

Chapter 2

Non-core funding of multilaterals

This chapter concludes that non-core funding can contribute to a wide range of complementary activities, although they also discuss some of its less positive aspects. The existence of a large number of multi-donor trust funds is a testament to the growing use of non-core funding. Since non-core funding is likely to continue its upward trend, donors should ensure that it complements a minimum number of core contributions and does not undermine the multilateral organisation's core objectives. To date, few evaluations of multi-donor trust funds have been conducted.

The previous chapter discussed trends in multilateral aid, and explained both core and non-core multilateral ODA. Box 2.1 provides definitions of core and non-core funding, according to DAC directives.

Box 2.1. Definitions of multilateral ODA and non-core or multi-bi ODA

1. 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.

2. If a donor channels ODA earmarked for a sector, theme, country, or region through a multilateral institution, such ODA is reported as bilateral ODA. It is also referred to as non core multilateral ODA or multi bi ODA.

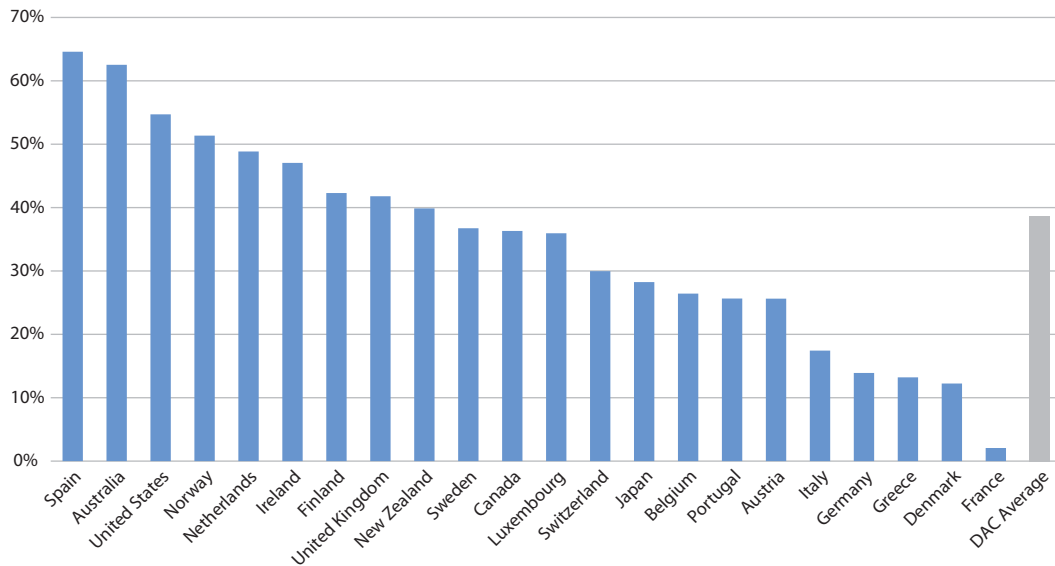
Source: OECD DAC Reporting Directives and OECD DAC Secretariat, 2010.

This chapter and the next (Chapter 3) conclude that non-core funding can contribute to a wide range of complementary activities, although they also discuss some of its less positive aspects. The existence of a large number of multi-donor trust funds is a testament to the growing use of non-core funding. Since non-core funding is likely to continue its upward trend, donors should ensure that it complements a minimum number of core contributions and does not undermine the multilateral organisation's core objectives. To date, few evaluations of multi-donor trust funds have been conducted.

Overview of DAC members' non-core funding

Australia, Norway, Spain, and the United States have the highest non-core multilateral ODA as a share of the reported "total use" of the multilateral system (core plus non-core multilateral aid). Their shares are well above the DAC average of 29%. When contributions to EU Institutions are excluded, the DAC average rises to 39% (see Figure 2.1) and the same top four donors emerge. Until recently, contributions to EU Institutions were only un-earmarked (core), meaning that EU members' multilateral ODA included, by implication, a larger portion of core multilateral ODA. Denmark, France, Germany, and Greece have the lowest shares, though this may partially be due to the under-reporting of non-core multilateral aid. More detailed information, which also encompasses each donor's specific non-core allocations, can be found in Annex B.

Figure 2.1. **Gross non-core multilateral ODA disbursements in 2008 as shares (percentage) of reported total use of the multilateral system**
(Excluding disbursements to the EU)



Source: OECD DAC aggregate statistics and Creditor Reporting System, 2010.

Main issues relating to non-core funding of multilaterals

There are inherent tensions and complementarities in providing both core and non-core contributions to multilateral entities. Non-core funding may undermine institutions' core governance mechanisms. At the same time, it creates opportunities by augmenting targeted resources through these same institutions.

Non-core funding from a donor's perspective

From the point of view of the donor, non-core funding through multilaterals allows it to direct its resources to specific sectors or to regions and countries of interest. A donor can thus direct targeted funding to an organisation it may not otherwise fund because, for example, it believes that the organisation's board does not allocate the core funding it receives in accordance with key international development needs and priorities (from the donor's point of view at least). Donors may also use non-core funding to exert influence on the activities financed by a multilateral organisation in a possibly less cumbersome and bureaucratic way than through its board or equivalent decision-making body.

