CHAPTER TWO

Ownership in the Multilateral Development-Finance Non-System

ABSTRACT

The complexity of the international development-finance architecture is evolving as new actors and instruments enter the arena. This throws into question the capacity of aid to deliver development. This chapter highlights the current disorder and inconsistencies in the multilateral development finance system and the associated challenges: duplication, mission creep, loss of leverage and the heavy burden put on recipient-country administrations. To promote effective and democratic ownership of development finance, it identifies avenues for reform of the current system. It suggests streamlining the multilateral division of labour and country-based delegated co-operation arrangements.

Helmut Reisen

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INTRODUCTION

The international development-finance system has become highly complex. New actors, both public and private, have emerged as important sources of finance. Traditional donors have begun using new financing instruments to deliver their aid. The goals of development assistance — already numerous — have broadened to include global and regional public goods. One would like to think that the international aid architecture is an orderly process guided by simple principles, but the trends clearly show that we have a *non-system*. Unlike some of its elements (such as the Bretton Woods sister organisations), this non-system does not result from coherent design, but is a child of spontaneous disorder. Increasing complexity throws into question the capacity of the aid system to deliver development.

Policy makers from both donor and recipient countries look for guidance on how to deal with this complexity. The evolving multilateral system and its ability to deliver results deeply concern them. The channelling of Official Development Assistance (ODA) resources to multilateral institutions and their experts from developed countries may stand in the way of a system truly led by recipient countries, as vested interests within the donor community become cemented through the scaling-up of resources. For example, suggestions from political leaders (such as the G8) to increase aid efficiency tend to refer to instruments such as the IMF/IDA Debt Sustainability Framework (DSF) that are owned by the international organisations and not by the recipient countries. In view of such palliatives, two questions arise. How can democratic ownership of development finance be strengthened? How can the international development finance architecture truly be reformed to make it effective in promoting development?

To prepare some ground for answering these questions, this Chapter highlights three key trends: the international proliferation of official donors; the creation of new financing instruments and channels; and the emergence, or re-emergence, of new official donors. The Chapter also draws attention to some of the symptoms and challenges associated with the complexity of international development finance. It documents the phenomenon of duplication and mission creep among multilateral agencies. It points to the weakening of traditional multilateral agencies and their loss of leverage as a result of recent trends in international development finance. It highlights the burden of complexity for recipient country administrations. Finally, it identifies some avenues for reform of the architecture, focusing on streamlining the multilateral division of labour and on a blueprint for country-based delegated co-operation arrangements.

An Increasingly Complex International Development Finance System

The international development finance system, or "non-system", is clearly becoming more complex. This disharmony stems from the international proliferation of official donors, the creation of new financing instruments and channels, the entry

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(or re-entry) of new official donors, and the emergence of global public goods as a new goal for the international development architecture.

International donor proliferation

Any look at the international aid architecture must begin with the OECD Development Assistance Committee (DAC) Creditor Reporting System (CRS), which gives an overview of ODA-eligible institutions. Table 2.1. lists the categories of ODA channels used by the CRS. Using these categories as a base reveals an official aid architecture that includes:

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

Table 2.1. ODA-Eligible Institutions

Broad Category of Channel	Name of Category
Government	Donor government/ Extending agency Recipient government
NGO	NGO – in donor/third country NGO – in recipient country NGO – international
PPP	Private-Public Partnerships
Multilateral	Multilateral - UN Multilateral WB/IMF/Regional banks Multilateral – other
Private	Churches Foundations Universities/research institutes Enterprises Other
Other	Other

Source: The CRS Directives for ODA Reporting Instructions [DCD/DAC/STAT(2005)8].

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As will become clearer below, however, looking at the international development finance architecture requires a step beyond ODA eligibility. In recent years, this non-system has witnessed a strong, dynamic creation of both public and private

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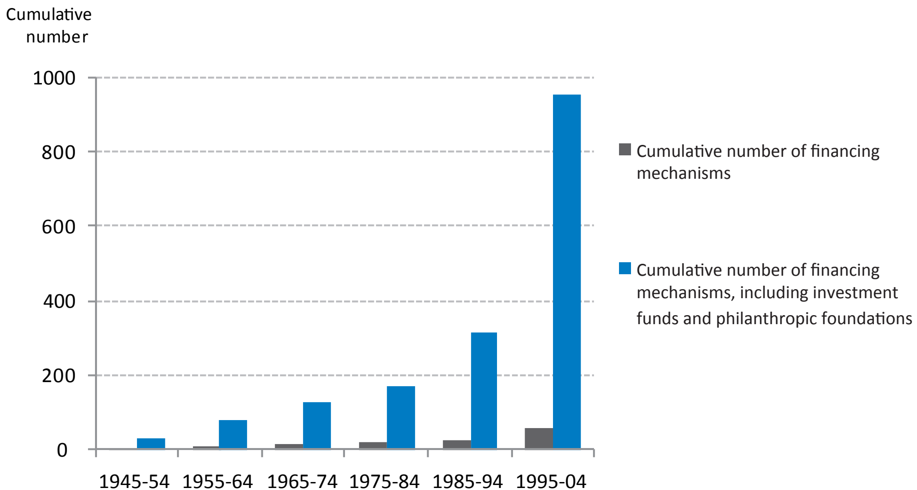
institutions financing development and public goods, but with virtually no exits. All in all, the UNDP counted 1 000 development finance mechanisms by 2004 (Figure 2.1.). These institutions, apart from the official bilateral and multilateral donor community collected in Table 2.1., comprise:

