:

$$(x - x_{min})/(x_{max} - x_{min})$$

To calculate the sub-indicators related to contributors, x_{max} and x_{min} were derived from the best/worst performer for that specific sub-indicator. For instance, if country A is the best performer in terms of volatility of funding, its score will set the standard for computing the same sub-indicator for all other contributors. For the set of indicators related to the Secretariat of the multilateral organisation and for the set related to the overall picture of the multilateral organisation, where only one actor/perspective can be used, x_{max} and x_{min}

were derived from best/worst performance among biennia. For instance, to calculate the performance of the WHO Secretariat in the biennium 2014-2015 for implementation rate, the performances in 2010-2011 and 2012-2013 was compared to derive best/worst performance.

Aggregation

After normalisation, the sub-indicators were aggregated into main indicators through simple averages. For instance, sub-indicators for 1) totally flexible, 2) partly flexible, and 3) inflexible voluntary contributions were aggregated into the indicator "softness of voluntary contributions". Aggregation was performed twice, as aggregated indicators were in turn aggregated around the quality dimension they belonged to. For instance, indicators "volatility", "long-term predictability" and "short-term notice" under quality dimension predictability were aggregated into one macro-indicator that represents quality dimension 2 in its entirety for that contributor. The same statistical method was used to aggregate sub-indicators and indicators for the Secretariat of the multilateral organisation and the multilateral organisation overall.

Sensitivity test

After the computation, normalisation and aggregation of results, a number of sensitivity tests were performed to ensure the robustness of the formulas used (including weighting) and determine the relationships between indicators and quality dimensions. For the formulas, weights were chosen to reward/penalise specific behaviours. In order to find the appropriate weight, several sensitivity tests were undertaken and compared against each other. For instance, providing voluntary contributions to overfunded programme areas, being against good practice, was ultimately converted into a negative value.

For the sensitivity test for the relationships between indicators and quality dimensions, correlation between indicators and quality dimensions was used to measure the extent to which a change of one indicator/quality dimension affected the rest of indicators/quality dimensions. As a general rule, a robust correlation between indicators within the same quality dimension is proof of soundness, as the indicators show theoretical and empirical consistency. In contrast, a low correlation between indicators of different quality dimensions shows robustness because this means that these indicators are not related to quality dimensions that they do not measure. The risk is that one or several indicators have an impact on several quality dimensions, which would attribute an implicit higher weight to these indicators.

Results show that correlations between indicators within the same quality dimensions are generally high, in turn demonstrating that the composition of the quality dimensions are appropriate. However, correlations between indicators of different quality dimensions are not all low. In particular, the indicators "length of time of agreements", "reduced fragmentation" and "flexibility of contributions". This is because non-core finance, which is the main form of financing has longer time frames and is less fragmented.

Visualisation

The results of the computed indicators and quality dimensions were visualised through spider charts and wheel charts. Spider charts are used to visualise the overall score of each actor/perspective (i.e. individual contributors, WHO Secretariat and WHO overall) for each quality dimension and compared the score with the score for the best and average performer for each quality dimension. As with the normalisation technique mentioned above (see IV.b above), best and average scores from contributors were selected among all contributors observed.

Notes

[1] While the OECD metrics presented here constitute the first attempt to use a multi-dimensional approach to measure the quality of funding provided to multilateral organisations, different multi-dimensional metrics were developed by Nancy Birdsall and Homi Kharas [(Birdsall and Kharas, 2010[12]), Quality of Official Development Assistance Assessment] to measure the quality of ODA: QuODA. This measure provides an assessment of the quality of concessional finance provided by 35 donor countries and more than 100 aid agencies using 31 indicators grouped in four dimensions that reflected what was, at the time, the international consensus of what constitutes high-quality aid: 1) maximizing efficiency; 2) fostering institutions; 3) reducing burden; 4) transparency and learning. Other multi-dimensional metrics were developed by Piera Tortora to measure delegation of authority of development aid agencies (OECD, 2013[13]).

[2] http://open.who.int/2018-19/home.

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Glossary of the terms used in this report

Multilateral organisations: This report covers the over 200 multilateral agencies and global funds – including the United Nations Development System (UNDS) and the World Bank Group – with governmental membership that carry out developmental activities, to which providers' contributions are reportable either in whole or in part as official development assistance (ODA). DAC maintains the list of ODA-eligible organisations, which is publicly available: http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/annex2.htm.

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.

Hard earmarking: These are resources strictly earmarked for a specific use, generally at the project level, leaving no, or limited, flexibility to the recipient organisation on their allocation.

Soft earmarking: Resources that are earmarked with a greater degree of flexibility. For instance, they may be earmarked for a specific sector or theme while still leaving it up to the recipient organisation to decide on the allocation among countries or among beneficiaries. These resources include both the thematic windows hosted by individual multilateral organisations and multi-donor trust funds hosted by pass-through mechanisms, such as the United Nations (UN) Multi-Partner Trust Fund Office.

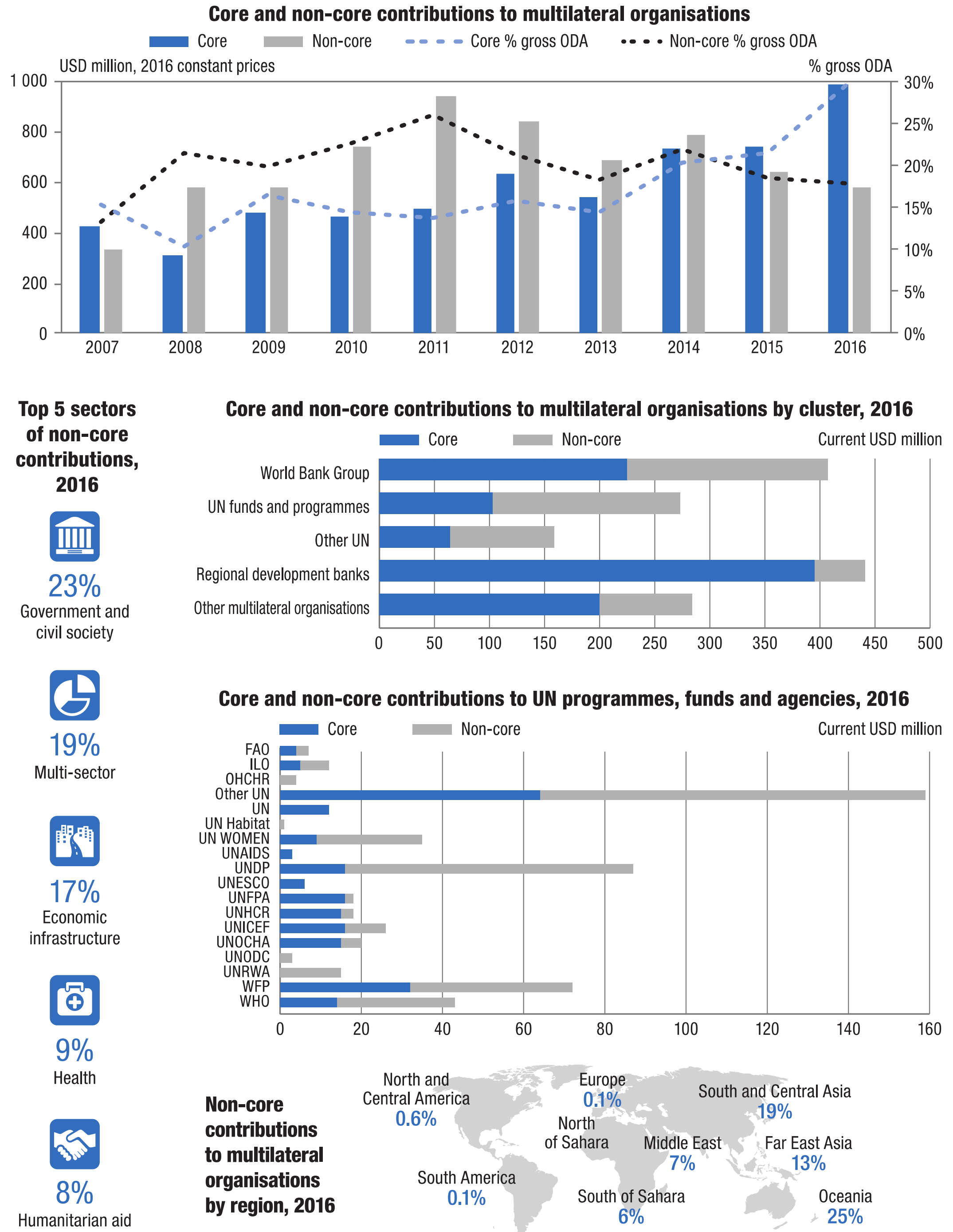
Total use of the multilateral aid system or ODA funding to multilateral organisations: This term means all funds channelled to and through multilateral organisations, or the sum of core and non-core resources. It therefore encompasses multilateral ODA and a part of bilateral ODA (which is earmarked funding).

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.

Funding from multilateral organisations: These resources include both multilateral outflows, which originate from the core resources to multilateral organisations, and resources earmarked to multilateral organisations.

Country fact sheets: How are DAC members using the multilateral development system?

AUSTRALIA, use of the multilateral development system



Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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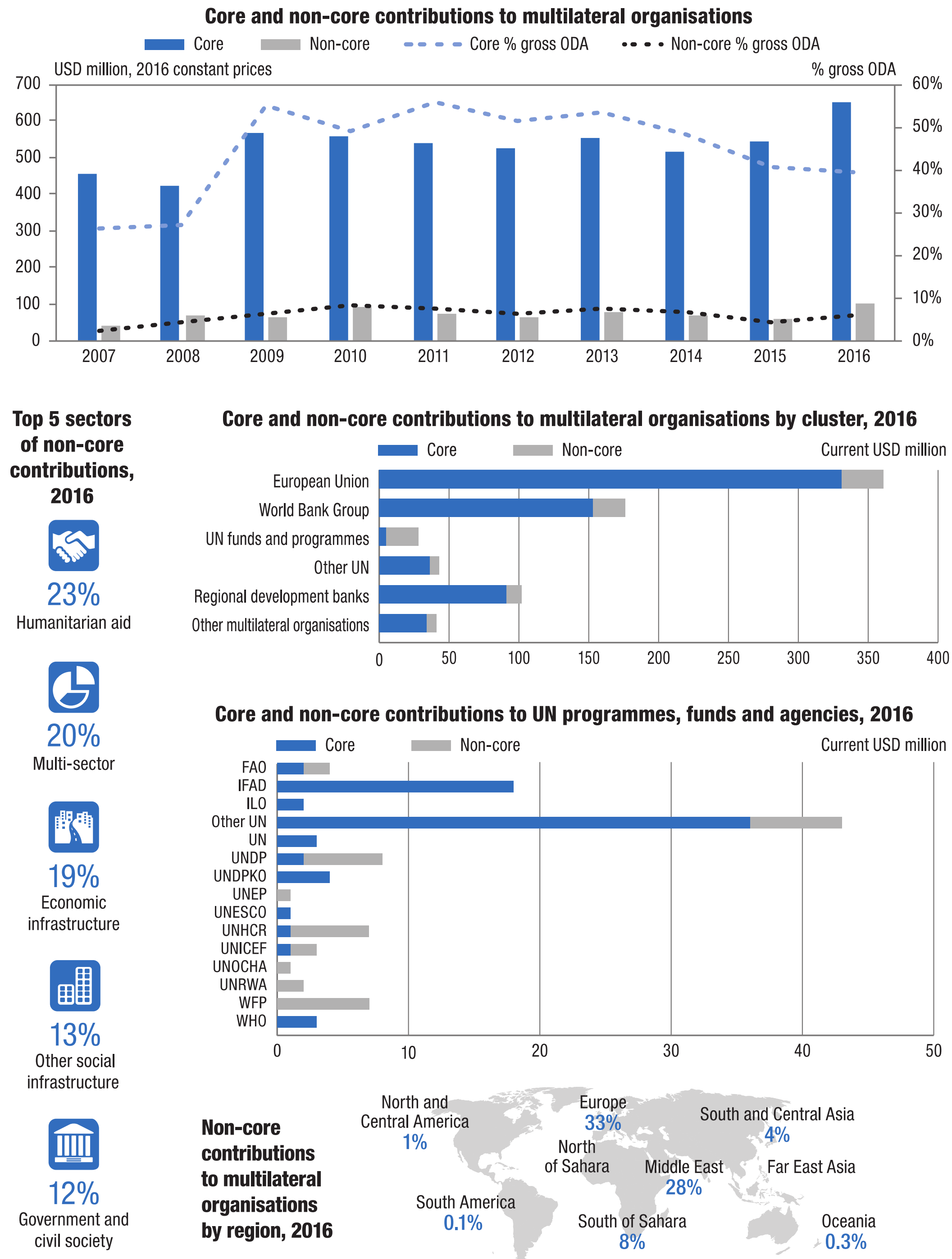
AUSTRIA, use of the multilateral development system



Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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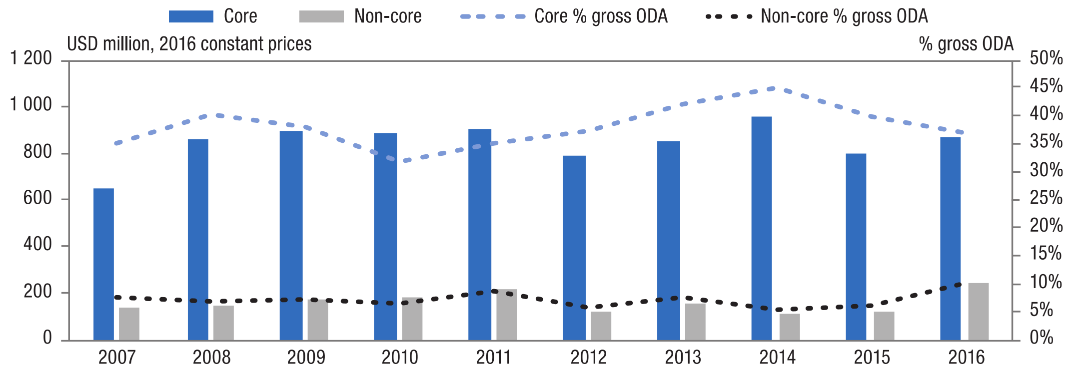
BELGIUM, use of the multilateral development system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2016

77%
Humanitarian aid

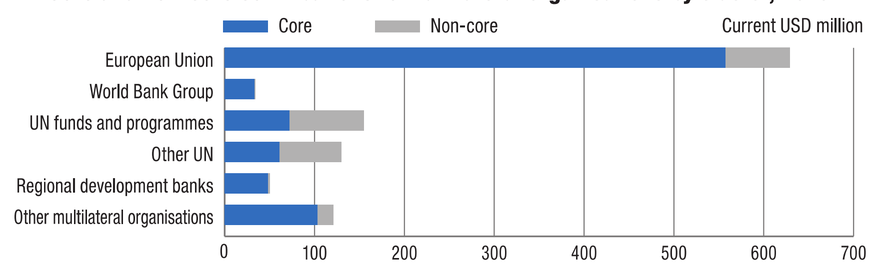
7%
Government and civil society

4%
Multi-sector

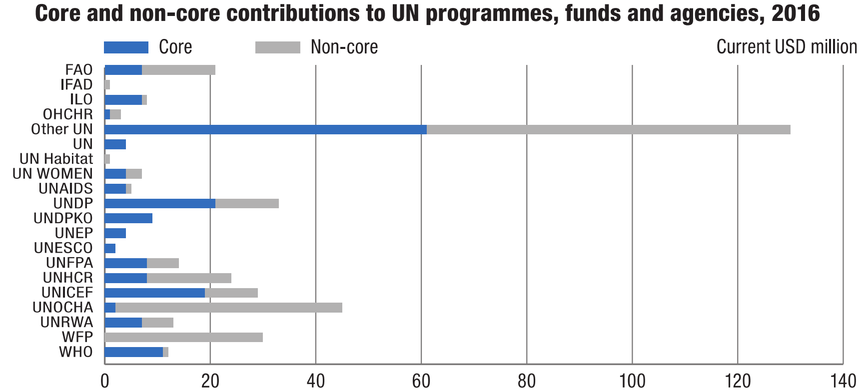
3%
Education

3%
Agriculture

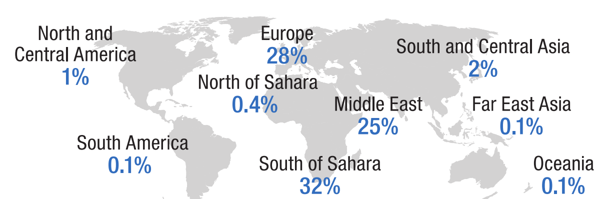
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016



Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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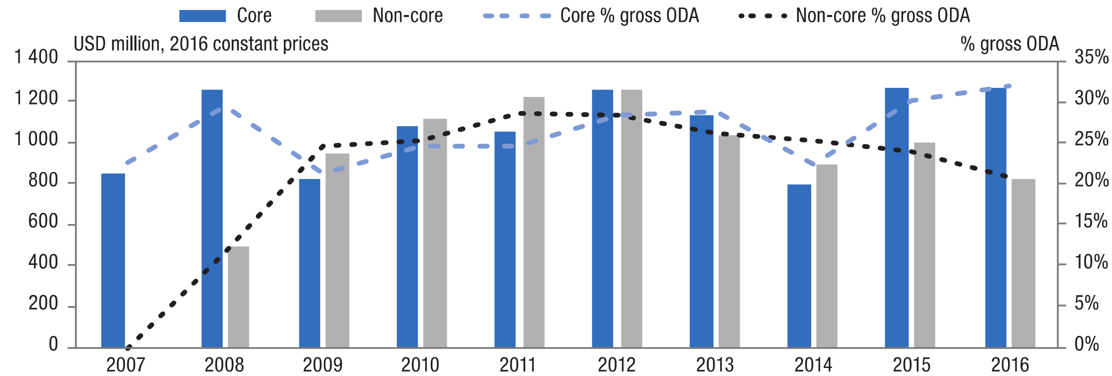
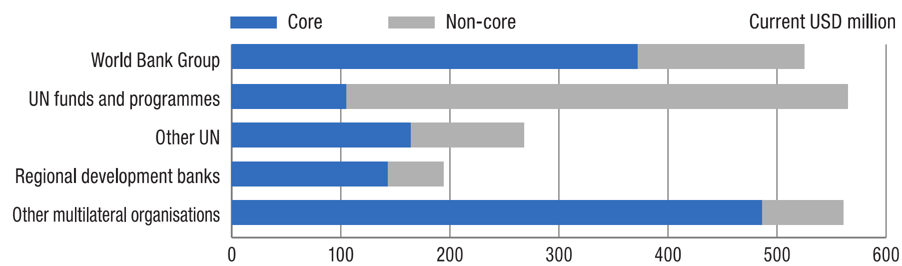
CANADA, use of the multilateral development system

Core and non-core contributions to multilateral organisations

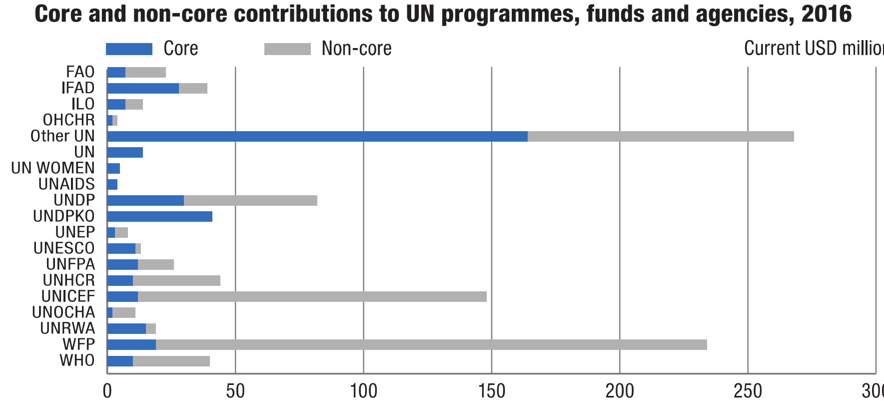


Top 5 sectors of non-core contributions, 2016

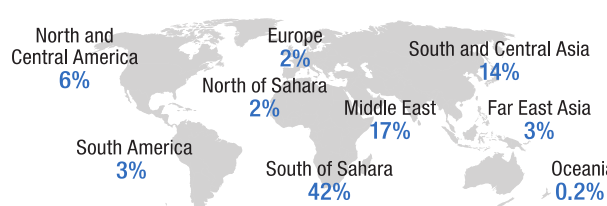
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016



Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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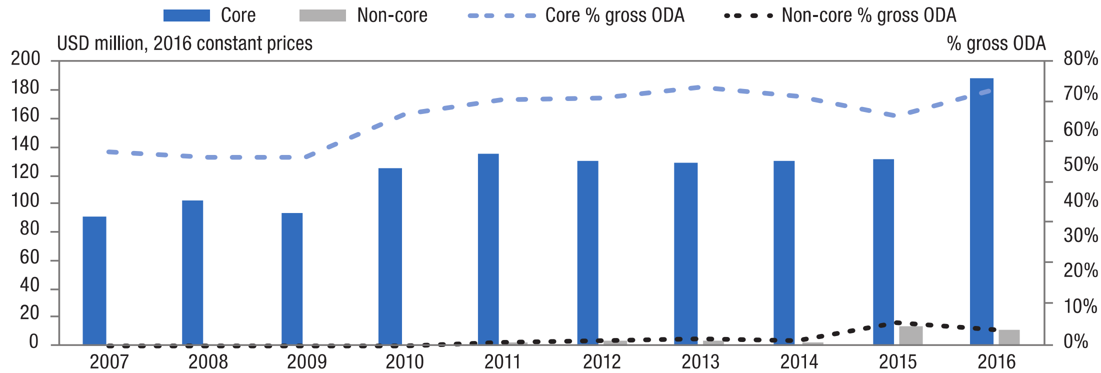
CZECH REPUBLIC, use of the multilateral development system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2016

35%
Multi-sector

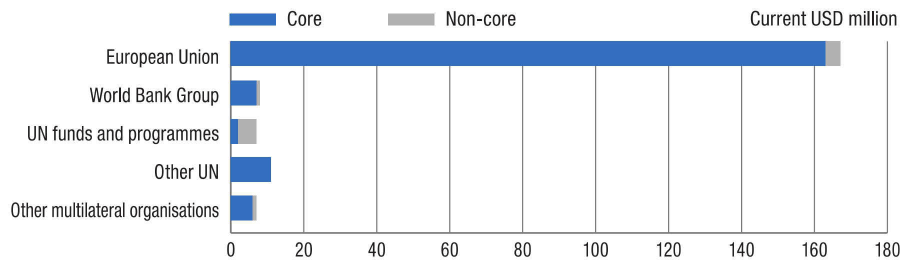
35%
Humanitarian aid

24%
Government and civil society

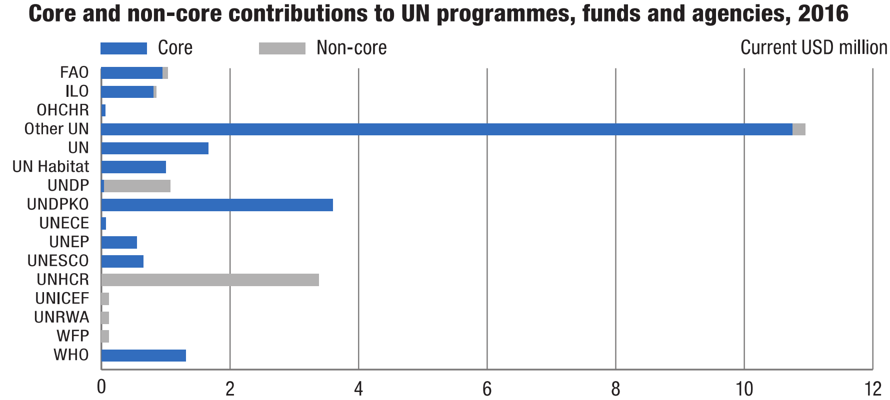
2%
Economic infrastructure

1%
Environment

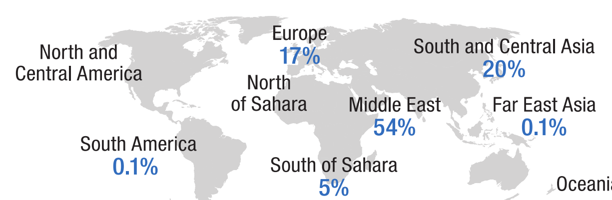
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016



Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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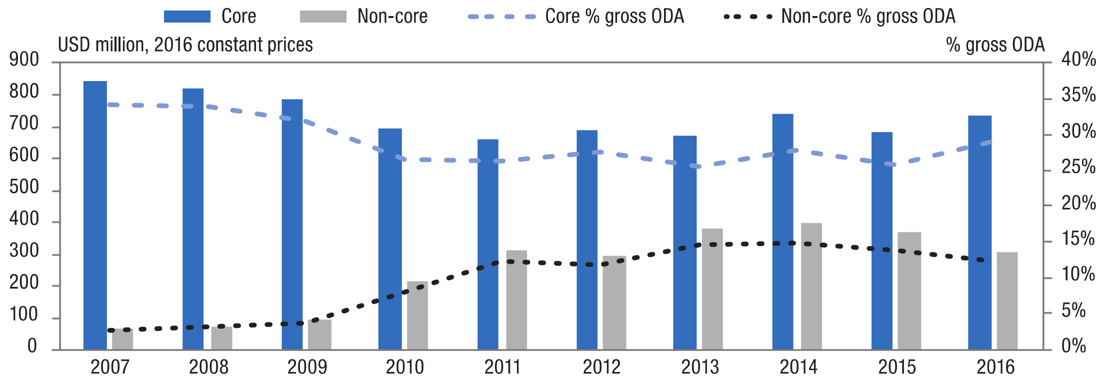
DENMARK, use of the multilateral development system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2016

35%
Humanitarian aid

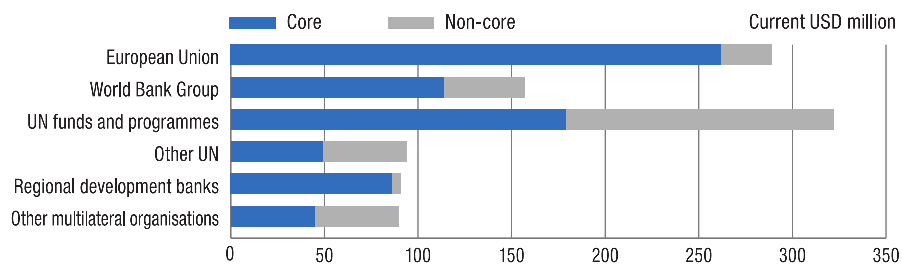
21%
Government and civil society

16%
Multi-sector

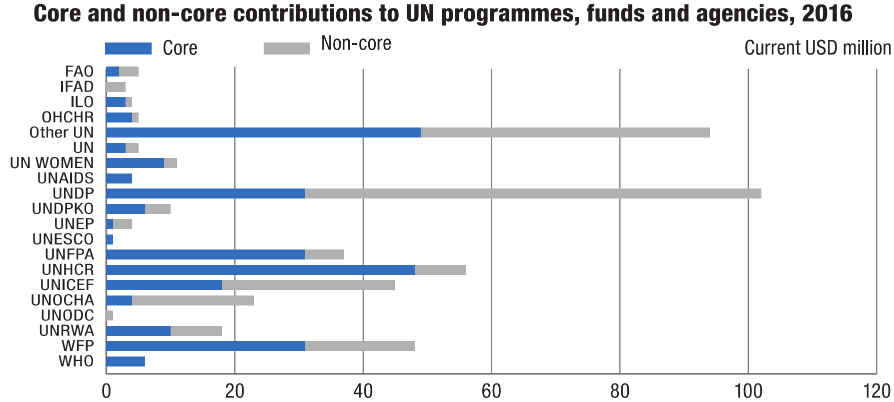
14%
Education

5%
Environment

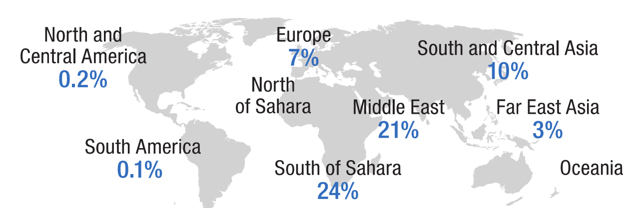
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016

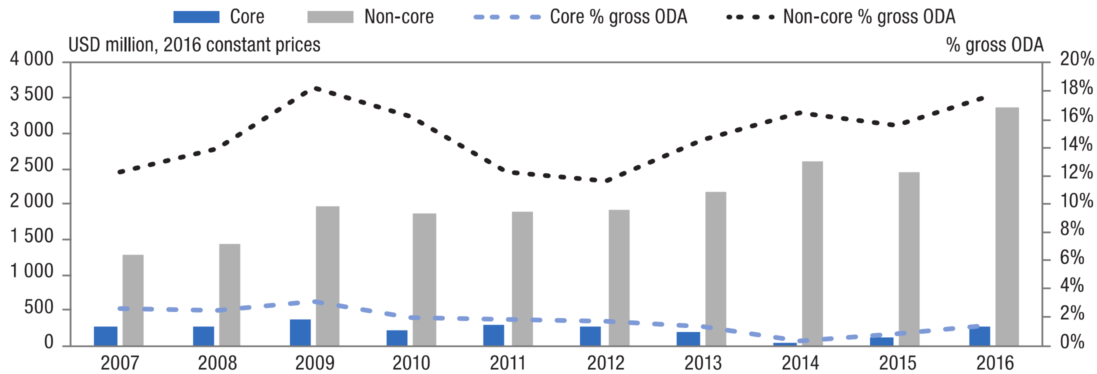


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933880033

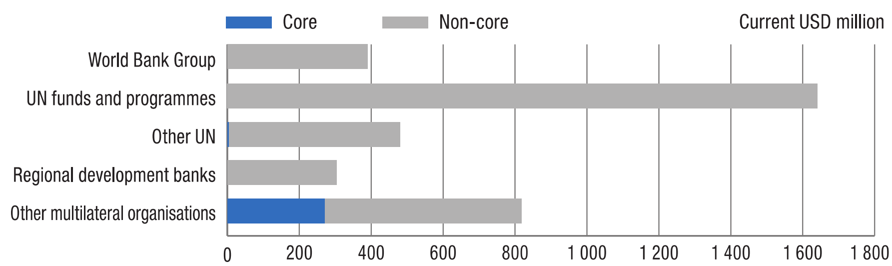
EUROPEAN UNION, use of the multilateral development system

Core and non-core contributions to multilateral organisations

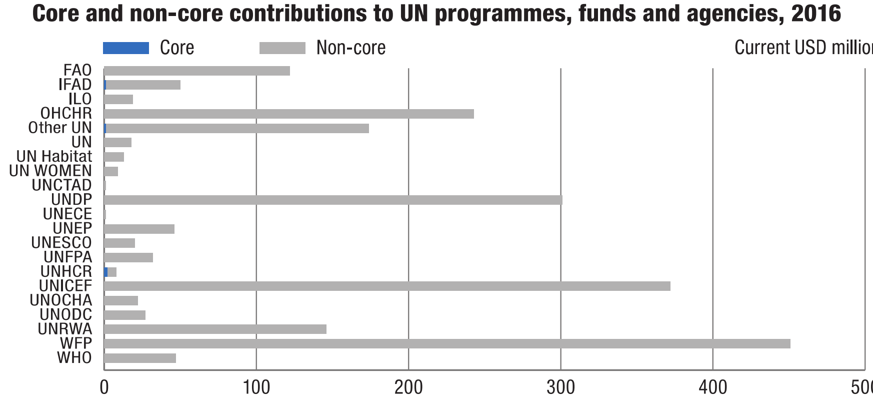


Top 5 sectors of non-core contributions, 2016

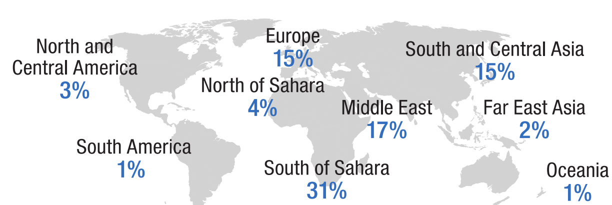
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016

