Chapter 1
General trends in the multilateral system and their policy implications

This chapter presents a picture of evolving multilateral aid that updates the overall trends from the 2008 DAC Report on Multilateral Aid. It sets out this picture by looking at historical and main trends in multilateral aid, including the composition of multilateral ODA and members’ multilateral portfolio choices. It also includes an introduction to the next chapter on non-core multilateral aid.
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Throughout the report we distinguish between (a) multilateral ODA (Box 1.1), measured as the funding (i.e. inflows) to multilateral organisations; and (b) multilateral outflows from those agencies to partner countries. Today, members report contributions to over 200 multilateral agencies in DAC statistics. In turn, 23 of these multilateral agencies report their core outflows to the DAC (Box 1.2). References to multilateral outflows in this report refer to concessional outflows only. Korea became a DAC member in December 2009. For data purposes, it will therefore be included in the group of DAC members that started 2010. However, it is also included as a separate line in tables and is included in Annex B of this report.

**Box 1.1. Definition of multilateral ODA**

Multilateral ODA is a contribution made to a recipient institution that:

- conducts all or part of its activities in favour of development;
- is an international agency, institution, or organisation whose members are governments, or a fund managed autonomously by such an agency;
- pools contributions so that they lose their identity and become an integral part of its financial assets.

Multilateral ODA includes both assessed and voluntary un earmarked contributions.

*Source: OECD DAC Statistical Reporting Directives, 2010.*

Figure 1.1 illustrates inflows, outflows, and reflows of the multilateral system. DAC countries’ multilateral ODA, or inflows to agencies, is represented by the top grey arrows. The blue arrows in the bottom half of the figure are the corresponding outflows from these agencies, and the dotted green arrows pointing upwards represent the reflows, or loan repayments, back to these agencies from partner countries. For IDA, for example, the volume shown at the top, under the grey arrow, is significantly less than the volume of the outflow next to the blue arrow. This is because they are able to leverage reflows from earlier concessional loans and transfers from other windows of the WBG in addition to fresh resources (inflows) provided by contributors to replenishments.
Why multilateral ODA?

The 2008 DAC Report on Multilateral Aid\(^1\) lists the main reasons provided by DAC members as to why they choose to provide multilateral ODA (OECD, 2009a). These include economies of scale; political neutrality and legitimacy; scale of resources (capital and knowledge); low unit costs; and provision of public goods.

There are also well-known arguments against providing multilateral ODA, such as perceived institutional complexity and/or lack of transparency in processes; higher absolute costs and salaries; remoteness, and perceived lack of accountability from the perspective of domestic audiences. More generally, DAC members continue to report insufficient evidence of multilateral effectiveness, particularly as regards the impact on development impact and value for money, despite major ongoing investment in evaluation, assessment, disclosure, and communication (see Chapter 6). Furthermore, advantages and disadvantages need to be contextualised by donor country situations – e.g. a bilateral organisation

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\(^1\) Reflows to IFAD.

\(^2\) Corresponding outflows do not exactly match inflows since not all multilaterals listed above report their outflows to the DAC. This figure represents outflows from only those agencies reporting to the DAC. The corresponding inflows to the agencies that report outflows are: USD 39 billion for “UN Agencies”; USD 25 billion for “Regional Banks”; and USD 20 billion for “Other Multi”


that is sharply focused on one region may prefer to act directly there, while using multilaterals as cost-effective extensions elsewhere. The transactions cost case is neither straightforward, nor comparable across institutions.

Even so, the 2010 report raises three more considerations as to why multilateral ODA might be an attractive channel. First, a large portion of multilateral donors have, on the whole, more concentrated outflows than bilateral donors. The DAC Secretariat’s recent definition of concentration (OECD, 2009b) recognises the higher proportion of countries in which multilateral donors operate at or above their global share of aid. Concentrated outflows are explained mainly by the fact that multilaterals are mostly mandated to apply rules-based allocation mechanisms designed to ensure a smoother geographical spread, relative to country income and population. Second, multilaterals deliver a higher proportion of country programmable aid (CPA) than might be expected given the proportion of overall aid that is multilateral in the first place. (Both concentration levels and CPA are discussed further in this chapter.) Third, multilaterals demonstrated flexibility and were able to react quickly to increase their outflows in response to the recent economic and financial crisis.