- *Emerging Official Donors and Lenders*, in particular China and the oil-rich countries;
- *Global Programmes*, also called sectoral or vertical funds, especially active in health (e.g. the Global Fund to Fight Aids, Tuberculosis and Malaria(GFATM)), in environment (e.g. the Global Environment Facility(GEF)) and education (e.g. the Education for All Fast Track Initiative);
- *Non-Governmental Organisations* (NGOs), on the international level (such as Red Cross International), with Northern origins or based in the developing countries themselves;
- *Private Philanthropy and Transfers*, such as the Bill and Melinda Gates Foundation and the private remittances from migrants back to their home countries; and
- *Private Capital Flows*, in particular foreign direct investment and other participatory direct finance through firms and funds, portfolio flows through stock and bond purchases, and lending through commercial banks and export credit agencies.

Figure 2.1. Cumulative Number of Development Financing Mechanisms*



Notes: *denotes official international financing mechanisms to finance global public policy goals.

Source: Kaul and Conceicao (2006).

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The growing role of non-traditional donors, the recent proliferation of sectoral or vertical funds and the expansion of private foundations bring needed resources as well as new ideas, expertise and approaches. Yet this expanding number of actors, mostly of Northern origin, also focuses attention on the fragmentation of aid and possible loss of efficiency. The donor community must come to terms with the need to co-ordinate a growing number of players in country-level aid efforts.

Ownership and the Creation of New Instruments and Aid Channels

Debt relief as a major vehicle for ODA

Recipient countries have to deal not only with more donors, but with more aid channels as well. In spring 2005, the World Bank and International Monetary Fund (IMF) implemented a new Debt Sustainability Framework (DSF) in Low-Income Countries, which seeks to provide guidance on new lending to low-income countries whose main source of financing is official loans. They have developed the framework to monitor better and prevent the accumulation of unsustainable debt in the wake of the Highly Indebted Poor Country (HIPC) initiative and the Multilateral Debt Reduction Initiative (MDRI). Debt relief under the HIPC framework and the MDRI has reduced the debt stock of post-decision-point HIPCs by an estimated $96 billion in end-2006 net-present-value (NPV) terms. Debt relief by DAC donors (China, for example, does not count debt relief as aid) has been an important part of measured ODA, but the way beneficiaries are selected and subsequent IDA resources are allocated stand in the way of generating policy ownership in low-income countries.

The DSF has two pillars. First, IDA lending is now informed by criteria developed within the Country Policy and Institutional Assessment (CPIA) approach; this gives rise to a traffic-light system that combines actual debt burdens and CPIA-dependent thresholds into a ranking of countries according to categories of debt distress. Second, the IMF and the World Bank have put in place a standardised debt-sustainability assessment (DSA) procedure to assess debt-burden indicators over time (20 years) and under alternative scenarios. The DSF is not the right framework to help low-income countries own their development policies. It is pegged to governance indicators subject to criticism and at odds with others. Analyses of debt sustainability have to be based on broader determinants, namely those that drive endogenous debt dynamics (such as growth and currency effects), than those used under the DSF. The DSF has to integrate the growth effects of new lending in order to escape its current anti-lending bias.

The World Bank's Country Policy and Institutional Assessment (CPIA) index suffers from many serious shortcomings (Arndt and Oman, 2006), indirectly undermining the validity of the DSF. Most compilers produce composite indicators that lack transparency in themselves. The scoring criteria are opaque because of the diversity and large number of underlying indicators they embody. The underlying conceptual framework — the meaning of governance — remains unclear, so there is lack of clarity about how the scores are finally arrived at. To make the CPIA

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the dominant factor in the IDA allocation has been heavily criticised, because the CPIA-centred allocation of aid fails to introduce an incentives structure supportive of a genuine donor-recipient partnership, and the CPIA-dependent debt thresholds submit sustainability concerns to the policy-performance prerogatives of the aid allocation system (Nissanke and Ferrarini, 2007).

The emergence of global programmes

One of the most prominent discussions in the OECD Global Forum on Development has concerned the emergence of global programmes as important new financing mechanisms. These programmes, conceived as focused responses to global challenges that require collective action, have sprung up in the areas of health, environment, trade, finance and security. They include GFATM, GEF, the Global Alliance for Vaccines and Immunization (GAVI), the Education for All Fast Track Initiative (EFA FTI), and the Consultative Group on International Agricultural Research (CGIAR).