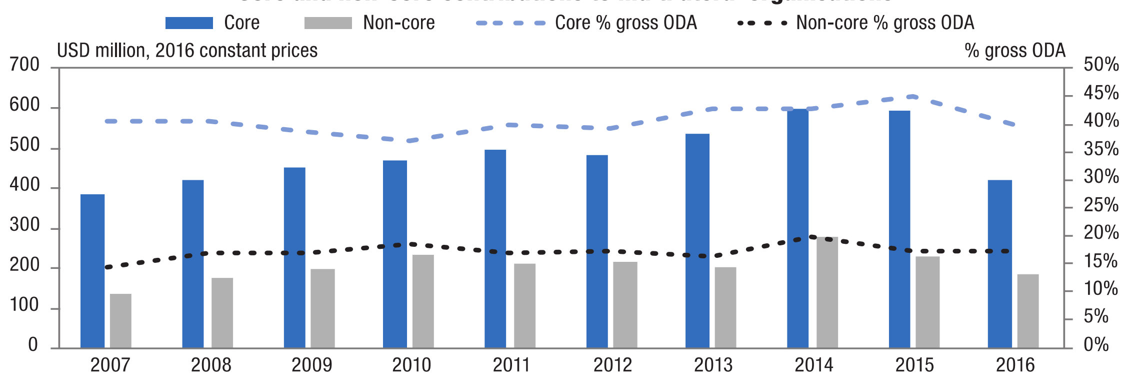


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933875644

FINLAND, use of the multilateral development system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2016

30%
Humanitarian aid

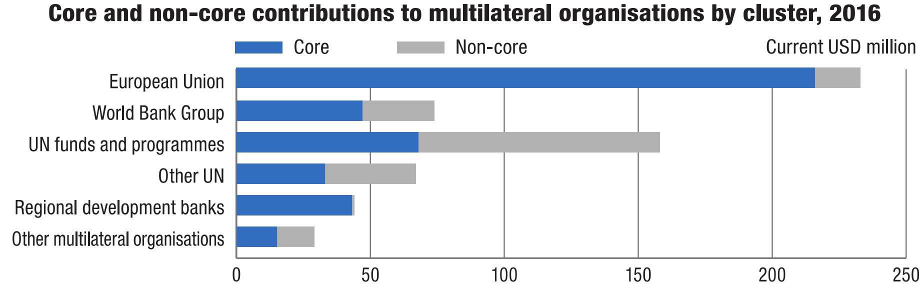
23%
Government and civil society

9%
Other production sectors
(forestry, fishing, industry, mining, construction, trade policy, tourism)

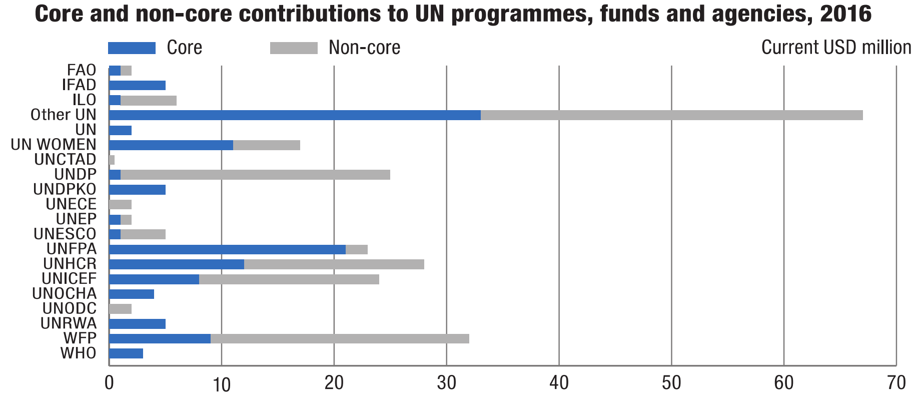
8%
Education

8%
Agriculture

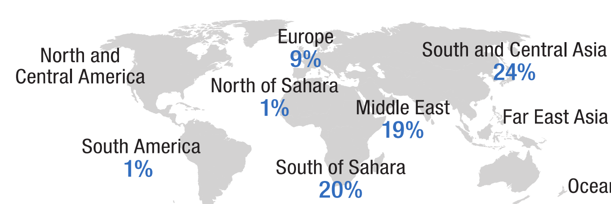
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



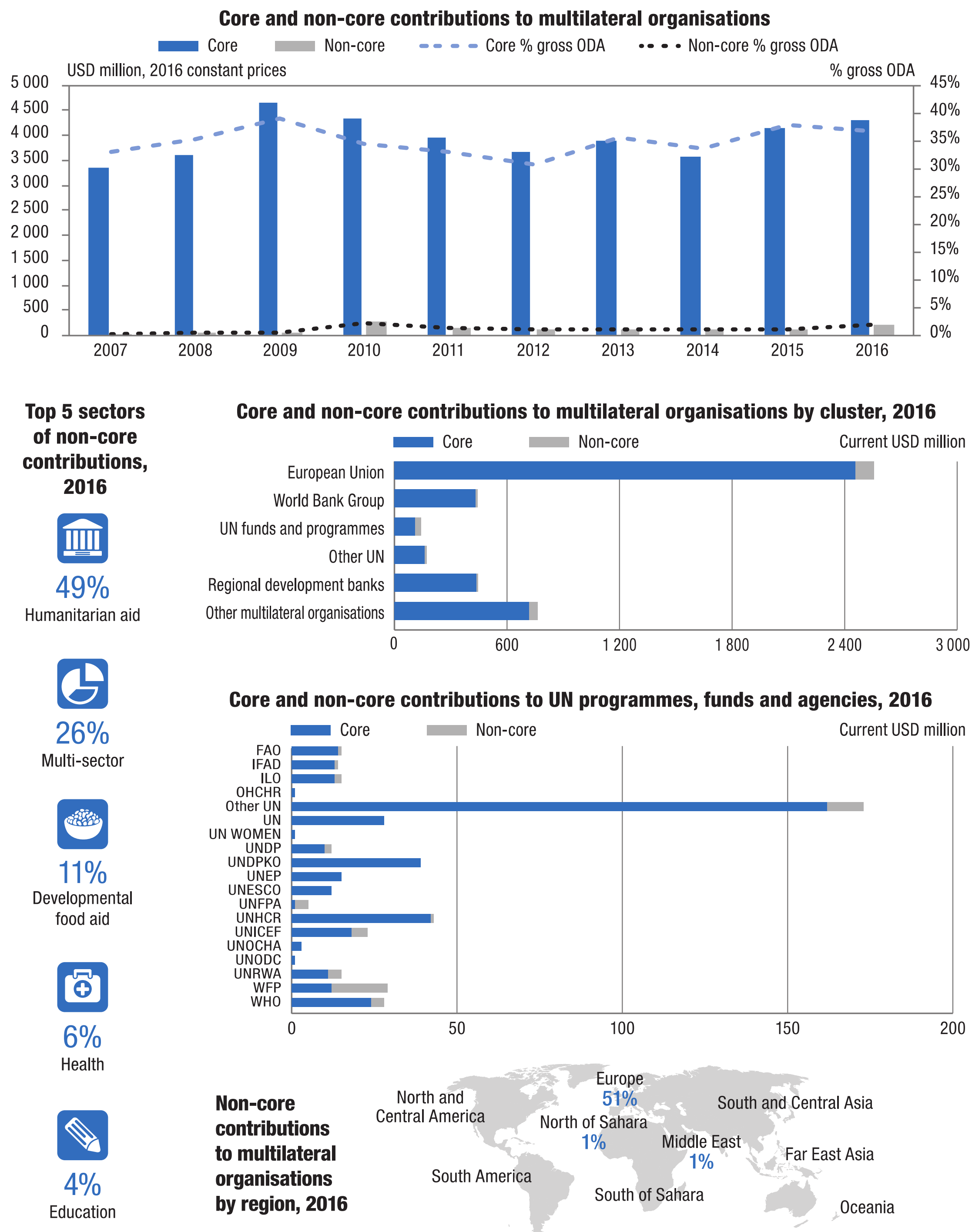
Non-core contributions to multilateral organisations by region, 2016



Source: Authors' calculations based on (OECD, 2018[1]), “Creditor Reporting System” (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933875663

FRANCE, use of the multilateral development system

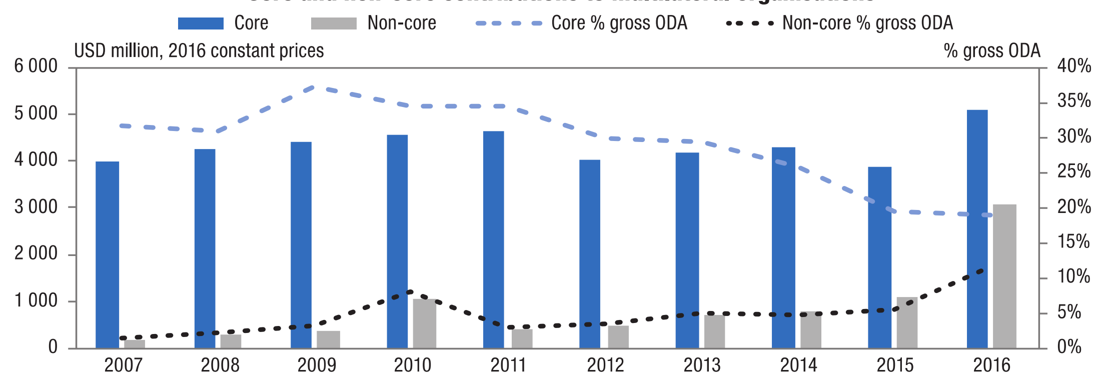


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933875682

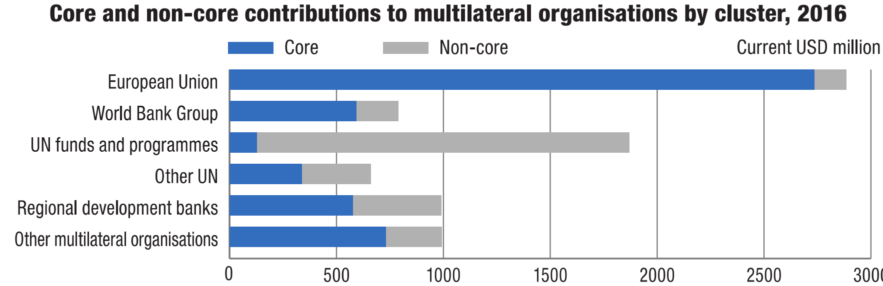
GERMANY, use of the multilateral development system

Core and non-core contributions to multilateral organisations

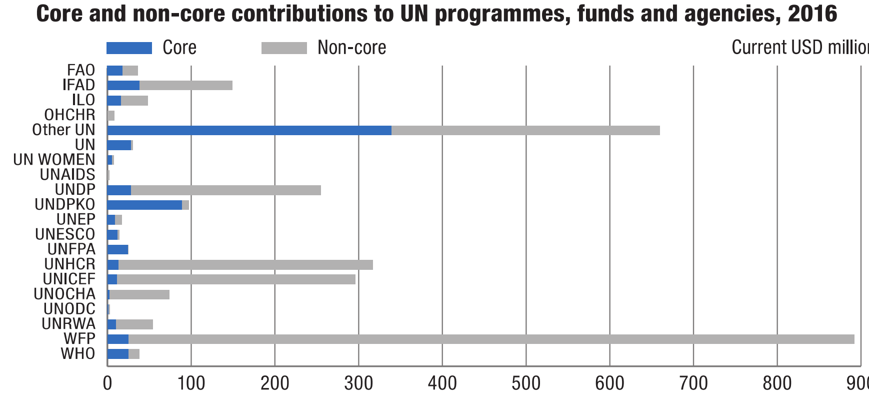


Top 5 sectors of non-core contributions, 2016

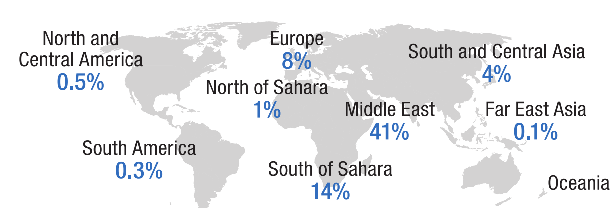
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



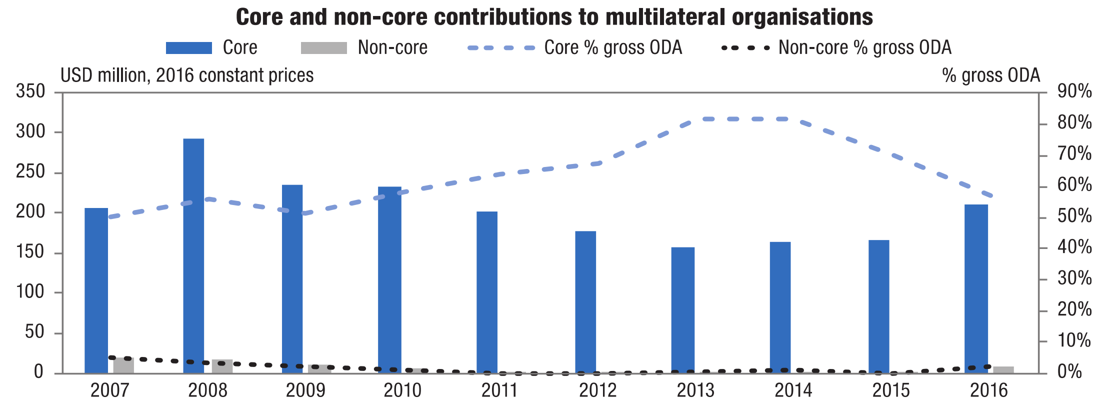
Non-core contributions to multilateral organisations by region, 2016

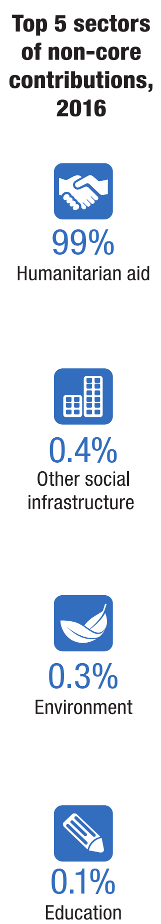


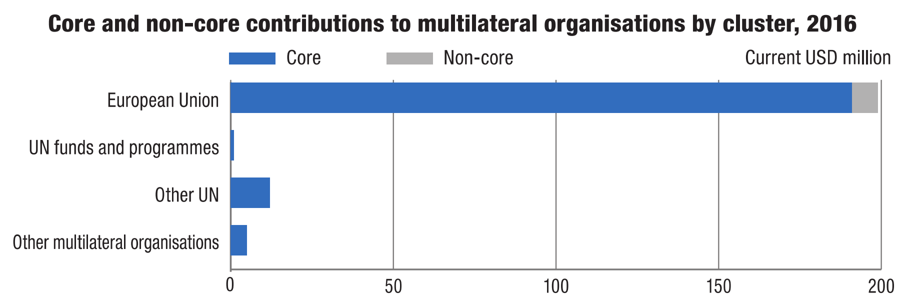
Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