Main trends in multilateral aid

More aid, but an eroding multilateral share

Figure 1.2. Gross ODA provided by DAC member countries, 1989-2008
(USD billion at 2008 constant prices)

Figure 1.2 shows gross ODA provided by DAC member countries in the past two decades. In the 20 years from 1989 to 2008, multilateral ODA increased by half – from USD 23 billion to USD 35 billion (at 2008 prices and exchange rates). The share of multilateral ODA was relatively stable in that period, ranging from 27% to 33% of overall ODA, excluding debt relief. This relatively stable 30% share, or “ceiling”, is shrinking, however, if contributions to EU Institutions (blue line in Figure 1.2) are excluded. This decline is illustrated by the blue curve in the line graph below (Figure 1.3), which dropped to 20% in 2008. From 2002, the gap between the two lines widened, indicating a declining share of non-EU multilateral ODA.
The flat trend in multilateral ODA is not expected to change significantly over the medium term. The recent DAC survey on donors’ forward spending plans (OECD, 2010a) recorded a slight projected growth rate in multilateral ODA of 1% per year in real terms over the next three years.

EU Institutions are unique because they play a dual role in the international aid architecture. They both receive development funds from EU member states and channel funds through other multilateral organisations (and are a DAC member). This report attempts to reflect both roles. Reporting EU Institutions as a group of multilateral organisations receiving contributions is consistent with longstanding statistical practices and treatment in other DAC publications. In addition, EU Institutions are treated as a single donor to other multilaterals when analysing the “total use” of the multilateral system in Annex B. For the purposes of comparing shares of multilateral ODA and multilateral portfolios across DAC members, ODA to EU Institutions is usually excluded.

Geographical focus of multilateral aid

Figure 1.4 shows the geographical distribution of both bilateral ODA and of multilateral outflows. The 2008 DAC Report on Multilateral Aid highlighted the fact that the share of multilateral outflows to sub-Saharan Africa and South and Central Asia was greater than the shares allocated by bilateral donors to these same regions. Data from 2008 confirmed this trend. However, it is important to note that over one-fifth of bilateral ODA was “unspecified” by region because at the time it was allocated to global thematic programmes, even if later directed to specific regions. Figure A.4 of Annex A disaggregates bilateral ODA and multilateral outflows by recipient country income. Thirty-three percent of bilateral ODA was allocated to low-income countries (including LDCs), in comparison to 55% of multilateral outflows. The figure below shows that bilateral ODA had a much larger share of “unspecified” or “unallocated” ODA, making it more difficult to draw conclusions as to which provided a larger share to low-income countries.
Figure 1.4. **2008 gross DAC bilateral ODA and gross multilateral outflows (not including Korea)**
(Excluding debt relief)

(A) Bilateral ODA

- Sub-Saharan Africa: 27%
- South & Central Asia: 14%
- Other Asia: 12%
- Middle East and North Africa: 11%
- Latin America & Caribbean: 8%
- Europe: 4%
- Oceania: 2%
- Unspecified: 22%

(B) Multilateral outflows

- Sub-Saharan Africa: 46%
- Latin America & Caribbean: 5%
- Middle East and North Africa: 8%
- Other Asia: 7%
- South & Central Asia: 16%
- Europe: 11%
- Oceania: 1%
- Unspecified: 6%

* Korea’s ODA is not included in total bilateral ODA. EU Institutions are included in multilateral outflows. Regional ODA to “Africa” is included in the “Sub-Saharan Africa” category. Data on multilateral outflows are incomplete. Approximately 23 major multilateral organisations report their outflows to the DAC.

**Source:** OECD Creditor Reporting System, 2010.

**Multilateral ODA share varies across donors**

The three-year DAC country average share of multilateral ODA – which excludes contributions to EU Institutions in order to compare across DAC countries – is illustrated in the bar graph below (Figure 1.5). The average share is slightly above 20%, with two major outliers at each end: Italy (49%) and the United States (11%). Multilateral aid showing both EU and non-EU contributions is illustrated in Figure A.1 of Annex A, while multilateral aid to EU Institutions alone is expressed as a percentage of overall ODA in Figure A.2 of Annex A.

Figure 1.5. **Average multilateral ODA (excluding to EU) as percentage of gross ODA, 2006-08**
(Excluding debt relief)

* Source: OECD DAC aggregate statistics, 2010.*
**Caps on aid flows to multilaterals among DAC members**

Two DAC members have decided to limit their share of multilateral ODA through legislative means. Germany’s multilateral ceiling is one-third of the budget of the Federal Ministry for Economic Co-operation and Development. This does not include humanitarian aid or ODA to the EU budget from the Ministry of Finance (but does include EDF contributions). In December 2008, the Swiss Parliament decided on a ceiling of 40% for multilateral development assistance through the end of 2012. This cap does not apply to multilateral aid for humanitarian assistance or to aid for Eastern Europe (both of which come under different legislation).