Their focus on a particular set of challenges, as opposed to a country-wide or sector-wide approach, means that most global funds fall into the category of "vertical funds". The key drivers behind the emergence of these funds have been the need for innovative approaches and new partners, particularly the private sector, to address specific problems. Proponents of the funds argue that the traditional aid system is ill-equipped to address emerging global issues with the necessary speed and scale. Global funds, on the other hand, can achieve economies of scale and contribute rapidly increasing levels of financing to deliver their services. They thus satisfy a desire for specific results on widely shared goals. Their focused approach can enhance learning and can sustain public understanding and support in donor countries for new development initiatives and the delivery of global public goods. Global funds are the right choice when:

- They generate global public goods — products, services or policy regimes at the global level, that is, their benefits, not just their activities, spill across national boundaries;
- They provide benefits that the members engaged in global partnerships could not deliver if they acted alone; and
- They provide additional financial and political resources whose benefits outweigh the increased management and financial burdens they place on the partners and developing countries they are intended to benefit.

Global programmes pose the risk of creating significant development gaps and distortions at the country level, however, particularly in countries with severe budget and skill constraints. They often compete with or turn to country assistance programmes for resources or attention. This is illustrated in some cases by important investments forgone, problems of sustainability and predictability of financial flows, high transaction costs, displacement of scarce qualified technical and managerial capacities and generally weak sectoral and national accountability and monitoring mechanisms.

Some have argued that the finance mobilised does not outweigh the added cost of resource mobilisation and programme organisation (Lele *et al.*, 2006).

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Although the share of these funds in total ODA is just above 3 per cent, several vertical funds (particularly in health and education) have became sufficiently large to dominate these sectors' public investment programme in several low-income countries, raising problems of ownership and strategic allocation of budget resources in the sectors.

The "Emergence" of New Official Donors

Over recent years, a number of emerging creditors have increased their aid and lending to low income countries (LICs). Sketchy evidence indicates that China has become by a large margin the largest creditor in this group[1]. In May 2007, finance ministers released the *G8 Action Plan for Good Financial Governance in Africa*, declaring to "commit to applying responsible practices in our lending decisions. To this end, we urge all borrowers and creditors to share information on their borrowing and lending practices. The *debt sustainability framework*, developed by the IMF and the World Bank, provides an important guiding tool for decisions on new borrowing and lending and we encourage its broad use by all borrowers and creditors as a way to prevent new lend-and-forgive cycles". The document carefully avoided naming and blaming specific countries, but it is no secret that China was on the finance ministers' minds.

Western governments worry that China may be undoing years of international efforts to rein in over-indebtedness in Africa, to reduce the continent's exposure to foreign currency-denominated debt and to encourage good governance by making loans conditional on political and economic reforms (for a presentation of the risks connected to bilateral non-DAC aid, see Manning, 2006); some accuse China of free riding on the development efforts deployed by the international community. By contrast, Africa's governments notably have generally welcomed China's engagement. Indeed, from an ownership perspective, two points need stress in this context:

- Allowing low-income countries to borrow again unleashed much-needed investment in infrastructure to boost economic capacity. Africa now benefits not only from a diversification of its client mix as a result of China's increased resource demand, but also from speedy delivery and competitive prices of infrastructure. Arguably, Africa benefits more from competition between major importers of its raw materials than from well-drafted standards, the credibility of which has not been boosted by Western companies' involvement in recent corruption scandals.
- China's loans (as well as the private financial markets) have lowered the demand for lending by the World Bank and the IMF. This has weakened the leverage that these organisations could exert on economic policies of their poor-country borrowers. Clearly, there is a risk that poor countries may move away from the mainstream advice at their own peril, but the demise of the Western donor cartel may also strengthen competition across economic-policy paradigms, with recipient countries free to choose. Ultimately, reform ownership and accountability may thus be strengthened.

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Moreover, a recent OECD Development Centre Study (Reisen and Ndoye, 2007) finds very little empirical evidence of "imprudent lending" to debt relief beneficiaries up to 2006. Their debt (service) ratios have declined below debt-distress levels set by the DSF, and there is even some evidence that the HIPC-only countries might now be underleveraged. Free riding by China on the debt relief granted through bilateral and multilateral initiatives is hardly visible. The major beneficiaries of new lending, mostly through official export credits (from both China and OECD agencies), are the resource-rich countries (Angola, Nigeria, Sudan) that did not directly benefit from HIPC and MDRI. Moreover, China also has granted debt relief (mostly to HIPC beneficiaries) and its subsidised export buyer credits would be considered as concessional by current DAC reporting standards.

The Use of ODA for Financing Global Public Goods

Although ODA should not in principle be used to finance global public goods (GPGs), an argument exists that public policy for ODA and its institutions represents the proper locus to consider the provision of certain GPGs in cases where the only way to enlist developing countries is to include the provision in a global development package that allows beneficiaries to achieve their original objectives at no extra cost. In other cases GPGs are strongly perceived to be local public goods, part of local development strategies and thus appropriate for ODA-financed provision. In still others, the provision of GPGs is related to complementary goods and services, including technical assistance and capacity building, that are important elements of any development process and which ODA should finance (Jacquet and Marniesse, 2004).