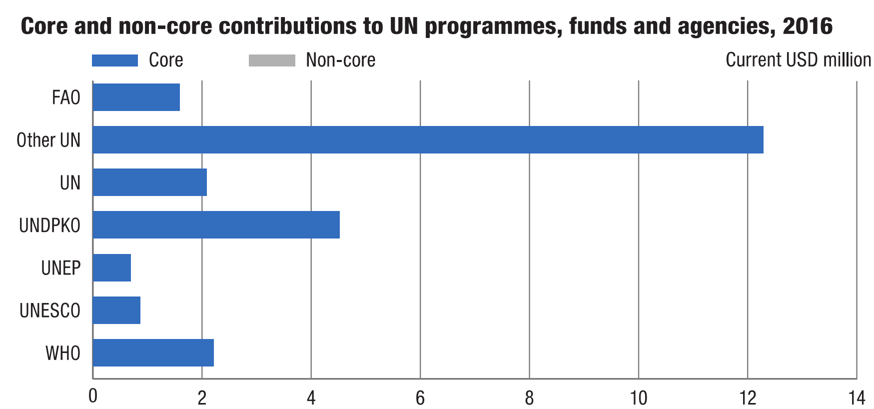
StatLink https://doi.org/10.1787/888933875701

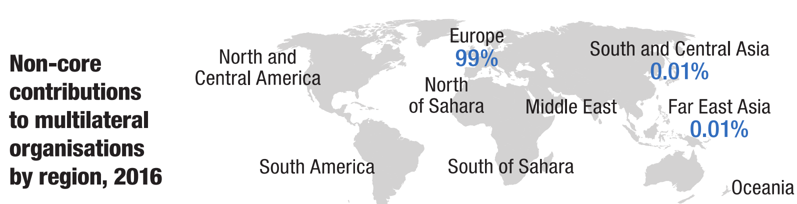
GREECE, use of the multilateral development system











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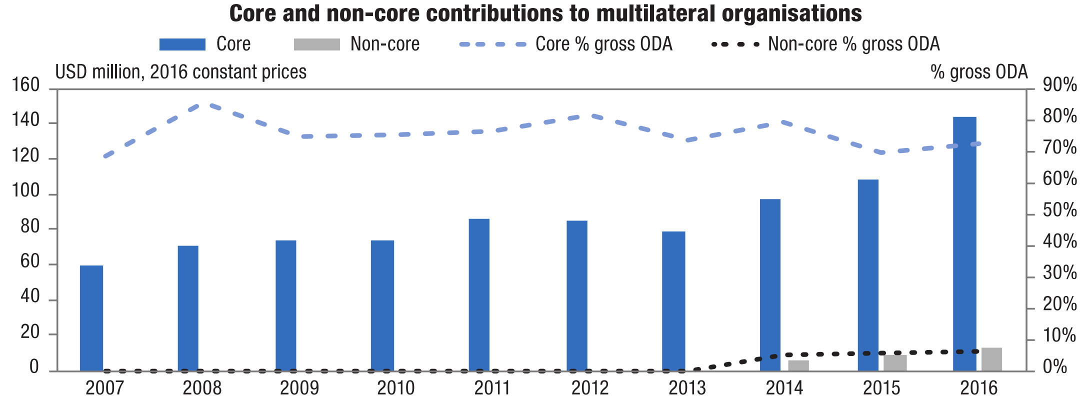
HUNGARY, use of the multilateral development system

Core and non-core contributions to multilateral organisations



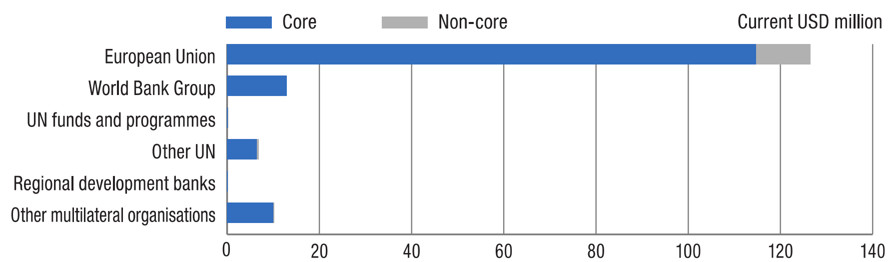
Top 5 sectors of non-core contributions, 2016

97%
Multi-sector

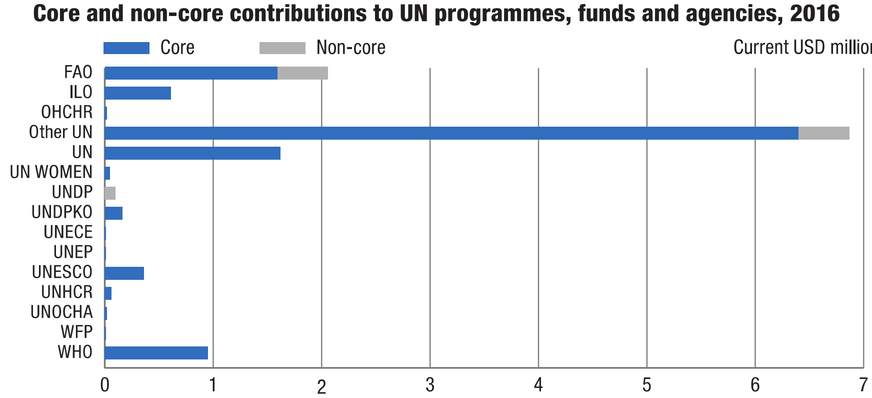
3%
Government and civil society

0.02%
Water supply and sanitation

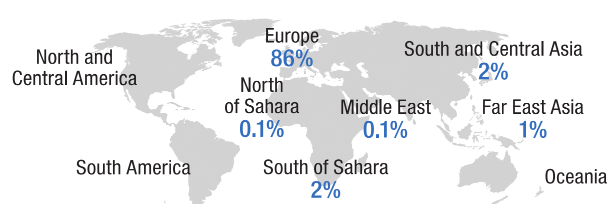
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



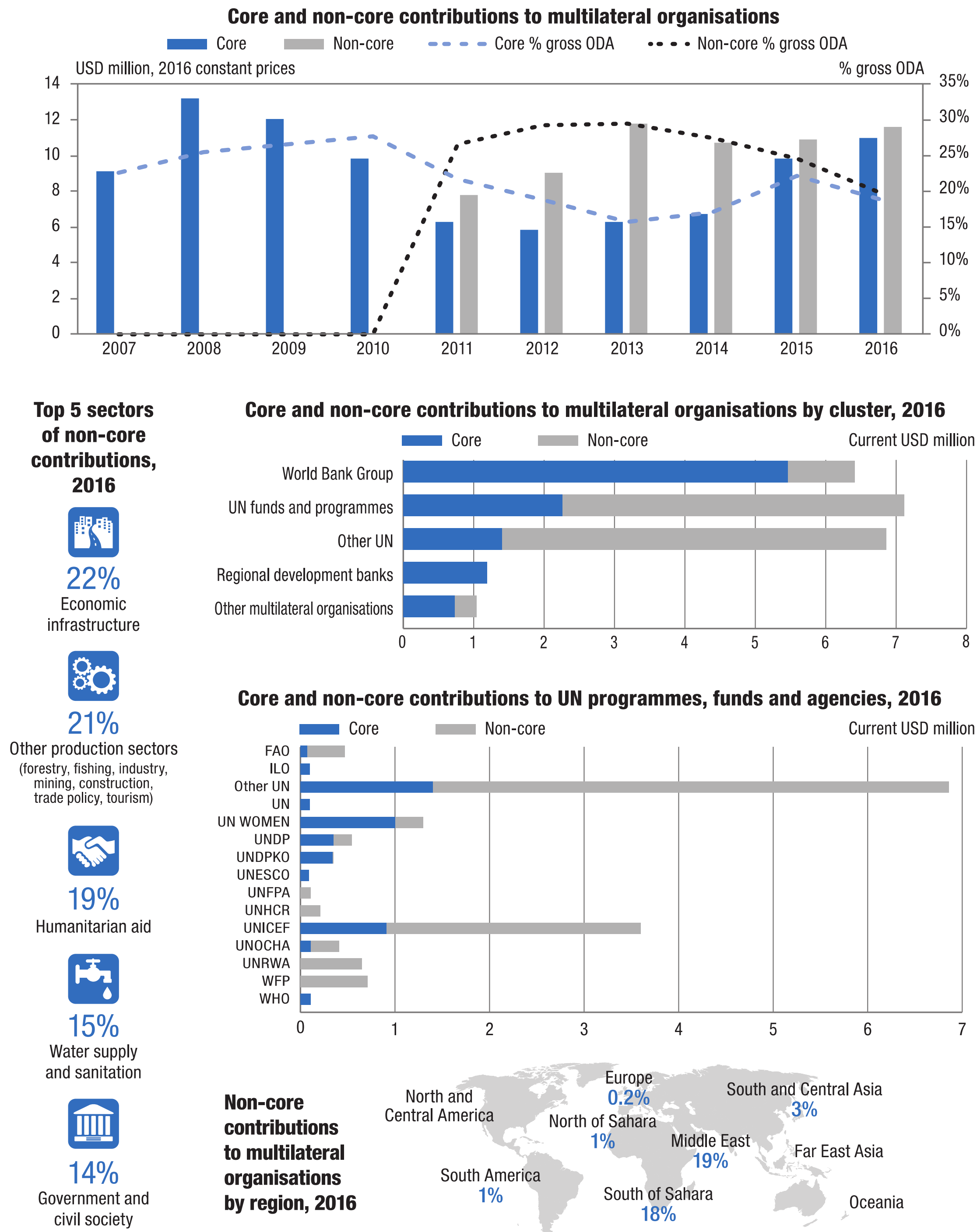
Non-core contributions to multilateral organisations by region, 2016



Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933875739

ICELAND, use of the multilateral development system

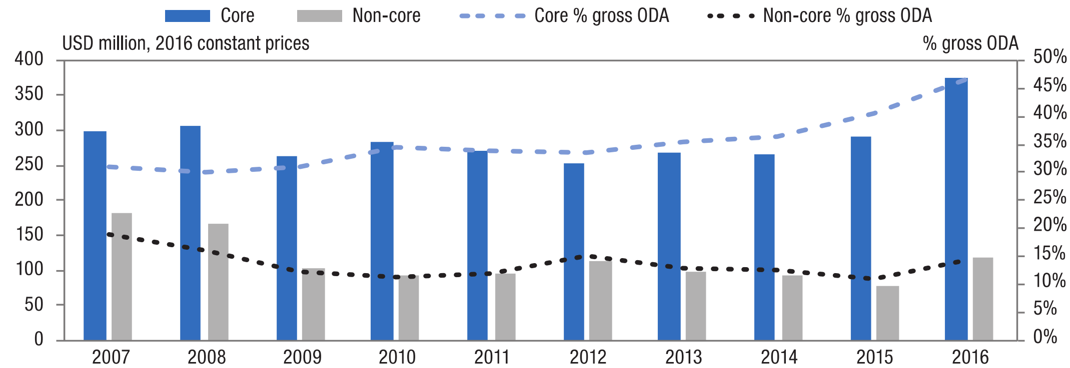


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933875758

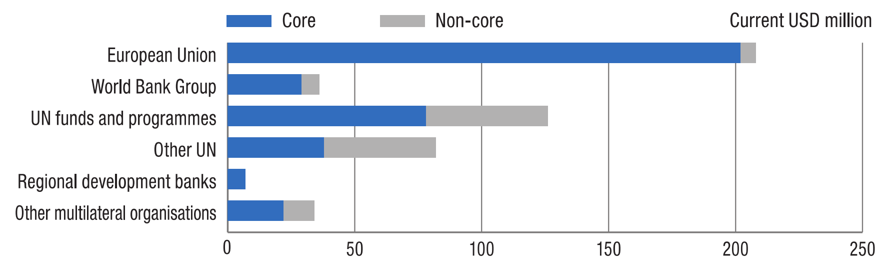
IRELAND, use of the multilateral development system

Core and non-core contributions to multilateral organisations

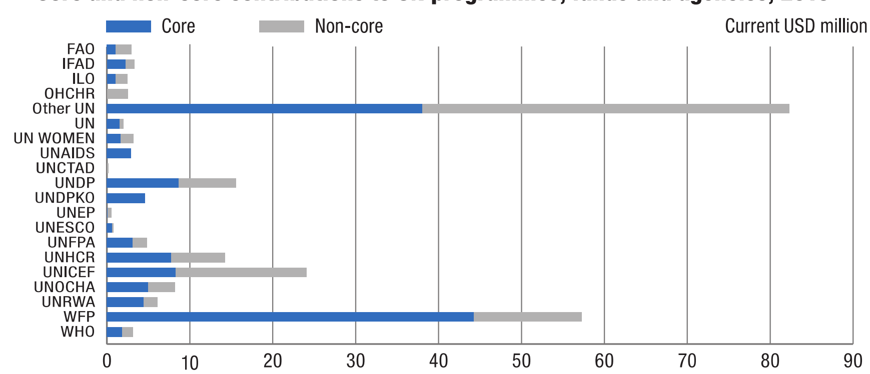


Top 5 sectors of non-core contributions, 2016

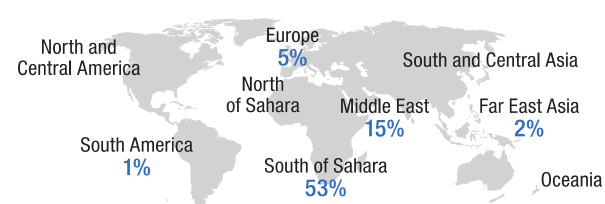
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016

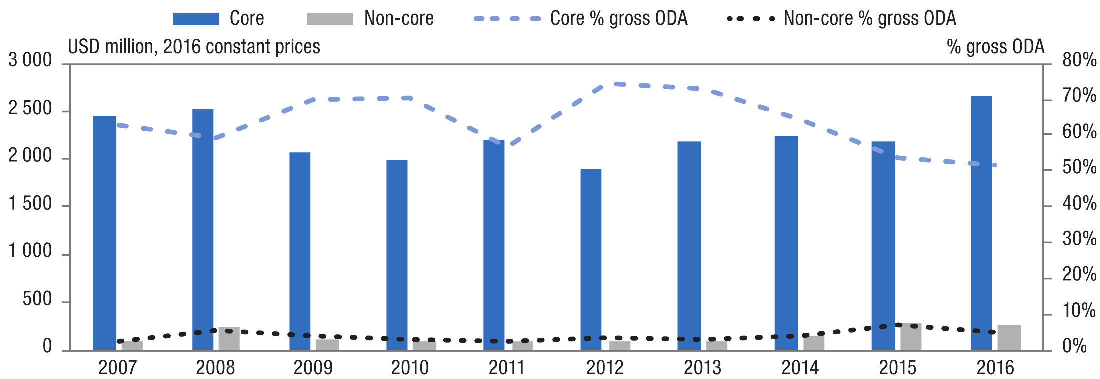


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933875777

ITALY, use of the multilateral development system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2016