**Aid flow reporting among non-DAC donors**

Twenty non-DAC donors reported their aid flows to the Secretariat in the period from 2006-8 (see Table A.1), while some larger players (Brazil, China, and India) did not. Non-DAC EU members provided a higher proportion of multilateral aid than DAC members (including to EU Institutions), ranging from a low of 42% (Cyprus) to a high of 87% (Latvia) in the three years from 2006 to 2008. It is unlikely that the BRICs (who do not currently report their aid flows to the DAC) provided such a high share of multilateral aid. They belong to multilateral organisations, and contribute increasingly to concessional funds, but also have strong and growing bilateral programmes. Non-DAC donors reporting to the DAC accounted for USD 8.8 billion of total non-DAC ODA estimated at between USD 12 and 14 billion, or between 9% and 10% of global ODA (OECD, 2010b). The average multilateral ODA of non-DAC donors was 32% in 2006-8, excluding Kuwait, Saudi Arabia and the UAE since the data reported by these donors related primarily to bilateral aid.

Twenty-two non-DAC donors contributed to the Fifteenth Replenishment of the World Bank’s International Development Association (IDA15). Of these, China, Cyprus, Egypt, Estonia, Latvia and Lithuania were the most recent IDA donors. Together non-DAC donors represent 3% of total IDA15 contributions (World Bank, 2008a). Current negotiations for the Sixteenth Replenishment of IDA (IDA16) aim to include additional non-DAC donors.

A number of multilateral organisations also report to the DAC, as described in Box 1.2. In addition, mention should be made of large foundation grants – overwhelmingly from the Bill and Melinda Gates Foundation – to some of the global health partnerships, most notably the Global Fund and GAVI.

**High concentration of DAC support for 15 multilaterals**

Between 2004 and 2008, six multilateral clusters (15 agencies) together received and accounted for 82% of multilateral ODA. They were the EU Institutions (37%), IDA (21%), the UN Funds and Programmes (10%), the Global Fund (6%), and the African and Asian Development Banks (4% and 3%). The consequence of such concentration was that about 200 other multilateral agencies accounted for the remaining 18% of multilateral ODA volumes. The scattering or “long tail” of agencies receiving the least amount of multilateral ODA may be worth examining more closely. However, it is important to acknowledge that the transfer of resources is not the primary mandate of most of these institutions, many of which provide technical assistance or serve a standard-setting purpose. A full list of ODA-eligible multilateral organisations is included in Annex E.
Box 1.2. Multilateral agencies that submit reports on aid flows to the DAC

The DAC collects data from multilateral agencies covering their operations in developing countries, including support costs directly linked to delivering these activities. Data are limited to regular (core) budget expenditures to avoid double counting. Contributions to multilateral organisations that are earmarked at any level – whether to a specific partner country, region, sector or theme – are reported as part of bilateral aid and identified through the channel of delivery classification.

Although there are no formal requirements for multilateral agencies (other than EU Institutions which are a DAC member) to report to the DAC, many agencies do so voluntarily. The DAC encourages all agencies with significant operational programmes in developing countries to begin reporting and has developed guidelines for multilateral reporting to the DAC. The table below shows all multilateral agencies that reported their 2008 data to the DAC:

<table>
<thead>
<tr>
<th>Global Funds</th>
<th>International Financial Institutions</th>
<th>Regional Development Banks</th>
<th>United Nations Funds, Programmes and Specialised Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>The GAVI Alliance</td>
<td>International Monetary Fund</td>
<td>African Development Bank</td>
<td>IAEA</td>
</tr>
<tr>
<td>Global Environmental Facility*</td>
<td>Nordic Development Fund</td>
<td>Caribbean Development Bank</td>
<td>UNAIDS</td>
</tr>
<tr>
<td>The Montreal Protocol (Multilateral Fund)</td>
<td>European Bank for Reconstruction and Development</td>
<td>UNDP</td>
<td>UNTA</td>
</tr>
<tr>
<td></td>
<td>Inter-American Development Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>UNFPA</td>
</tr>
</tbody>
</table>

* Reporting obtained from GEF Secretariat presents a complete picture of total commitments. At present, however, disbursement data are reported for the World Bank and UNDP implemented activities only.

The past year has seen an increase in the quality and quantity of DAC statistical reporting from multilateral organisations. Major improvements include detailed activity-level reporting in CRS++ by the World Bank (all IDA and IBRD flows from 1999 through 2008) and by GAVI (for flows in 2007 and 2008).