A central issue related to the provision of GPGs concerns possible crowding out with ODA funds. Reisen *et al.* (2004) employ data from the OECD CRS to attribute ODA to the provision of global public goods, regional public goods and traditional aid over 1997-2001. They report empirical evidence that the average offset coefficient between GPG-related ODA and traditional aid is significantly higher than zero, namely 25 per cent. They conclude, however, that an increase in GPG spending will not likely affect adversely the flow of aid transfers to the poorest countries. Moreover, they show that the largest sectors, namely narcotics control and economic policy and planning, each consume about 15 per cent of total GPG commitments. Narcotics control carries an important benefit to the donor country in its fight against drug addiction at home, and much of ODA classified as economic development and planning aid goes to OECD-based consultants and research (such as the OECD Development Centre) and hence involves no cash transfer to low-income countries.

Reisen *et al.* (2004) further present a highly stylised, standard model of public goods, adapted to the special donor-recipient relationship, to highlight the underlying tensions between deleting the under-provision of GPGs (where a maximum effect per ODA dollar is reached by earmarking) and recipient countries' "ownership" (where free transfers maximise the utility of the ODA dollar for the poor). Donors tend to provide GPG funding only for earmarked use. The model thus groups ODA allocation into funds that may be spent exclusively on the

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public good and contributions to the poor country's private good. This implies that the recipient country cannot freely allocate the transfer at home. Because one of the two goods is public, the donor country benefits from it in a "double" way: it not only draws direct utility from it (owing to higher consumption of the global public good), but also benefits from increased welfare in the recipient country (via altruism). This explains why the earmarked transfers naturally lead to a higher supply of the public good. It implies a clear crowding-out effect. When total transfers remain constant but more is spent on the public good, this is detrimental to conventional development assistance. On the other hand, the under-provision of the public good is mitigated, which increases efficiency. The less "ownership" the recipient countries have on the use of the funds, the better the world's provision with international public goods.

TOO COMPLEX TO BE EFFICIENT, TOO COMPLEX TO BE OWNED

While new actors abound, old ones have weakened. The UN system weakens as it becomes increasingly subject to "cherry picking", with selected voluntary contributions rising strongly while core universal functions remain underfinanced. The UN Development System has attracted considerable attention for its overlapping roles and mandates. Three agencies in Rome are concerned with food security: FAO, WFP and IFAD; two UN organisations deal with health services for youngsters and young women: UNFPA and UNICEF; UNDP has three service lines related to AIDS, notwithstanding the UN organisation created to deal with Aids, UNAIDS; and the environment sector is taken care of by three UN bodies: UNDP, UNEP and UNIDO.

Country overlap, mission creep and duplication are not confined to the UN system, however. At the multilateral and regional development banks the duplication in country allocation seems to have intensified, with most overlap in Central Asia (ADB, EBRD, World Bank, Council of Europe Development Bank and European Investment Bank).

The IMF has a problem of vanishing clients. In the late 1990s, the Fund was simultaneously supporting the transition in Eastern Europe and Russia, providing large-scale assistance to Asian and Latin American countries in crisis and helping Africa. Thanks to loose G3 money and carry trades built thereon, thanks to new credit-default derivatives that facilitate the purchase of emerging-market bonds regardless of default risk and thanks to rising raw material prices, petrol exporters such as Russia are awash with oil revenues. Asian countries have built up huge foreign exchange reserves hoping never to have to rely on the IMF again, and traditional Fund clients such as Argentina and Brazil are repaying their debts. Africa, as shown above, turns increasingly towards China's loans.

The so-called Crockett Report (Committee to Study Sustainable Long-Term Financing of the IMF, Final Report, 2007) notes: "It is already the case that the income derived from lending is not sufficient to cover the Fund's projected

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operating expenses, unless the intermediation margin were to be raised to unsustainable levels." (IMF, 2007, p. 3). The Report recommends switching the core funding of the IMF from surpluses that result from its lending activities (and from periodic levies on Fund members) to an endowment. It states that the most likely source of financing for such an endowment would be the proceeds from a limited sale of Fund gold, which should be ring-fenced to exclude further sales. The gold sale is projected to generate book profits worth 1.7 billion SDR.

The fate of the World Bank resembles in many ways that of the IMF. With the unfolding of financial liberalisation, growth in private capital flows to emerging countries has undermined the Bank's traditional role as a financial intermediary in the service of development. The institution, which regards itself as a "knowledge bank" , has moved towards promoting poverty-reducing policies and fighting corruption, but it needs financial leverage to promote good policies. In the early 2000s, it had found an instrument to this end with the debt reduction programmes and the revival of development aid. Yet China's willingness to extend credit to African countries in exchange for better access to their raw-material resources challenges the Bank's clout. Strings attach to Chinese credits too, but they entail none of the scrutiny involved in the Bank's assistance.