45%
Humanitarian aid

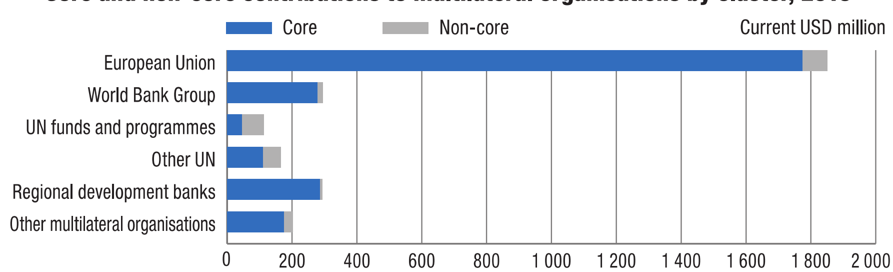
23%
Government and civil society

6%
Education

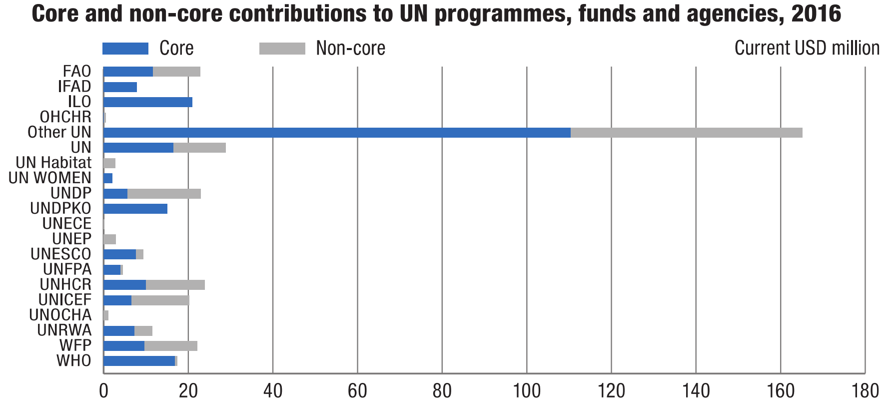
6%
Other social infrastructure

5%
Multi-sector

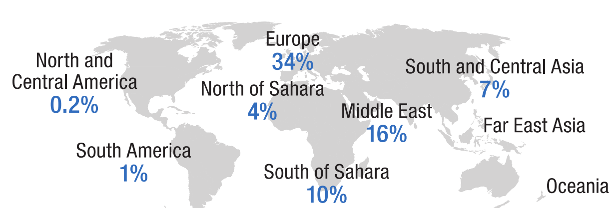
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



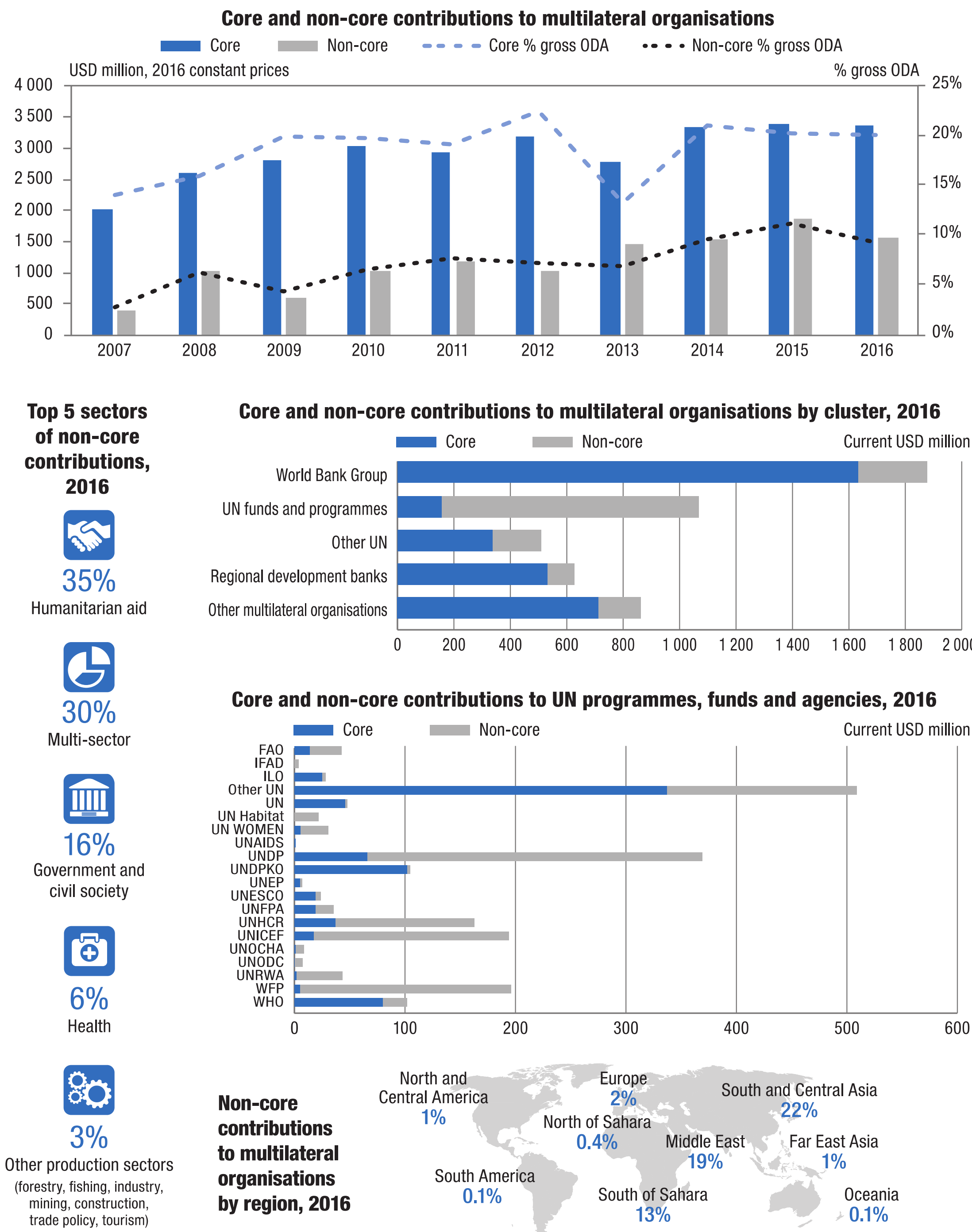
Non-core contributions to multilateral organisations by region, 2016



Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933875796

JAPAN, use of the multilateral development system



Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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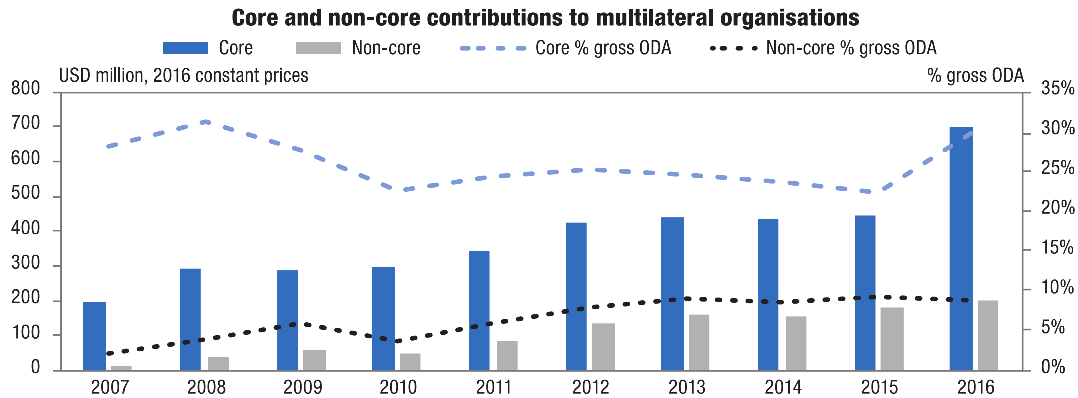
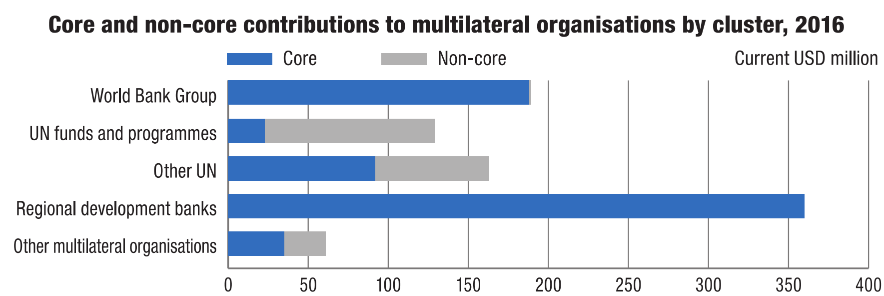
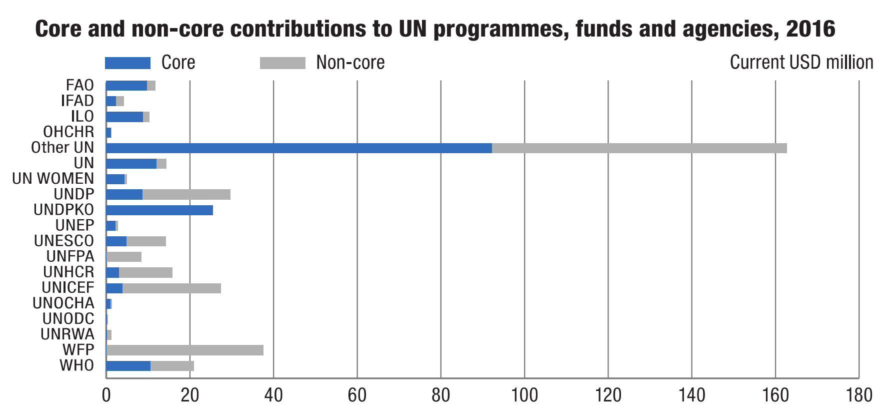
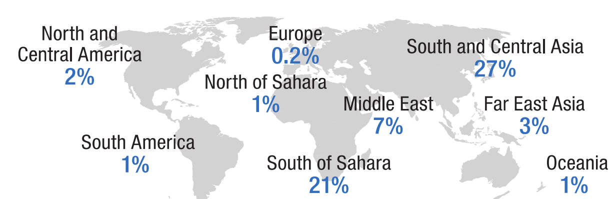
KOREA, use of the multilateral development system







Non-core contributions to multilateral organisations by region, 2016



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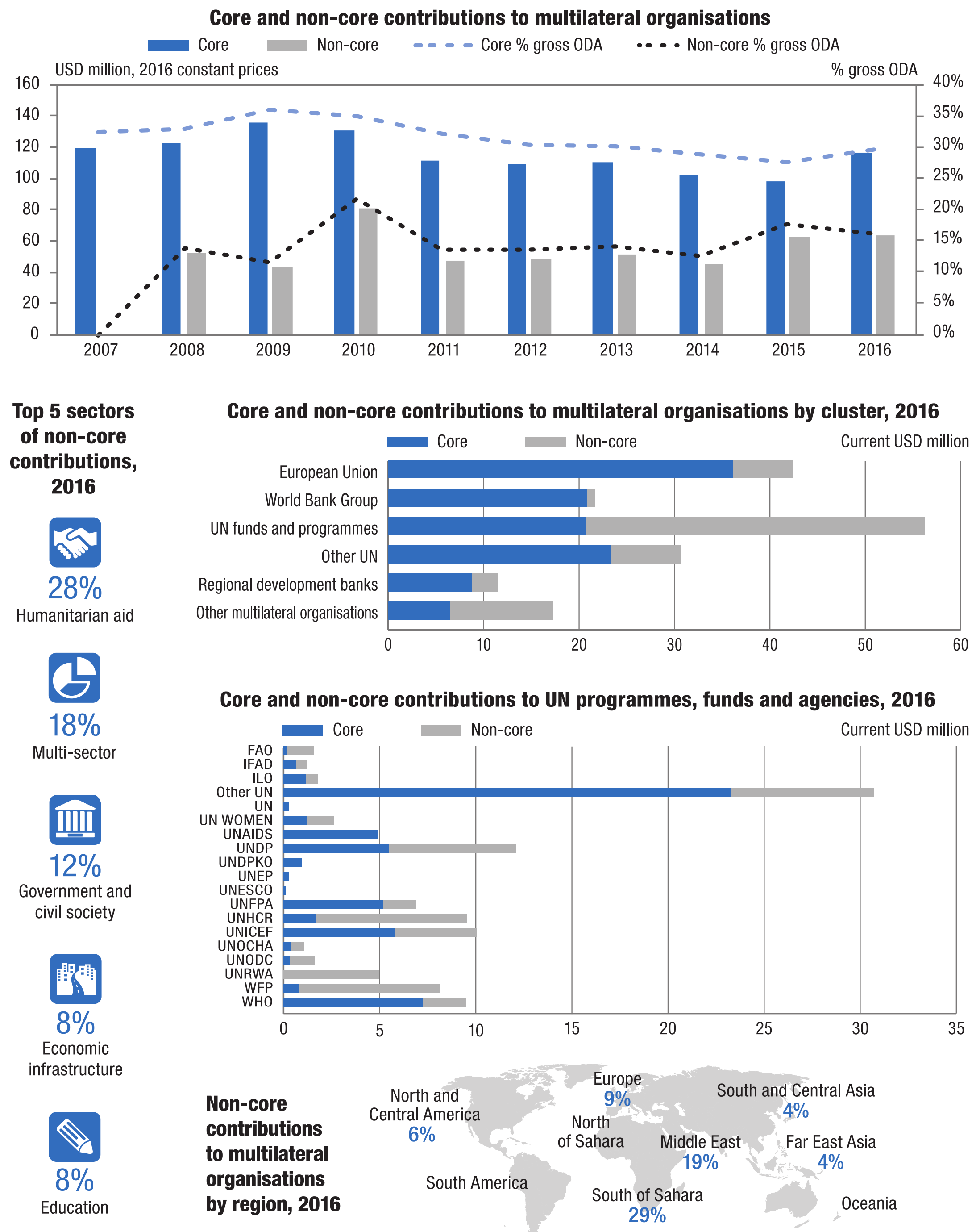
LUXEMBOURG, use of the multilateral development system



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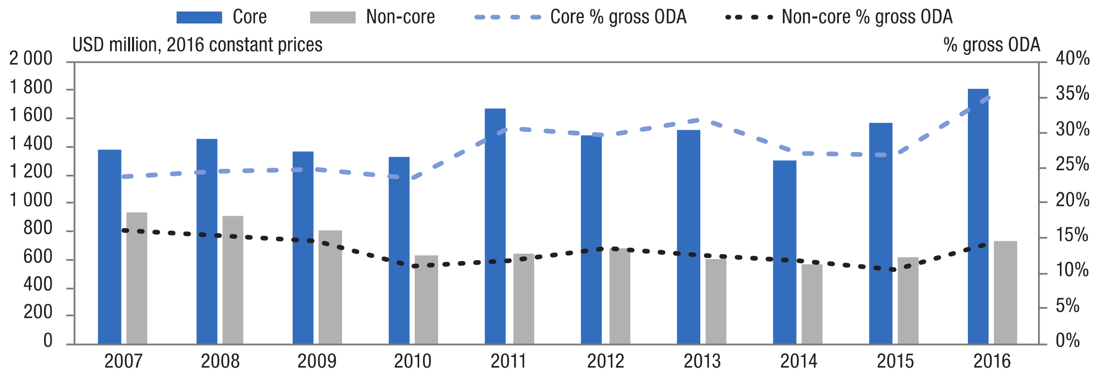
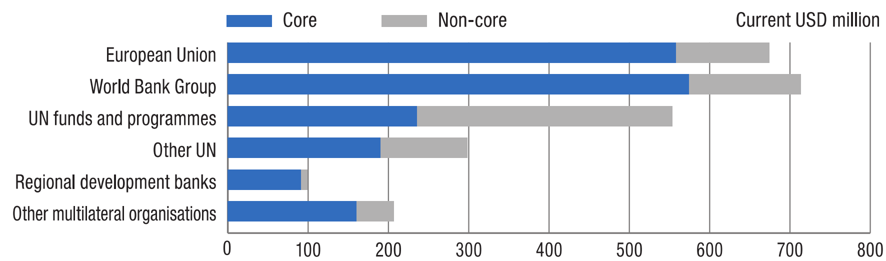
NETHERLANDS, use of the multilateral development system