Efforts in 2010 will focus on:

- Improving the sector identification of UNDP activities in DAC statistical databases. DAC and UNDP staffs are currently collaborating on this issue and hope to advance in coming months.
- Pursuing improved activity-level reporting from the Regional Development Banks. Although the DAC does receive some data at the activity level, they arrive in a non-standard format or are downloaded from the Internet. Sector codes are often assigned manually and the data are incomplete in many aspects. In an effort to improve data quality and coverage, full reporting in the CRS++ format is encouraged.
- Obtaining statistics on WHO expenditures at the country level. The DAC and the WHO have been collaborating on this issue and hope that reporting – at least at regional level – will commence this year, if only for core flexible funding. The information will greatly improve the coverage of aid data, especially in the health sector.

Obtaining accurate, detailed data on the expenditure of multilateral agencies is essential to developing a complete picture of global aid flows and properly reflecting the very substantial role of multilateral agencies in development co-operation. Detailed data on aid at the partner country level are also necessary for accurate statistical analyses and discussions on aid fragmentation, division of labour, and donor harmonisation.

DAC member multilateral portfolio shares

The 2008 DAC Report on Multilateral Aid examined the internal allocation processes of each DAC member, both between bilateral and multilateral aid and across multilaterals. In practice, these are not determined simultaneously, and often not within the same ministry. Political decisions at the margin, made under fiscal pressure and in consideration of geographic and thematic priorities and (often) the balance between loans and grants, are the rule not the exception. It is exceptional, however, though not unknown, for countries to zero-base their contributions to a multilateral agency rather than maintain it at very low levels, which can make the staffing costs of oversight increasingly unsustainable.

DAC donors differ widely in their distribution of multilateral ODA. Such portfolio variations are significant to the extent that contributions to each cluster are considered voluntary and fungible with contributions to other organisations. For IDA replenishments, participants negotiate contributions which are in principle discretionary, even though they might well be heavily influenced by historic shares. Contributions to UN Funds and Programmes, the Global Fund, and African and Asian Development Funds are similarly voluntary. EU institutional funding is a mix of:

- multi-year replenishments of European Development Fund (EDF) assistance to Africa, the Caribbean and the Pacific (based on negotiations and unanimous decisions as to each member’s contributions);
- annual EU budget allocations (in keeping with European Parliament and Council of Ministers decisions) to those other components of EU external action which qualify for ODA.

A smaller fraction of overall multilateral ODA – of particular relevance to UN Specialised Agencies – is driven by assessed contributions, which can be considered conditions of membership. These “portfolio” comparisons are useful from the perspective of system-wide coherence.

EU Institutions as a cluster are the largest recipients of DAC countries’ multilateral aid. In 2008, this amounted to USD 13 billion or 37% of DAC multilateral aid. On average, EU Institutions account for roughly 50% of EU members’ multilateral ODA. There are, however, variations: contributions to EU Institutions account for as much as 77% of Greece’s multilateral aid, while Sweden’s share is only 23%. (The data in Table A.5 replicates Table 1.2, but including contributions to EU Institutions.)

A comparison of multilateral shares across DAC membership needs to take into account the fact that seven DAC countries are not EU members. For this reason, the next section and Table 1.2 look at how these allocations change when contributions to the EU

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**Table 1.1. Multilateral organisations receiving the top 82% of multilateral ODA**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• EU Budget</td>
<td>• International Development Association (IDA)</td>
<td>• UNICEF</td>
<td>• Global Fund</td>
<td>• African Development Fund</td>
<td>• Asian Development Fund</td>
</tr>
<tr>
<td>• European Development Fund (EDF)</td>
<td></td>
<td>• UNDP</td>
<td></td>
<td>• African Development Fund</td>
<td></td>
</tr>
<tr>
<td>• European Investment Bank (EIB)</td>
<td></td>
<td>• UNFPA</td>
<td></td>
<td>• Asian Development Fund</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• UNHCR</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• WFP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• UNRWA</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Data are separately identifiable for these six UN Funds & Programmes only.
Institutions are not included. This allows for more accurate cross-country comparisons of multilateral portfolio allocations.