The International Development Association (IDA), the concessional lending arm of the World Bank, has a replenishment mechanism based on three-year cycles of negotiations and agreements with donors. The rising share of debt-sustainability IDA grants and lower share of soft loans over the past replenishment (IDA-14) potentially leads to competition with the UN, which has traditionally used grant funding for its operations. Should China decide to reimburse its IDA debt at once, the entire IDA revolving loan system would be at risk.

In their struggle for survival, international organisations can be generally expected to modify their mission statements over time. To quote Babb and Buira (2005, p. 59): "Founded at the end of World War II to help lay the foundations of a new era of stability and prosperity, the World Bank and the International Monetary Fund (IMF) are widely viewed as having evolved in ways that would have surprised their founders. A term that has gained popularity among World Bank and IMF critics is "mission creep," or the systematic shifting of organisational activities away from original mandates."

In an exercise to highlight duplication, the UK's National Audit Office (2005) has mapped the relationship between multilaterals and the Millennium Development Goals (MDGs). For each MDG and for human rights, humanitarian emergencies and conflict, Table 2.2. shows the key multilateral institutions that have stated objectives related to them. This analysis is based on the multilaterals' own corporate information. The multilateral duplication and overlap in serving the MDGs is striking, costly and inefficient. The lack of specialisation and the duplication in activities detract from the effectiveness of development finance.

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Table 2.2. Unclear Institutional Assignment to the MDGs

Selected Multilaterals Working on the Millennium Development Goals		
MDG / Thematic Area	Main Multilaterals	Other Multilaterals with a Role
MDG1: Eradicate extreme poverty and hunger	UNDP, World Bank, AfDB, AsDB, IFAD, EC, FAO, WFP	CGIAR, IADB
MDG 2: Achieve universal primary education	World Bank, UNICEF, UNESCO	UNFPA, UN-RWA
MDG 3: Promote gender equality and empower women	UNDP, World Bank, UNIFEM, UNICEF	UNFPA
MDG 4: Reduce child mortality	WHO, UNFPA, UNICEF	World Bank, WFP, UNRWA
MDG 5: Improve maternal health	WHO, UNFPA	World Bank, WFP
MDG 6: Combat HIV/AIDS, malaria and other diseases	UNAIDS, World Bank, WHO, UNDP, UNFPA,UNICEF	UNIFEM
MDG 7: Ensure environmental sustainability	UN Habitat, World Bank, AsDB, UNDP	CGIAR, UNIDO
MDG 8: Develop a global partnership for development	World Bank, EU, UNDP, UNIDO, ILO, UNCTAD	UNDP
Human rights	OHCHR	UNIFEM
Conflicts and humanitarian emergencies	UNCHR, OCHA, ECHO, WFP, UNICEF, WHO	UNDP

Source: National Audit Office (UK), DIFD (2005).

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Recipient-country administrations suffer from this complex system, overburdened by the number of interlocutors. Questions have arisen about their ability to absorb additional aid. Knack and Rahman (2007) analyse the impact of donor fragmentation on the quality of government bureaucracy in aid-recipient countries and find that donor fragmentation leads to an erosion of bureaucratic quality. Using a formal model of a donor's decision to hire government administrators to manage projects, they predict that donors hire fewer administrators when their share of other projects in the country increases and when their concern for the success of other donors' projects grows. They show that the model's predictions are consistent with results from cross-country empirical tests, using an index of bureaucratic quality available for aid-recipient countries over 1982–2001.

Knack and Rahman (2007) measure bureaucratic quality by using an index available for most countries from the International Country Risk Guide (ICRG), a commercial service providing information on political risks to overseas investors and lenders. As Figure 2.2. shows, the "Weberian scale" of bureaucratic

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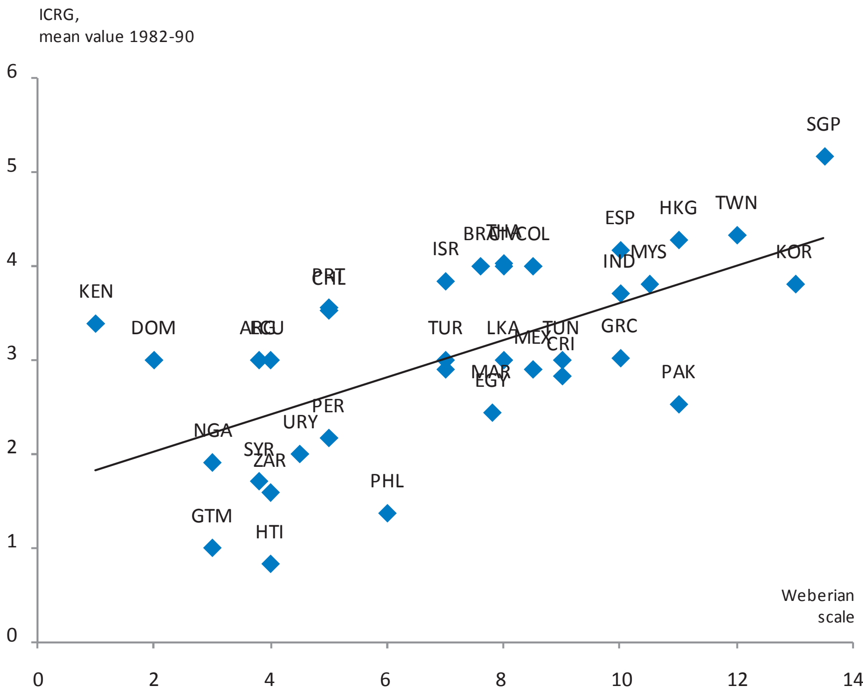
development is correlated at 0.62 with the ICRG Bureaucratic quality index, averaged over all years through 1990 for which all data are available. These findings point to another policy issue. Could countries absorb more aid if it ever did materialise as more net cash inflows?