Core and non-core contributions to multilateral organisations

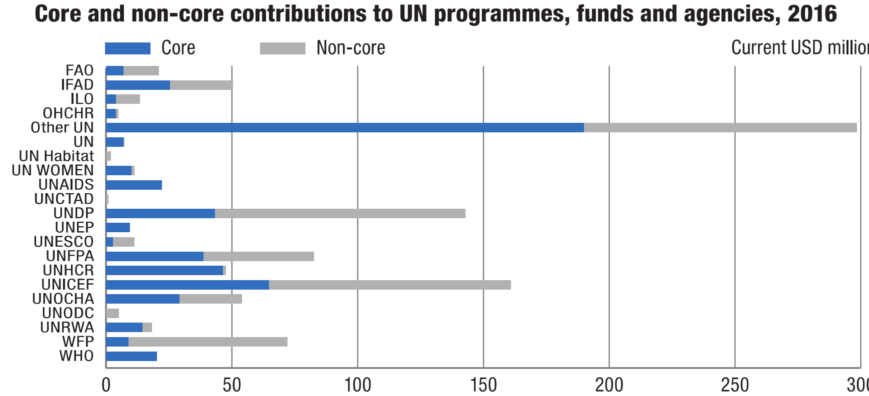


Top 5 sectors of non-core contributions, 2016

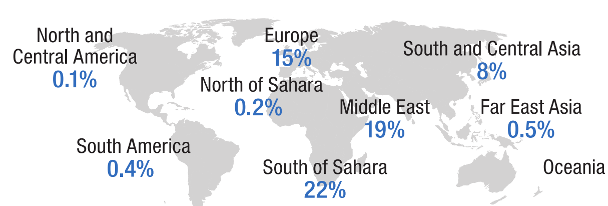
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016



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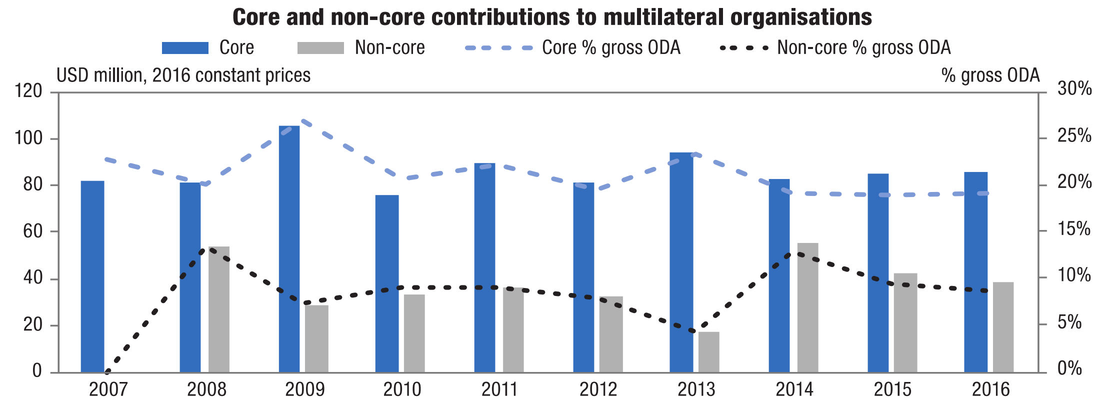
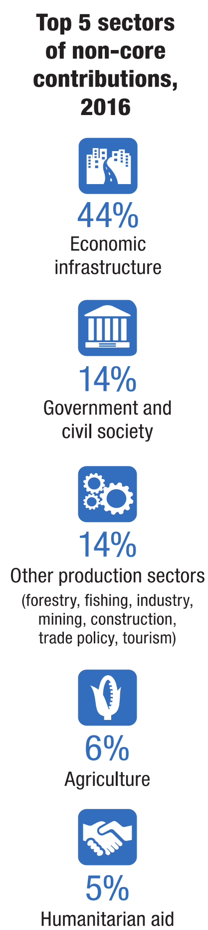
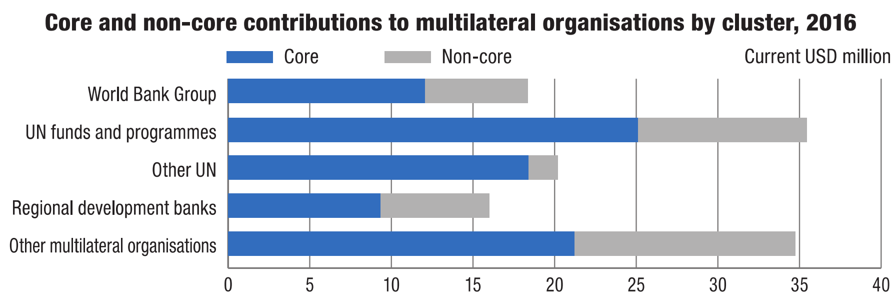
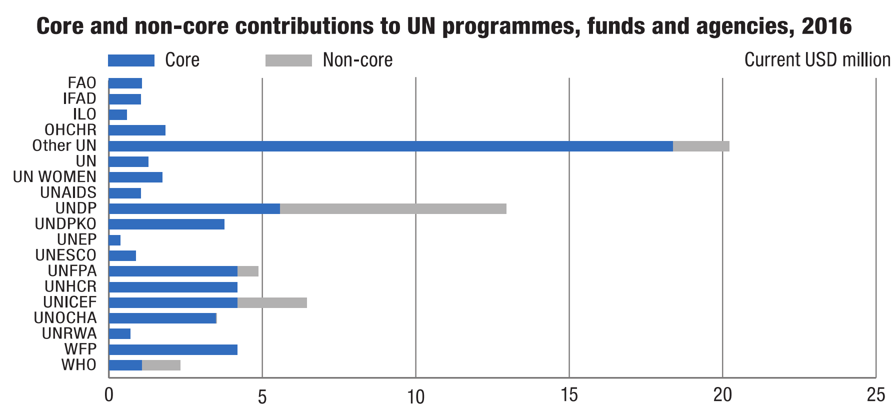
NEW ZEALAND, use of the multilateral development system

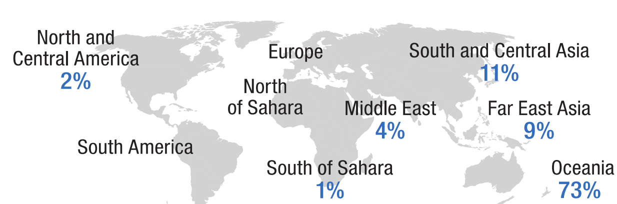








Non-core contributions to multilateral organisations by region, 2016



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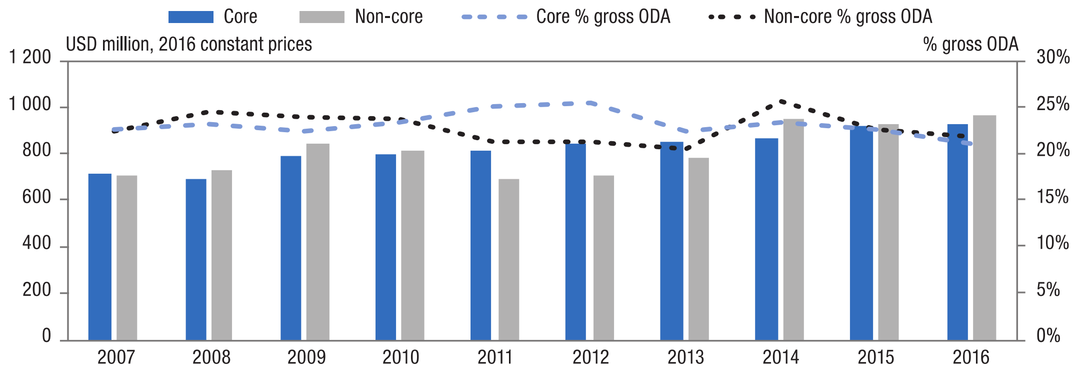
NORWAY, use of the multilateral development system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2016

23%
Education

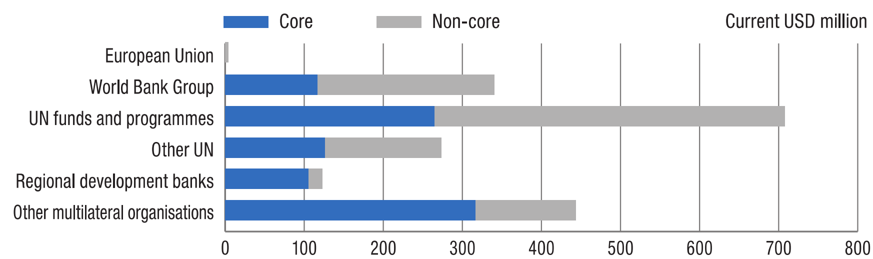
20%
Humanitarian aid

13%
Environment

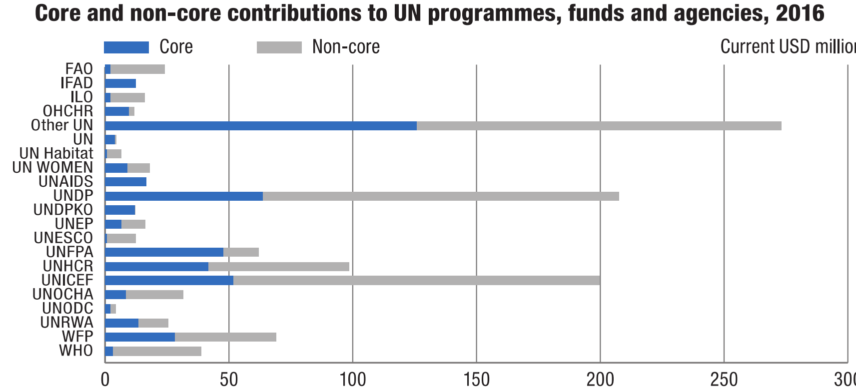
13%
Health

12%
Government and civil society

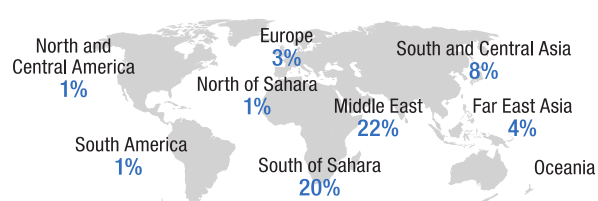
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016



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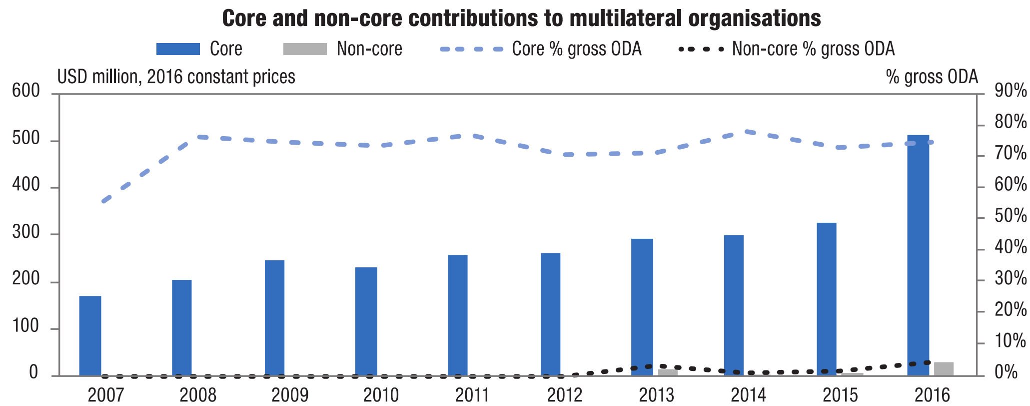
POLAND, use of the multilateral development system



Top 5 sectors of non-core contributions, 2016

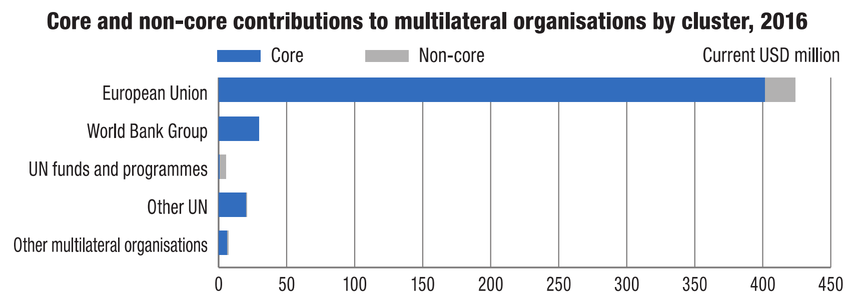
87%
Humanitarian aid

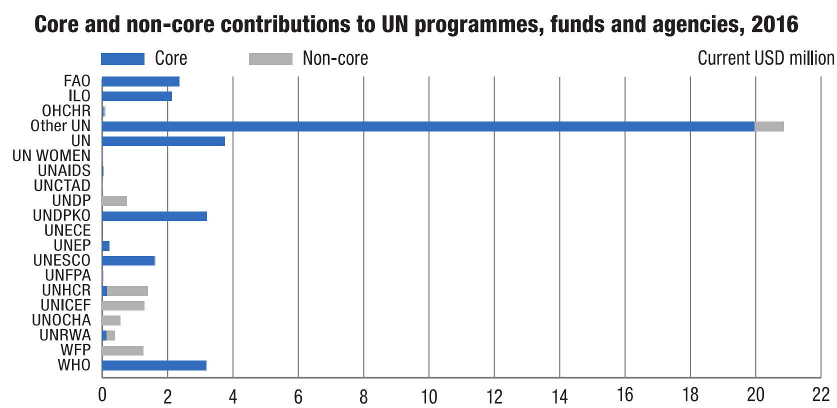
4%
Government and civil society

4%
Other social infrastructure

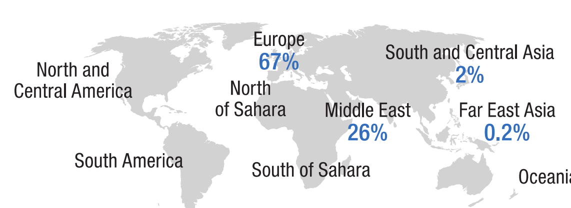
3%
Economic infrastructure

1%
Multi-sector





Non-core contributions to multilateral organisations by region, 2016



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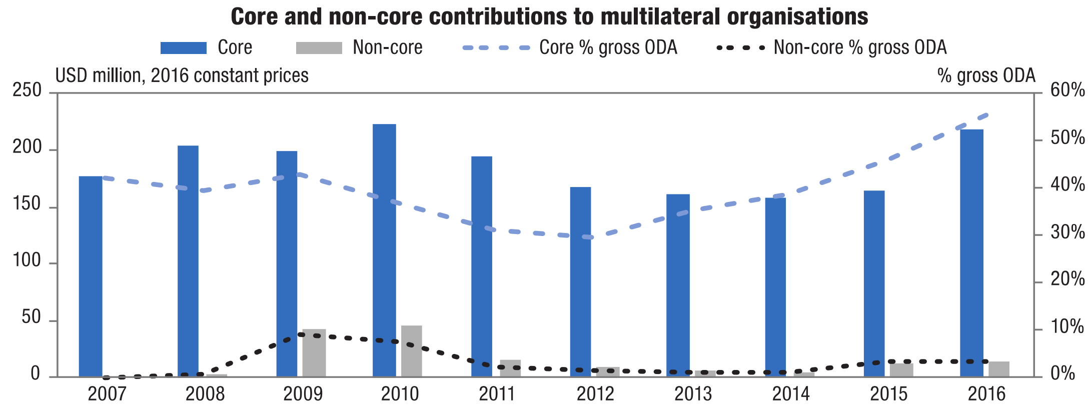
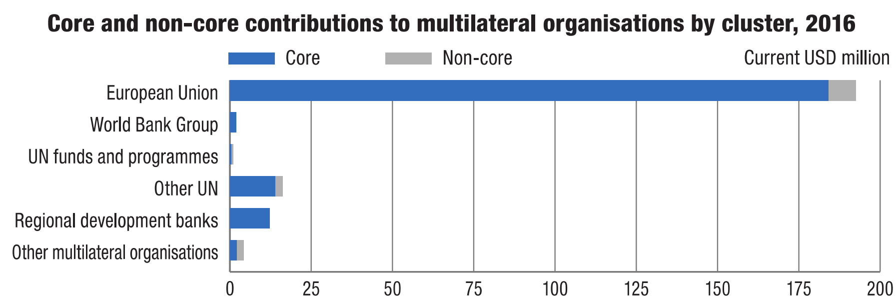
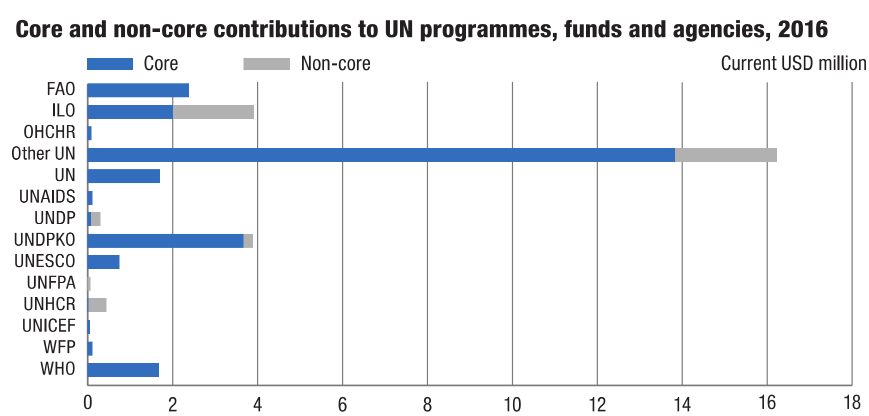
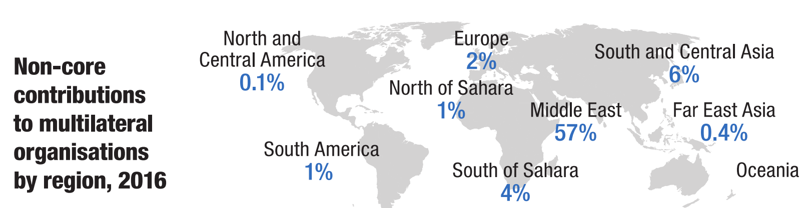
StatLink https://doi.org/10.1787/888933875929