Table 1.2. **DAC gross multilateral ODA disbursements over the five-year period 2004-08**
(Constant 2008 USD million)

<table>
<thead>
<tr>
<th>Number of DAC donors</th>
<th>23</th>
<th>23</th>
<th>21</th>
<th>18</th>
<th>22</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-EU members</strong></td>
<td>44 962</td>
<td>44%</td>
<td>34%</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>Australia</td>
<td>1 772</td>
<td>2%</td>
<td>42%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Canada</td>
<td>5 673</td>
<td>6%</td>
<td>32%</td>
<td>13%</td>
<td>9%</td>
</tr>
<tr>
<td>Japan</td>
<td>15 057</td>
<td>15%</td>
<td>36%</td>
<td>12%</td>
<td>3%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>322</td>
<td>0%</td>
<td>16%</td>
<td>26%</td>
<td>1%</td>
</tr>
<tr>
<td>Norway</td>
<td>4 932</td>
<td>5%</td>
<td>16%</td>
<td>45%</td>
<td>4%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2 309</td>
<td>2%</td>
<td>40%</td>
<td>23%</td>
<td>1%</td>
</tr>
<tr>
<td>United States</td>
<td>14 899</td>
<td>15%</td>
<td>38%</td>
<td>8%</td>
<td>19%</td>
</tr>
<tr>
<td><strong>EU members</strong></td>
<td>56 243</td>
<td>55%</td>
<td>33%</td>
<td>17%</td>
<td>9%</td>
</tr>
<tr>
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<td>1%</td>
<td>51%</td>
<td>9%</td>
<td>n.a.</td>
</tr>
<tr>
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<td>2%</td>
<td>52%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Denmark</td>
<td>3 662</td>
<td>4%</td>
<td>14%</td>
<td>37%</td>
<td>4%</td>
</tr>
<tr>
<td>Finland</td>
<td>1 163</td>
<td>1%</td>
<td>20%</td>
<td>39%</td>
<td>0%</td>
</tr>
<tr>
<td>France</td>
<td>8 727</td>
<td>9%</td>
<td>29%</td>
<td>5%</td>
<td>19%</td>
</tr>
<tr>
<td>Germany</td>
<td>8 369</td>
<td>8%</td>
<td>53%</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Greece</td>
<td>323</td>
<td>0%</td>
<td>47%</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Ireland</td>
<td>1 075</td>
<td>1%</td>
<td>26%</td>
<td>35%</td>
<td>5%</td>
</tr>
<tr>
<td>Italy</td>
<td>5 677</td>
<td>6%</td>
<td>26%</td>
<td>8%</td>
<td>15%</td>
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<tr>
<td>Luxembourg</td>
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<td>0%</td>
<td>13%</td>
<td>21%</td>
<td>3%</td>
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<tr>
<td>Netherlands</td>
<td>5 829</td>
<td>6%</td>
<td>20%</td>
<td>35%</td>
<td>6%</td>
</tr>
<tr>
<td>Portugal</td>
<td>322</td>
<td>0%</td>
<td>33%</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>Spain</td>
<td>4 047</td>
<td>4%</td>
<td>31%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Sweden</td>
<td>4 971</td>
<td>5%</td>
<td>22%</td>
<td>41%</td>
<td>8%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>9 091</td>
<td>9%</td>
<td>43%</td>
<td>15%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>DAC total excl. Korea</strong></td>
<td>101 206</td>
<td>99%</td>
<td>33%</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Korea</td>
<td>938</td>
<td>1%</td>
<td>32%</td>
<td>4%</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

*Includes UNICEF, UNDP, UNFPA, UNHCR, WFP and UNRWA. Excludes Specialised Agencies and UNCTAD, UNDCP, UNEP, UNIFEM, UNV, UNCDF and UN-Habitat for which core contributions are not disaggregated in the DAC database.

**Note:** Totals may not add up exactly due to rounding-off.

**Source:** OECD DAC aggregate statistics, 2010.
The top five clusters receiving multilateral aid, excluding EU Institutions

As Table 1.2 shows, donors allocate strikingly different portions of their multilateral portfolios to the same multilateral organisations. Luxembourg, for example, provides 13% of its non-EU multilateral aid portfolio to IDA, compared to Germany’s 53%. The range for UN Funds and Programmes is from 4% (Greece) to 45% (Norway).

Nordic countries (both in the EU and non-EU member categories) allocate approximately 40% of multilateral aid to UN Funds and Programmes. This percentage should be compared to less than 10% for several DAC donors including Greece (4%), France (5%), Portugal and Germany (6%), Australia (7%), Italy and the United States (8%). In contrast, their shares of multilateral ODA to IDA paint the opposite picture, with Nordic countries allocating on average less than 20%, significantly lower than Germany (53%) and the United States (38%), or even the DAC average of 34%.

EU and non-EU member groupings show roughly the same average allocations to IDA and the Global Fund. Five EU members (Austria, Belgium, Germany, Greece, and United Kingdom) allocate an even higher share of ODA to IDA than Australia’s 42%. Moreover, France allocates the same share of its multilateral portfolio to the Global Fund as the United States (19%).