Figure 2.2. Donor Fragmentation and the Erosion of Bureaucratic Quality



Source: Knack and Rahman (2007).

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MANAGING COMPLEXITY IN INTERNATIONAL DEVELOPMENT FINANCE: AVENUES FOR REFORM

Multilateral development finance has become too complex for both donors and recipients. The proliferation of donors on the ground entails high transaction costs for all recipient countries. To lower such costs and improve effectiveness of development assistance, ministers of developed and developing countries

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who signed the Paris Declaration on 2 March 2005 reaffirmed their commitment to increase alignment of aid with partner countries' priorities and systems, to eliminate duplication of efforts, to rationalise donor activities and to reform and simplify donor policies and procedures so as to encourage "collaborative behaviour".

The Paris Declaration is a step towards a more coherent system, but it will not be easy to implement. It will also not suffice to deal with fragmentation, duplication and role assignment, i.e. the lack of coherence in the entire multilateral development finance non-system. The UN High-Level Panel on System-Wide Coherence, another initiative to foster harmonisation, has focused on the UN system only, not on system-wide coherence. To be sure, some overlap between multilaterals may be useful. A degree of competition may create diversity in policy advice and service delivery and may add to the stability of aid flows. That said, however, a more harmonised approach will have a major role to play in raising the standards of aid delivery.

What instruments would a central "aid architect" have at hand for a coherent, efficient assignment of multilateral tasks? A mapping process, which could help identify possible areas of consolidation between multilateral organisations, can help address fragmentation and poor co-ordination of agencies at country level, and can identify comparative advantages to help prioritise with tight budgets (National Audit Office, UK, 2005). An assignment rule more directly linked to policy objectives could be based on the avoidance of country overlap, on efficiency in reaching the poor, and/or on selectivity of aid in response to policy quality.

Following this, the celebrated Tinbergen Rule comes to mind. The rule states that there must be as many policy instruments as there are policy objectives. In achieving any objective, the policy instrument that has the most direct impact on the objective will most likely do so at the least social cost. Srinivasan and Zedillo (2005), discussing the role of the WTO in the multilateral concert therefore conclude: "This rule applies to institutional mandates as well. It is more efficient to have institutional specialization —a World Bank for long-term development finance, an IMF for global financial system stability and short-term macroeconomic management, an ILO for labour issues, and the WTO for trade — than to have each of them involved in the mandate of one more of the others. Unfortunately, there is a growing overlap of mandates between the World Bank and the IMF on poverty alleviation but no evidence that this is producing better results. The ILO is also encroaching on trade issues." (Srinivasan and Zedillo, 2005, p. 410).

Multilateral Performance Measures and Role Assignment

On an operational level, multilateral performance measures may help identify comparative advantages across multilateral organisations (Obser and Wolff, 2007). Growing evidence is being created on the effectiveness (x-efficiency) of multilateral organisations. The focus generally falls on management systems (i.e. elements of current management orthodoxy), perceptions of the preparedness of organisations for local partnerships and the alignment with country systems.

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There has been criticism that current multilateral performance measures have only weak links to MDG contributions (National Audit Office, UK, 2005). Thus far, the sources for multilateral performance measures are DAC peer reviews, country programme evaluations, reports by civil society, Global Monitoring Reports, the Multilateral Effectiveness Framework of the UK's DFID and other bilateral agency assessments. The DAC Evaluation Network and UN Evaluation Group Joint Task Force is working on a peer review of the evaluation function in multilateral organisations through pilot peer reviews in UNDP and UNICEF. Similarly, the MDB Evaluation Group focuses not on entire organisations but on their evaluation systems, and assesses whether the institutions have professional and credible mechanisms in place to evaluate the programmes for which they have provided resources.

In recent years, two Multilateral Assessment Frameworks have emerged: the Multilateral Organisations Performance Assessment Network (MOPAN) and the Common Performance Assessment System (COMPAS). MOPAN is a partnership of likeminded donors, which in 2003 began jointly to survey the partnership behaviour of multilateral organisations at country level. Surveys are based on the perceptions of MOPAN-member embassies or country offices, arising from their day-to-day contacts with multilateral organisations. MOPAN conducts a joint Annual Survey of multilateral organisations' (MOs') partnership behaviour with national stakeholders and other donor organisations at country level. Each year, the Annual Survey covers three to four MOs and is conducted in eight to ten countries. Note that the MOPAN Annual Survey is not an evaluation and does not cover actual results on the ground. It also avoids inter-agency comparisons. Hence the MOPAN surveys provide no basis for inter-agency decision making. Further, this approach does not lead to firm conclusions about effectiveness.