PORTUGAL, use of the multilateral development system







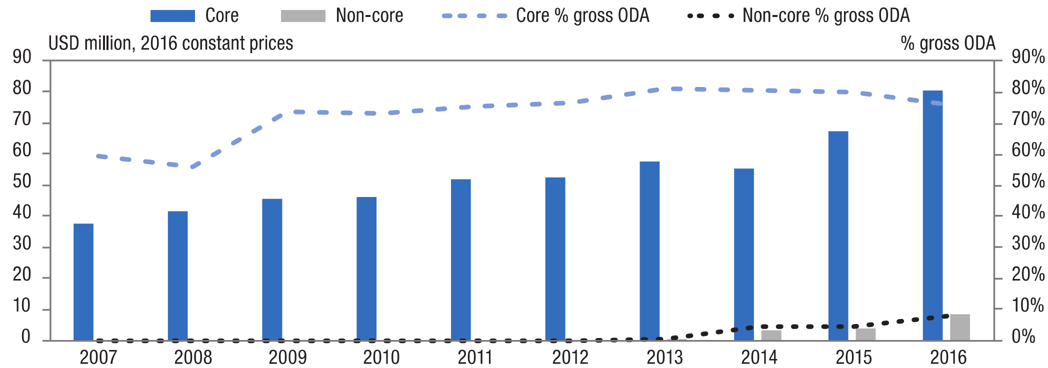


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933875948

SLOVAK REPUBLIC, use of the multilateral development system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2016

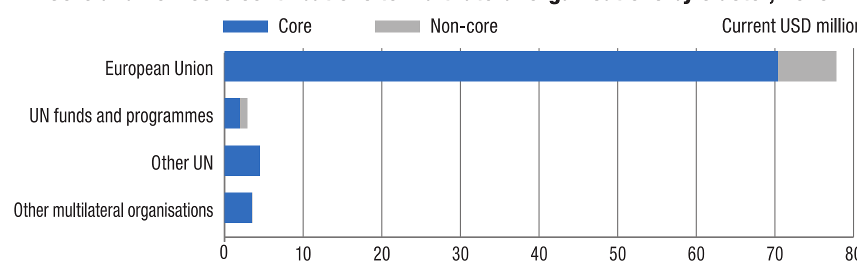
88%
Multi-sector

8%
Government and civil society

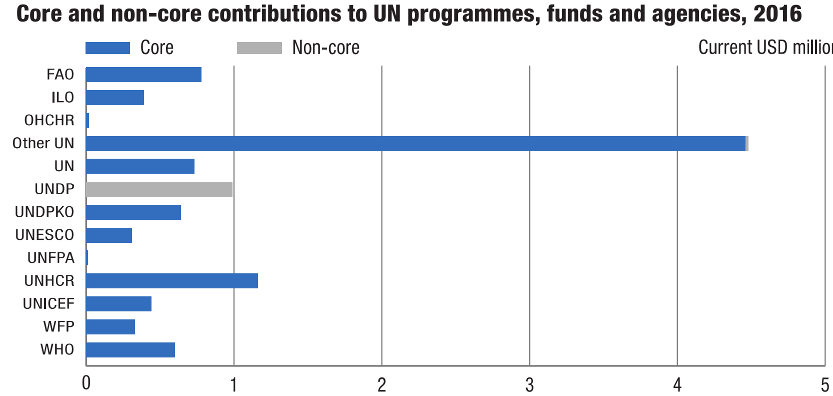
3%
Education

2%
Economic infrastructure

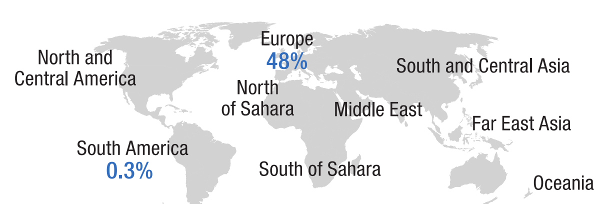
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016

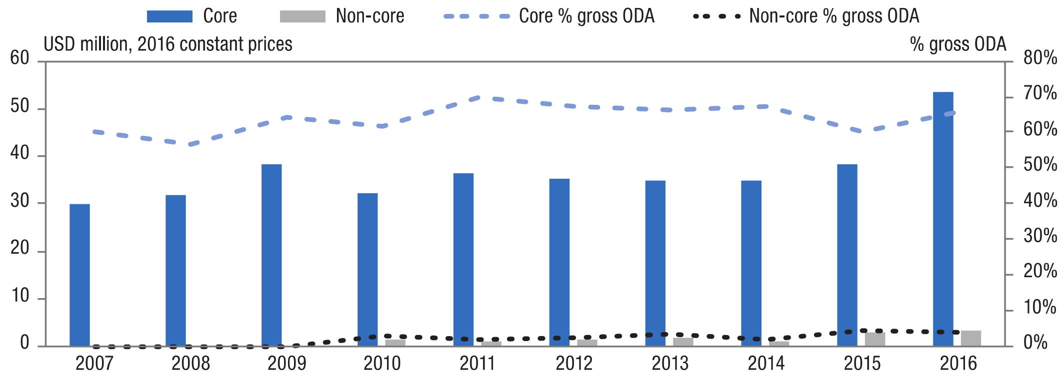


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

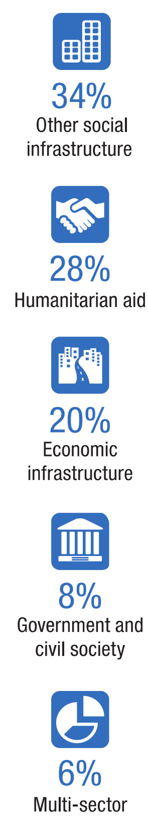
StatLink https://doi.org/10.1787/888933875967

SLOVENIA, use of the multilateral development system

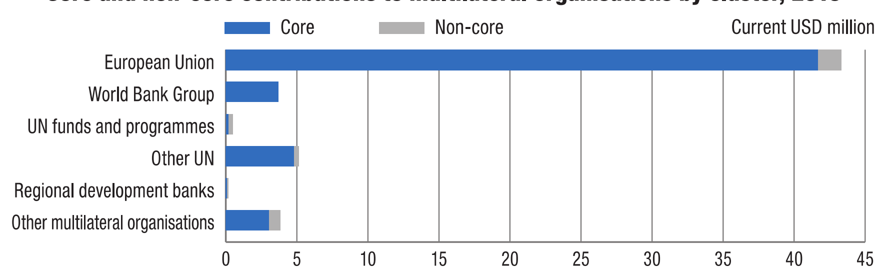
Core and non-core contributions to multilateral organisations



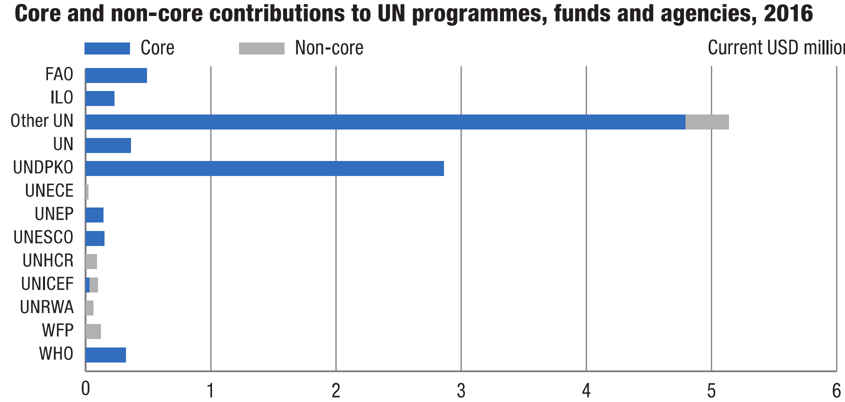
Top 5 sectors of non-core contributions, 2016



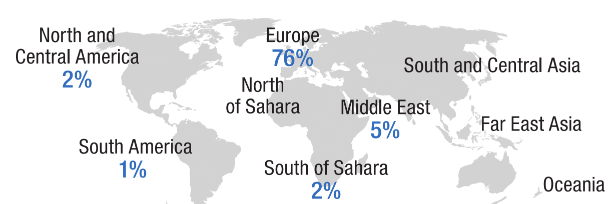
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016

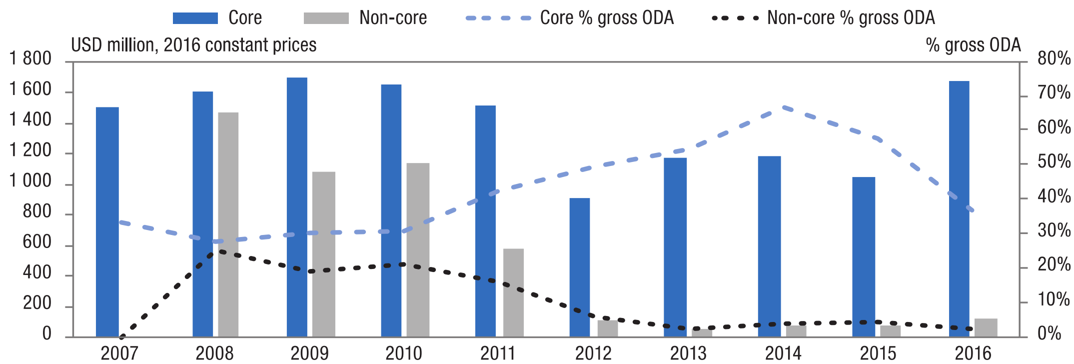


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

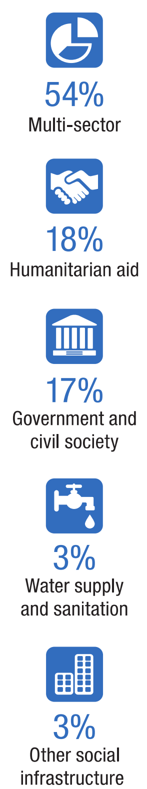
StatLink https://doi.org/10.1787/888933875986

SPAIN, use of the multilateral development system

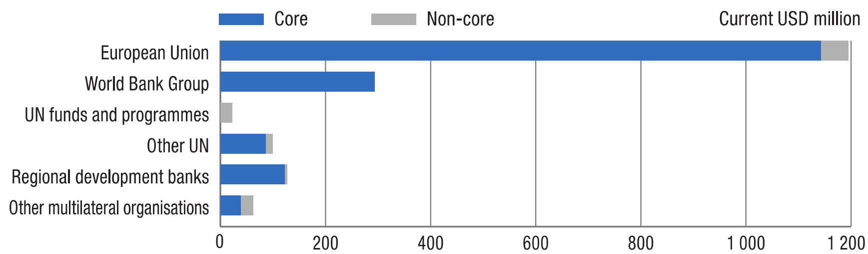
Core and non-core contributions to multilateral organisations



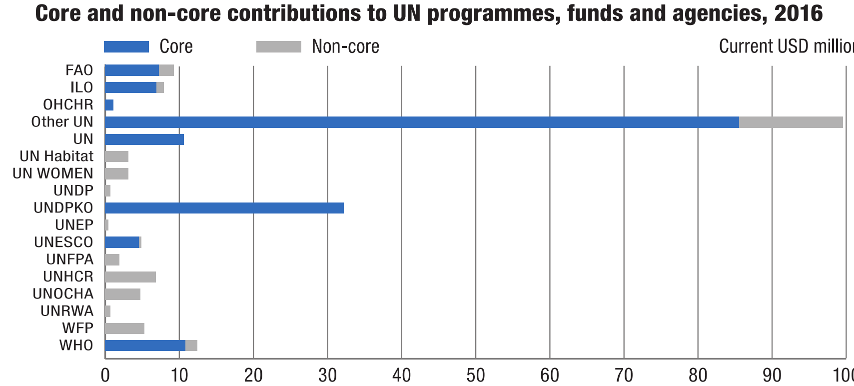
Top 5 sectors of non-core contributions, 2016



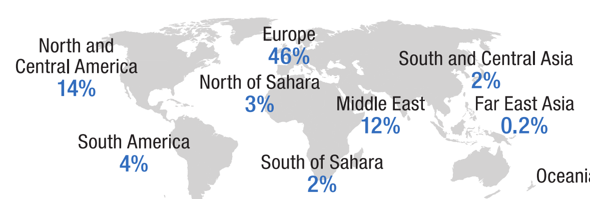
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016

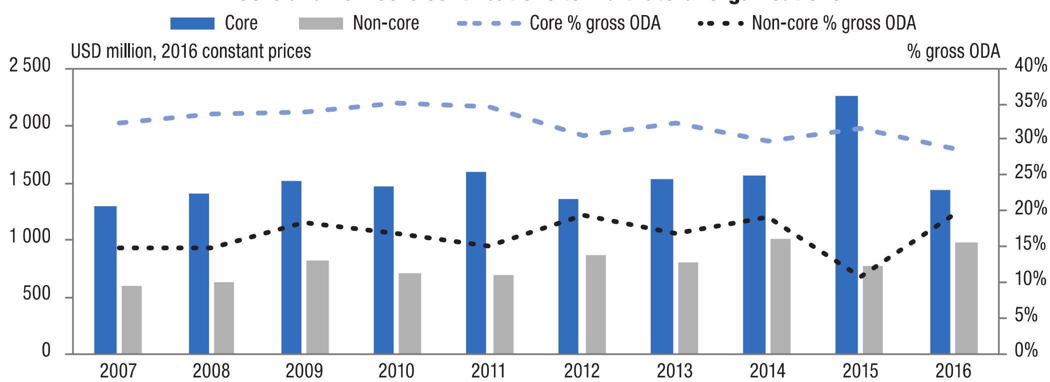


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933876005

SWEDEN, use of the multilateral development system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2016