Most large multilaterals funded by a handful of donors

Four to five donors account for more than half of all core contributions to the top six multilateral clusters. The four largest donors (Germany, Japan, United Kingdom, and the United States) accounted for nearly 60% of all core contribution to IDA in 2004-8. Donors to EU Institutions and the Global Fund are at least as concentrated, with three accounting for more than 50% of contributions: France, Germany, and the United Kingdom fund EU Institutions, while France, Italy, and the United States finance the Global Fund. Table A.2 shows donors’ funding share of multilateral organisations.

Australia, Canada, Japan, and United States together account for nearly 60% of all core funding to the Asian Development Bank, with Japan alone providing one-third of all resources in 2004-8. Over the same period, contributions from France and the United States accounted for nearly 50% of all core funding to the Global Fund. The United States alone provides 31% of all core contributions to the Global Fund. The Nordic states provide 36% of all core support to the UN Funds and Programmes.

There is no clear pattern in the allocation of resources to the multilateral system among donors with or without a published multilateral strategy (see Chapter 6 for more information on multilateral strategies).

Sustained growth in aid to EU Institutions and the Global Fund

Evidence suggests that the long-term decline in core multilateral aid to UN Funds and Programmes together with the increase in core multilateral aid allocated to EU Institutions and – more recently – to the Global Fund and the World Bank Group are continuing (Figure 1.6 and Figure A.6). The DAC average share of multilateral ODA to UN Funds and Programmes fell from 15% (USD 4 billion) to 10% (USD 3 billion) between 1999-2003 and 2004-8. Over these same two periods, the share of resources to the Global Fund rose from 2% of multilateral ODA (USD 1 billion) in 1999-2003 to 6% (USD 2 billion) in 2004-08. Multilateral ODA to EU Institutions was USD 12 billion, or 37% of multilateral ODA, in
2004-8, compared to USD 9 billion, or 33%, in 1999-2003 and multilateral ODA to the World Bank Group was 23% (USD 7 billion) in 2004-08 compared to 19% (USD 5 billion) in 1999-2003.

Several factors are at work behind the observed trends. Contributions to “Other agencies” peaked in 1998 and 1999 when DAC contributions to the IMF reached almost USD 1 billion. Equally, there was a fall in core funding to UN agencies, which may reflect a shift to non-core contributions as donors try to target more specific objectives within the agencies’ mandates. The same trend towards closer targeting is reflected in the creation of new specific-purpose agencies or funding mechanisms such as the Global Fund. The more recent rise in World Bank Group funding includes some large contributions to cover debt relief to the HIPCs. The rise in EU aid is steady and sustained, reflecting growth in the EC budget, and successively higher replenishments of the European Development Fund (EDF).

Figure 1.6. Average aid provided by DAC countries to a selection of multilaterals over five-year periods

Programmable multilateral outflows

Country programmable aid

In 2007, building on earlier analyses of core development aid, the DAC introduced a new concept to provide a better estimate of the volume of resources transferred to developing countries. The concept is referred to as “country programmable aid” (CPA). CPA tracks the portion of aid on which recipient countries have, or could have, a significant say and which donors (bilateral or multilateral) can programme for each recipient country. It is calculated from data on gross ODA disbursements, from which it excludes spending that:

- is inherently unpredictable (such as humanitarian aid and debt relief);
- entails no flows to the recipient country (administration, imputed student costs, development awareness and research and refugee spending in donor countries);

* Contributions to six UN Funds and Programmes are separately identifiable in DAC members’ reporting: UNDP, UNICEF, UNRWA, WFP, UNHCR, and UNFPA. Other UN Funds and Programmes are aggregated into the “Other UN” category.

Note: “Other Agencies” includes GEF, Montreal Protocol, the IMF and residual multilaterals.

• is not usually discussed between the main donor agency and recipient governments (food aid, aid from local governments, core funding to international NGOs, aid through secondary agencies, ODA equity investments and aid which is not allocable by country).

Finally, CPA does not net out loan repayments, as these are not usually factored into aid allocation decisions.

Recent large increases in levels of multilateral outflows reflect the response from international financial institutions to country demand for crisis-related finance in 2009. As can be seen in Figure 1.7, multilateral outflows increased by 18% in 2009 from the previous year, while at the same time bilateral ODA was flat. More generally, annual increments of bilateral and multilateral CPA appear negatively correlated, which may reduce risks for partner countries.6

Figure 1.7. Percent change in country programmable aid (CPA): Bilateral and multilateral outflows

![Figure 1.7: Percent change in country programmable aid (CPA): Bilateral and multilateral outflows](image)


Figure 1.8. Composition of global country programmable aid

![Figure 1.8: Composition of global country programmable aid](image)

Note: EU Institutions are included in the “multilateral” category.