In response to international commitments on performance and accountability, the Multilateral Development Bank Working Group on Managing for Development Results (MfDR) proposed COMPAS. The coalition of MDBs involved in this initiative includes the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank and the World Bank. COMPAS aims to provide a common source of information on the results orientation of the five MDBs, based on seven categories of data:

- Country-level capacity development;
- Performance-based concessional financing;
- Country strategies;
- Projects and programmes;
- Monitoring and evaluation;
- Learning and incentives; and
- Inter-agency harmonisation.

With the focus on group synergies and not on individual comparisons across institutions, COMPAS is not built to enhance inter-agency choice and multilateral coherence directly. In particular, it fails to address to what extent regional development banks serve to reduce the underfunding of regional public goods. Nevertheless, it clearly has more orientation towards results than does MOPAN.

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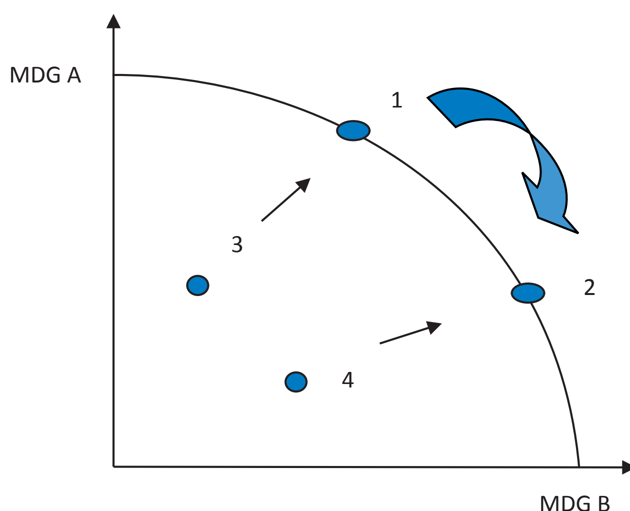
It aims to pool information about how MDBs contribute to development results (outputs and outcomes), to monitor and synthesise MDBs' progress over time and to contribute to lesson-learning, accountability and transparency (Obser and Wolff, 2007). The COMPAS goal is to facilitate comparability of data between MDBs (e.g. regarding programme outputs and outcomes), and ultimately to contribute to harmonisation of practices among institutions. With COMPAS, the MDBs have succeeded in drafting a set of common indicators that may form the basis for future reporting by the banks.

These considerations lead to the conclusion that multilateral performance measures are certainly a useful instrument to raise multilateral effectiveness. By contrast, they neither aim at raising the coherence of the multilateral finance non-system overall nor can deliver it. They focus on single organisations or groups of them. They are self-driven instruments, and they do not cut ministerial agency dependence and patronage.

Figure 2.3. illustrates the point in a simple diagram where ODA resources are spent between two MDGs: A (say, health) and B (say, education). Multilateral performance measures can reduce slack and thus raise x-efficiency of a group of single multilaterals. As in the figure, they can help move the system from point 3 to point 1 and from point 4 to point 2, hence raising the utility of a given amount of ODA resources to both donors and recipients. They fail to inform an allocative shift under a given budget constraint, say from point 1 to point 2; thus they fail to improve the coherence of the multilateral system. For example, if the international community decides to move the priority from health to education, neither COMPAS nor MOPAN will inform about the efficient allocation of resources to finance the change.

Figure 2.3. Multilateral Assessment Frameworks



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A specific suggestion is to provide a high-level mandate to replicate Delivering as One (the UN reform proposals advanced in late 2006) for the entire non-system of development finance. This will require involving the finance, health, environment and other ministries in the assignment process, as each of them is involved with different parts of the architecture: the UN, the Bretton Woods institutions, the regional development banks and funds such as GFATM and GEF. Possibilities for merger and closure in order to reach a clear command structure should be explicitly required from any consultancy report and considered by policy makers. Further, the agenda of evaluation networks has to broaden to include core aspects of system-wide coherence.

TOWARDS A COUNTRY-BASED DELEGATED CO-OPERATION ARRANGEMENT

To help strengthen recipient countries' capacity and leadership and to reduce high transaction costs, Cohen *et al.* (forthcoming 2008) suggest a "country-based delegated co-operation arrangement". The OECD/DAC defines delegated co-operation as a working arrangement whereby one donor (or a "lead donor") acts with authority on behalf of one or more other donors (the "delegating donors" or "silent partners"). The level and form of delegation may vary, ranging from responsibility for one element of the project cycle for a specific project to a complete sector programme or even a country programme. The Nordic Plus countries have in fact used the delegated co-operation principle to improve aid effectiveness[2].