25%
Humanitarian aid

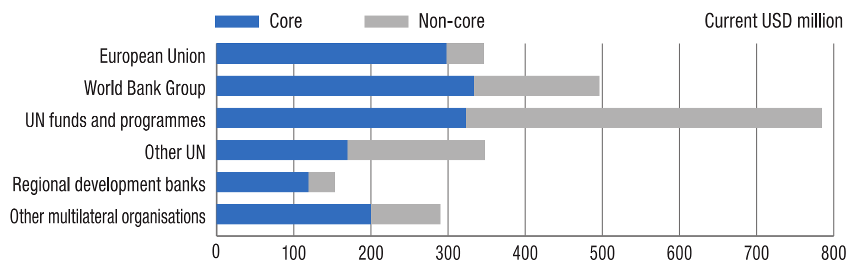
24%
Government and civil society

15%
Multi-sector

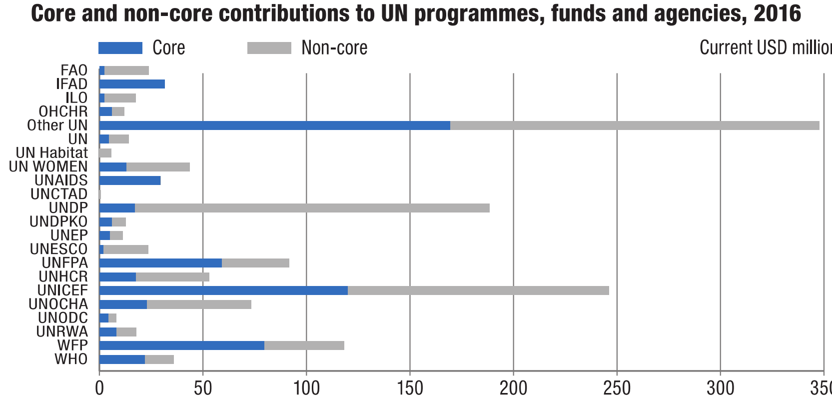
6%
Education

6%
Population policies and reproductive health

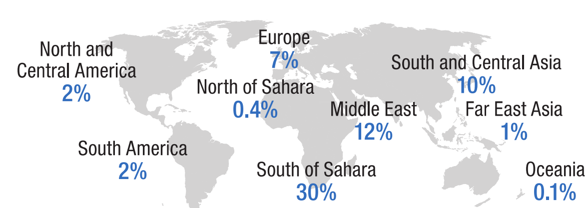
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016

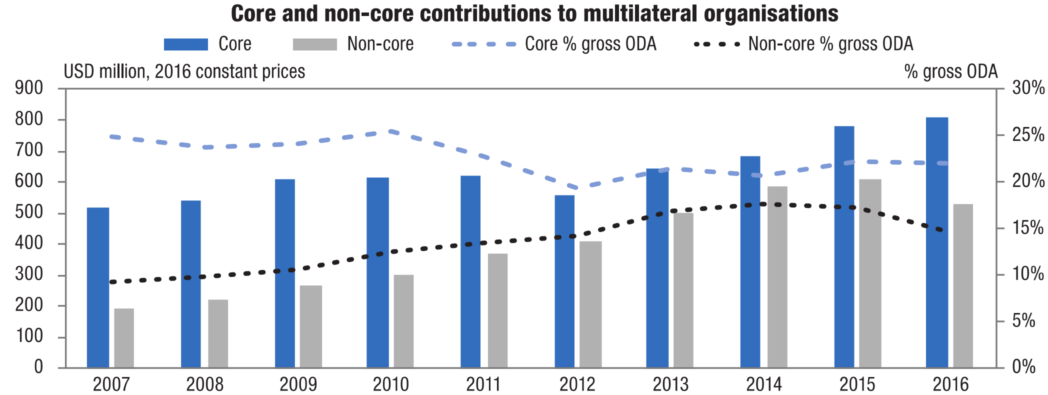


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

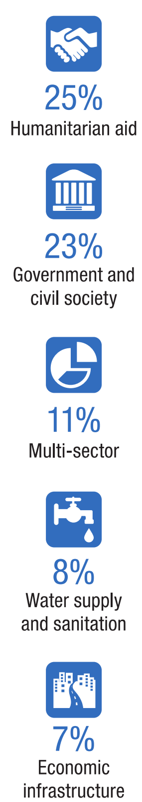
StatLink https://doi.org/10.1787/888933876024

SWITZERLAND, use of the multilateral development system

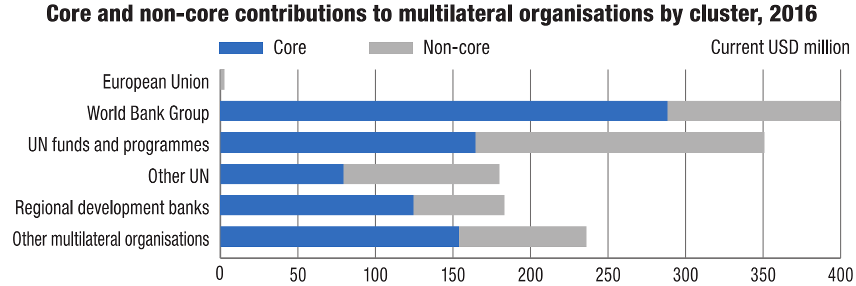
Core and non-core contributions to multilateral organisations



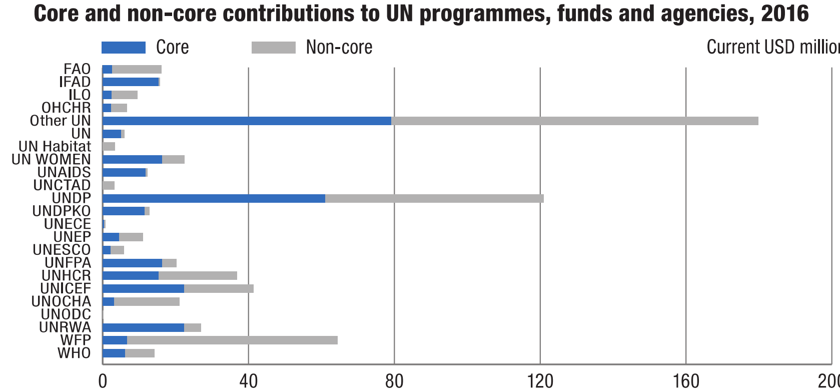
Top 5 sectors of non-core contributions, 2016



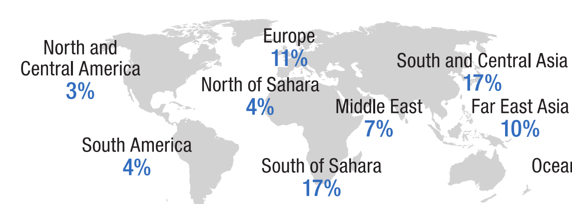
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016



Source: Authors' calculations based on (OECD, 2018[1]), “Creditor Reporting System” (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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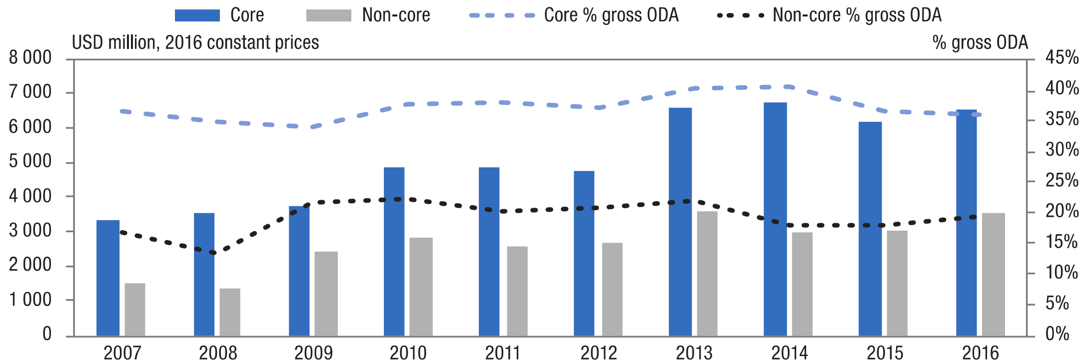
UNITED KINGDOM, use of the multilateral development system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2016

30%
Humanitarian aid

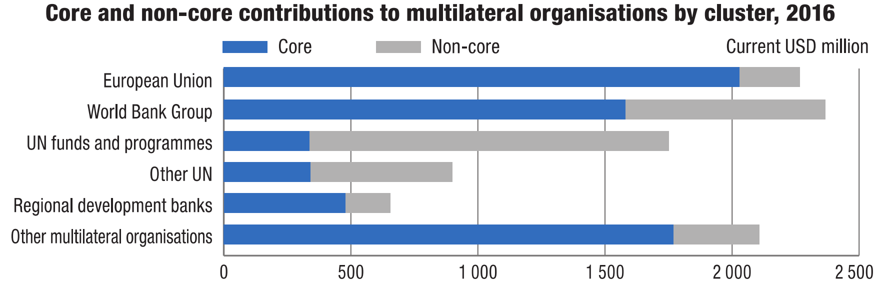
14%
Government and civil society

11%
Education

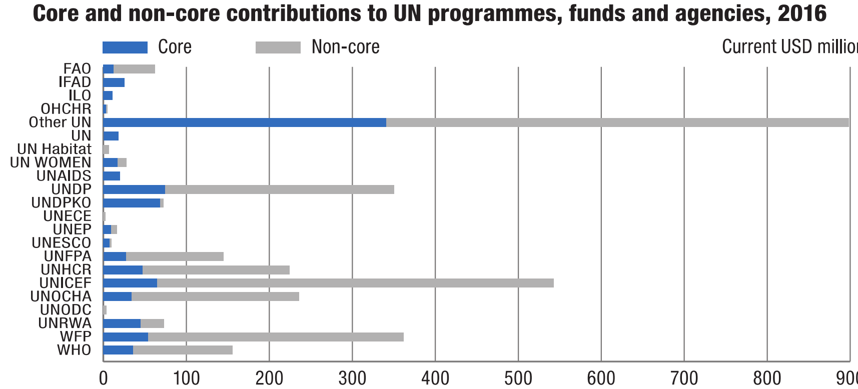
10%
Economic infrastructure

7%
Health

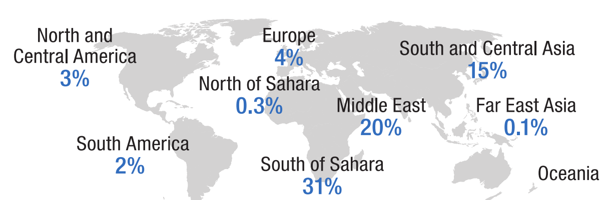
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016

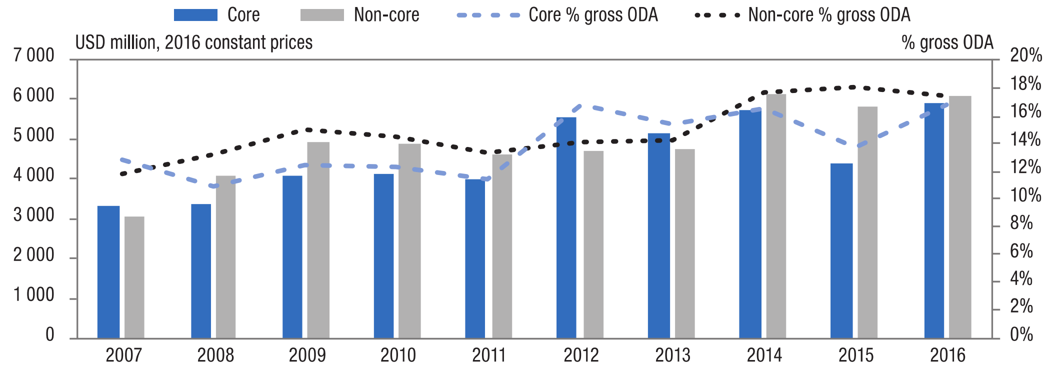


Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://doi.org/10.1787/888933876062

UNITED STATES, use of the multilateral development system

Core and non-core contributions to multilateral organisations



Top 5 sectors of non-core contributions, 2016

65%
Humanitarian aid

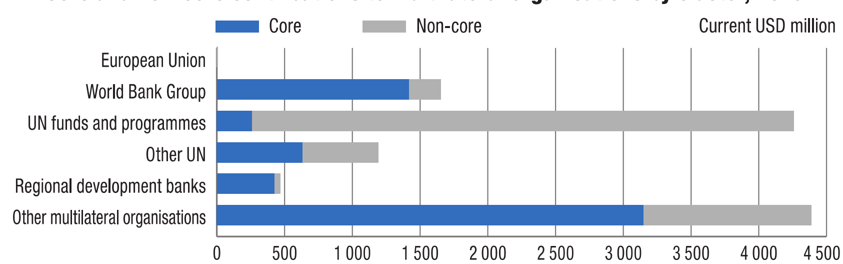
9%
Government and civil society

5%
Education

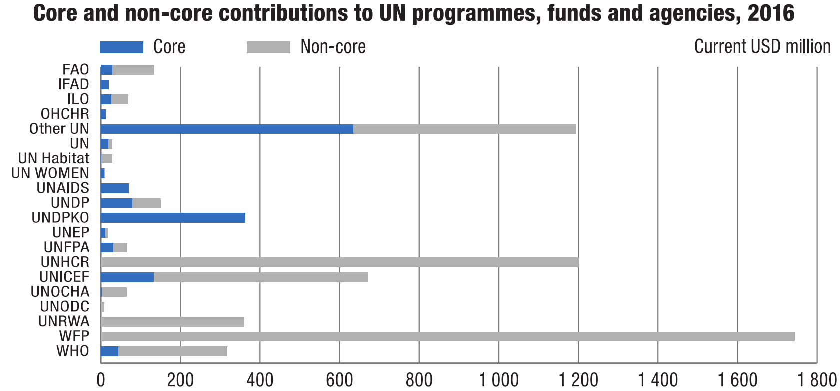
5%
Agriculture

4%
Health

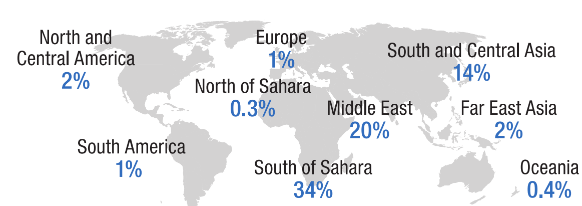
Core and non-core contributions to multilateral organisations by cluster, 2016



Core and non-core contributions to UN programmes, funds and agencies, 2016



Non-core contributions to multilateral organisations by region, 2016



Source: Authors' calculations based on (OECD, 2018[1]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Multilateral Development Finance

TOWARDS A NEW PACT ON MULTILATERALISM TO ACHIEVE THE 2030 AGENDA TOGETHER

This report contributes to the broader international debate on why we need multilateralism and how to make it more effective to achieve the 2030 Agenda. At a time when the value of multilateralism is being questioned, the report provides new evidence and recommendations for a new "pact" on multilateralism. This pact would be founded on recognition of the mutual responsibility of sovereign states and multilateral institutions to create a stronger, more effective multilateral system.

The report offers a detailed overview of official development assistance (ODA) spending through the multilateral system. This year's edition introduces three innovations. First, it examines the growing role of China, other sovereign states, philanthropy and the private sector as funders of multilateral organisations. Second, it analyses concessional and non-concessional spending by multilateral institutions, and discusses how multilateral action needs to adapt to the new development agenda. Third, it presents a new multi-dimensional metrics to measure the quality of multilateral funding, using financing to the World Health Organisation as a case study. Building on this evidence, the report outlines policy recommendations that provide a sound basis for principles of good multilateral donorship to deliver on the 2030 Agenda.

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