In 2008, the multilateral share of global CPA (outflows to partner countries) was 37% despite the flat and eroding share of multilateral ODA (inflows to multilateral agencies), which amounted to 28% of gross ODA, excluding debt relief. Multilaterals are responsible for a higher share of global CPA outflows than might be expected given multilateral inflows. Of course, it should also be taken into consideration that non-DAC members – other countries, recipients repaying earlier loans, and other organisations (including private foundations) – and the agencies themselves also inject resources into multilateral organisations and do not report them to the DAC.

On average, 63% of multilateral outflows were reported as country programmable aid from 2004 to 2008. Figure 1.9 illustrates the CPA share of multilateral outflows, which increased from USD 30 billion in 2007 to USD 31 billion in 2008. The increase in the share of CPA from 2007 to 2008 can be attributed mainly to the substantial multilateral debt relief (USD 3.9 billion) granted by the Special Fund of the Inter-American Development Bank (IDB) to Bolivia, Nicaragua, Honduras and Guyana and by the IDA (USD 1.5 billion) to Malawi and Sierra Leone in 2007.

A large share of “significant” donor-partner relationships

The 2009 OECD Report on Division of Labour proposed measures for donor (bilateral or multilateral) concentration and fragmentation. The concentration ratio measures the size of aid flows a partner country receives from a donor compared to aid from other donors and, in turn, the proportion of aid the donor in question allocates to the partner country. Table 1.3 presents the total number of significant relationships which multilateral agencies and bilateral donors (DAC countries) have in low-income countries. From a partner-country perspective, having less “non-significant” donor relationships allows ministries of finance and/or planning to devote more time and effort to managing more “significant” partnerships.
According to the 2008 data in Table 1.3, aid from multilaterals was rather more geographically concentrated (75%) than that from bilateral donors (57%). This is, in part, due to the fact that some large multilateral organisations have a regional, rather than global, mandate. Regional mandates alone cannot, however, explain the 18-point disparity. For large multilaterals disbursing larger volumes than other donors and allocating need-specific and performance-based aid, such concentration is not surprising. Likewise, it is not too difficult for a small donor to appear “concentrated” if its global share of CPA is minimal (see Table A.4 in the Annex for disaggregated bilateral and multilateral concentration ratios). Many multilateral agencies with low concentration ratios have normative, standard-setting, technical mandates that are not best measured in terms of resource transfers alone.

Table 1.3. Concentration ratio of multilateral and bilateral donors in low-income countries, 2008

<table>
<thead>
<tr>
<th>DAC donors and major multilateral agencies</th>
<th>Number of “significant” relationships</th>
<th>Number of “non-significant relationships”</th>
<th>Total relationships (number of partner countries)</th>
<th>Concentration ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multilateral</td>
<td>A 524</td>
<td>B 175</td>
<td>(A+B) 699</td>
<td>(A) / (A+B) 75%</td>
</tr>
<tr>
<td>Bilateral</td>
<td>438</td>
<td>335</td>
<td>773</td>
<td>57%</td>
</tr>
<tr>
<td>Total</td>
<td>962</td>
<td>510</td>
<td>1472</td>
<td>65%</td>
</tr>
</tbody>
</table>

Source: OECD, 2009b.

MDG performance and aid allocations in the context of donors’ forward spending plans

To examine Millennium Development Goal (MDG) performance and aid allocations in the context of donors’ forward spending plans, the DAC Secretariat identified six clusters of low-income countries (LICs) on the basis of their MDG status and their progress towards the MDGs. The status was evaluated with composite scores from 12 MDG indicators used for MDGs 1 to 7. Progress made towards reaching the MDGs was determined by a composite trend score for each country. Figure 1.10 shows the six broad categories of LICs and the amount of country programmable aid that each group of countries receives from both bilateral and multilateral partners. The volume of bilateral ODA was greater than multilateral outflows in the clusters with “very low” or “low” development status and no progress. However, in the third cluster of LICs with “low” development status and some progress in meeting the MDGs, multilateral outflows exceeded bilateral ODA (OECD, 2010a).

Total use of the multilateral system

In addition to multilateral ODA, donors choose to give non-core funding earmarked for specific sectors, themes, countries or regions, and routed through multilateral agencies (Figure 1.11). Core multilateral ODA plus non-core multilateral ODA constitute total use of the multilateral system.