A country-based delegated co-operation arrangement could be structured around the creation of a country-wide co-ordination council and the formation of sectoral councils according to the following structure:

- General council: seven members, of which two from the government, four or five from the top donors (four in the case of an IMF programme, in which case the IMF occupies a seat) plus a secretariat jointly managed by the country and the lead donor (which can be a multilateral agency); and
- Sectoral councils (education, infrastructures, health…): also seven members, of which two from the government and four or five from the top sectoral donors, with a general council secretariat member as observer. (NGOs or philanthropic organisations could have seats in sectors such as health, education or emergencies, where they have a strong presence.)
- Membership in each of the councils could be reviewed every three years depending on developments, while overall monitoring could be delegated to the OECD/DAC.

Usually, the largest donors in each country account for the bulk of aid — in fact, in most countries, the share of the first five donors exceeds 80 per cent of total aid. In 32 out of the 49 countries that Cohen *et al.* (forthcoming 2008) examine, multilateral donors appear in the top five. Most multilateral agencies appear as lead donors in most African countries. Other donors frequently appearing include

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France, Portugal and the United States. France and Portugal always appear when their former colonies are concerned. The United States has a leading presence in countries of strategic relevance such as Egypt, Eritrea or Sudan but also in Liberia and Botswana, probably for historical and good-governance considerations. More important, small donors that are not former colonial powers also show up in the top-five list, especially Scandinavian countries, most notably Norway, Denmark and Sweden.

A partnership scheme based on delegated co-operation would induce donors to specialise more without engaging in extensive and costly intra-donor negotiations; small donors in particular would be induced to delegate their authorities on a co-operative and rotating basis among themselves. Furthermore, NGOs, including the business sector, could gain a new status as full partners in development, especially in sectors where they have a demonstrable comparative advantage, e.g. health, education or humanitarian assistance.

The introduction of sectoral councils, of course, is not new. A few countries, most notably Tanzania and Uganda, have set up co-ordination schemes at the sectoral level. Transaction costs remain high, however, as these schemes involve all donors active in the country. There are exceptions. In Ghana, for example, delegated co-operation is reducing the number of donors appearing in co-ordination meetings. This is not to say that co-ordination has ceased to be a nightmare in the health sector. Significant progress has been made by the Education for All Fast Track Initiative (EFA FTI), a global programme hosted by the World Bank. Local agencies involved in supporting the education sector nominate a co-ordinating agency to lead FTI assessment and endorsement and serve as the liaison with the Ministry of Education, other concerned government agencies and the FTI secretariat. Such examples are rare, however, and do not necessarily provide incentives for improved rationalisation of the system across sectors and recipient countries.

Although there is little sign that donors systematically organise a division of labour in general, the EU has made some progress. The EU General Affairs and External Relations Council adopted guiding principles for a development-related division of labour among EU donors. Some arrangements already in the EU and its sub-regions (for instance, Nordic Plus in Scandinavia), could serve as a basis for extending a formal division of labour. The German Development Institute proposes that EU members first commit to rules of conduct in several pilot countries and gain experience. They should limit both the number of sectors per donor and the number of donors per sector. The EU Commission recently outlined a proposal for an EU Code of Conduct on Division of Labour in Development Policy. It presents operational principles for EU donors to improve complementarities and division of labour. *Inter alia*, it calls for EU donors to *i)* focus their active involvement on a maximum of three sectors identified by the partner government as having priority and in which the donor has "a comparative advantage"; *ii)* redeploy their resources for other in-country activities following local negotiations; *iii)* enter into delegated co-operation partnership arrangements if needed; and *iv)* establish a limited number of priority countries through an informed dialogue within the EU.

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To generate the collective political will and commitment to see reforms through demands a concerted effort by key governments of both developed and developing countries. Any reform will have to start from outside, as vested interests in agency survival are strong. Reform from outside the aid system, at a level not lower than the prime minister, will keep the overall budget under control and make reform inroads with the risk of procrastination minimised. The late American computer specialist Alan Perlis once said: "Fools ignore complexity. Pragmatists suffer it. Some can avoid it. Geniuses remove it."

NOTES

1. In an effort to cast more light on the activities of new donors, the World Bank, in collaboration with the OECD/DAC, the United Nations Development Programme (UNDP), and the United Nations Department of Economic and Social Affairs (UNDESA), conducted a survey of nine developing countries (Brazil, Chile, China, India, Malaysia, Russia, South Africa, Thailand and República Bolivariana de Venezuela). Only three countries (Chile, Malaysia, and Thailand) have responded to the survey so far.

2. The Nordic Plus countries comprise Denmark, Finland, Ireland, Netherlands, Norway, Sweden and the UK.

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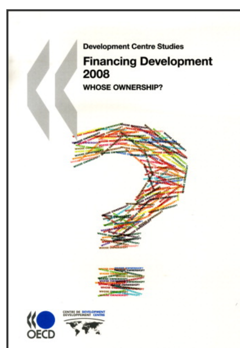

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