DAC members report such funding as bilateral ODA and refer to them as “non-core multilateral ODA” or “multi-bi”. The quality of data on multi-bi ODA reported by DAC members is improving, with 21 members reporting channel codes consistently. For this report, an effort was made to examine information reported in the “channel of delivery” field more closely.
In 2008, non-core funds amounted to USD 14 billion (or USD 16 billion if EU Institutions are included as a donor) – an 18% increase over 2006 when the figure was USD 12 billion (in 2008 prices). Part of the increase was attributable to better channel reporting. “Total use” of the multilateral system represented 40% of total ODA in 2008, similar to the 2006 level. In other words, when both core funding to multilaterals and non-core funding through multilaterals are included, multilateral aid agencies play a more important role in the overall international aid architecture than core contributions might otherwise indicate.

Although it is too early to establish whether total use is increasing, Chapter 2 explores the patterns of use of non-core multilateral ODA, while Chapter 3 looks specifically at non-core funding of UNDP and World Bank.
Main findings

- As overall levels of ODA increase, the multilateral share of ODA is flat or shrinking, when contributions to EU Institutions are excluded, shrinking.
- In many cases, donors allocate very different shares of their multilateral portfolio to the same multilateral agencies.
- Multilateral aid accounts for a high share of the aid granted by non-DAC EU members reporting to the DAC, although it is unlikely to be as high among the BRICs (who do not report to the DAC).
- In 2004-8, an average 82% of DAC members’ multilateral ODA went to six clusters of organisations: EU Institutions, the IDA, UN Funds and Programmes, the Global Fund, and the African and Asian Regional Development Banks (15 institutions in all). Conversely, multilateral ODA to the remaining 200-plus multilateral organisations accounted for only 18%.
- Recent trends indicate a decrease in the core multilateral funding of UN Funds and Programmes and an increase in funding to EU Institutions and the Global Fund.
- Multilateral outflows are, on balance, more flexible in the short term as demonstrated by their response to the crisis.
- Multilateral outflows are also more geographically concentrated than bilateral flows and deliver 37% of country programmable aid. These figures are, however, subject to qualification.
- The total use of the multilateral system by DAC donors (core multilateral ODA plus bilateral earmarked ODA channelled through multilateral organisations) was 40% of total ODA in 2008. Indeed, this proportion may give a better indication of the role multilateral institutions play in the overall aid architecture today.

Questions for future policy discussions

- What explains the flat historical multilateral share of ODA? Which arguments for and against greater pooling have the most traction in the current context?
- Should future work focus on the 15 multilaterals (6 clusters) which claim 82% of multilateral ODA volume, or should it also attempt to rationalise the 18% “long tail”?
- What are the main determinants of large variations in the multilateral portfolio choices across DAC members? Are any likely to be amenable to improved information sharing?
- Are new non-DAC and non-EU funding sources less focused on multilaterals? If so, why, and how might this change?
- Is the EU a special case that requires a different analytical approach? If so, in what way?
Notes

1. See page 34.
2. For the DAC Reports on Multilateral Aid, the gross ODA figure is used to show what proportion of outflows goes to multilateral organisations from each DAC member. A net ODA figure that takes into account return flows to donors (for those with bilateral loan programmes) would overstate the multilateral share of some members.
3. These include Barbados, Brazil, China, Cyprus, Czech Republic, Egypt, Estonia, Hungary, Iceland, Israel, Kuwait, Latvia, Lithuania, Mexico, Poland, Russia, Saudi Arabia, Singapore, Slovak Republic, Slovenia, South Africa, and Turkey.
4. United Nations Funds and Programmes for which disaggregated data are available include UNDP, UNICEF, UNFPA, UNRWA, UNHCR, and WFP.
5. See also OECD Development Brief “Getting Closer to the Core – Measuring Country Programmable Aid”.
6. Note that data from 2009 to 2012 in Figure 1.2 are estimates based on donors’ responses to the 2010 Forward Spending Survey.
7. The number of “significant” relationships is determined in one or both the following ways:
   - A donor (bilateral or multilateral) contributes a higher percentage of a recipient’s country programmable aid (CPA) than of its global share of total CPA. The donor is then deemed to be “concentrated” in this country.
   - A donor (bilateral or multilateral) accounts for among the top 90% of aid in the partner country. The “non-significant” category refers to a donor-partner country relationship that does not fit either of the two criteria. For more details see the DAC Survey on Donors’ Forward Spending Plans 2010-2012.
8. The higher share of smaller multilateral donors than of smaller DAC bilateral donors works in the favour of multilaterals. For example, for those donors reporting to the DAC, the median global CPA share of multilateral organisations is 0.6%, whereas the median bilateral share of global CPA is 1.4%.