Non-core funding also provides donors with the kind of visibility in the eyes of its stakeholders that may be important for mobilising and maintaining public resources for development. For example, contributing to the World Bank's East Asia Infrastructure Fund may be a more high-profile investment than allocating the same amount of money in core resources to the IDA or IBRD, even though these un-earmarked resources may in fact be partly spent on infrastructure programmes in East Asia. Increased non-core funding by some donors could make core funding less appealing for all donors if core funds are perceived as subsidising non-core funds in cases when administrative costs are not fully covered by trust fund overheads. For this reason, it is important for multilateral organisations to maintain a strategic vision and framework that demonstrate the results of core activities in order to attract core funding at the same time as they accept non-core funds.

Similar to the rationale for providing core multilateral funding, donor governments may wish to fund specific programmes or specific partner countries where they either do not have the ability to implement a programme, or where they do not have a bilateral presence. In this way, donors may provide non-core funding as a way to reduce their own transaction costs, although they are not likely to eliminate such costs entirely. The multilateral agency in question may shoulder the transaction costs, incorporating them into administrative fees or charges, which are ultimately financed by donors.

Non-core funding from the perspective of the first receiver (multilateral organisation)

The supply of non-core funds can shift a multilateral organisation's overall balance of activities, potentially carrying the risk of weakening its core policies. The day-to-day governance of non-core funds is not usually under the purview of the board of the organisation in question. The governance arrangement for earmarked funds may also offer less voice to partner countries in the decision-making process. Even in cases where trust funds are *multi*-donor and sources of funding are pooled, the scope of governance oversight over those resources may not be as representative as the formal governance arrangements in place. In some cases, partner countries have a little more voice in the management of the relevant trust fund, although this is not consistently the case. Managing non-core resources can also incur higher transaction costs for the organisation (relative to core contributions), given the time required to negotiate and implement donor-specific monitoring and reporting requirements.

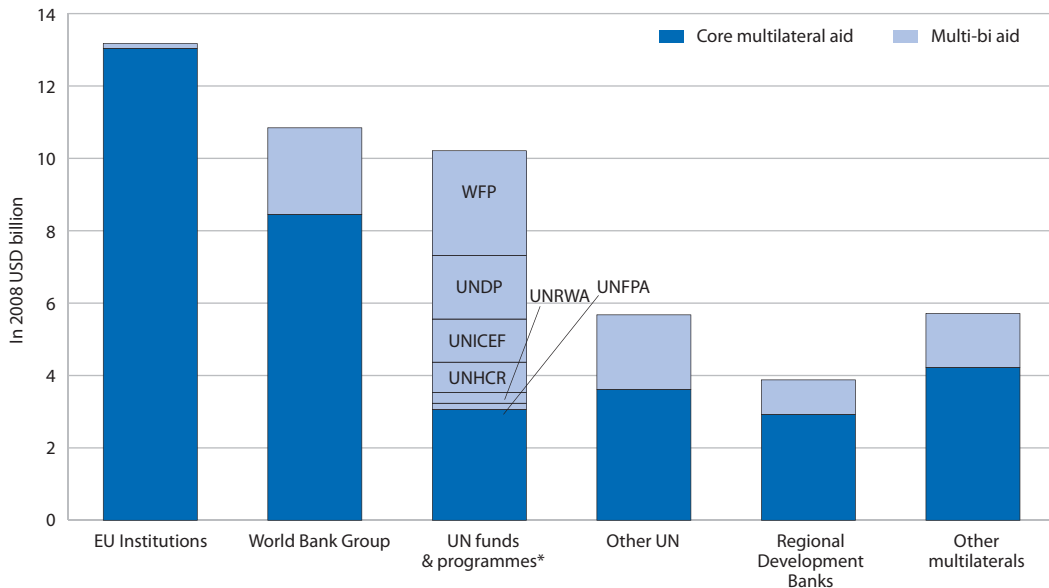
On the other hand, non-core funds increase the overall envelope of resources available to multilateral entities, allowing them to engage in a wider range of activities through existing institutional structures. The use of an existing multilateral organisation as a vehicle for specific, critical, time-bound purposes may be preferable to creating a new multilateral institution and even more desirable than the alternative of establishing multiple bilateral initiatives in parallel. In certain situations, non-core funding can also contribute to enhanced harmonisation and alignment among donors, as in the case of the UN Multi-Donor Trust Fund Office.

Aid effectiveness principles applied to the funding of the multilateral system

Aid effectiveness principles can be applied to the funding of multilateral entities and to the mix of core and non-core funding provided. The more that DAC members' multilateral portfolios are shaped by non-core resources, the less predictable the funding of multilaterals becomes, especially to the extent that non-core resources squeeze out core contributions. For example, where a donor's contributions are more likely to be determined by specific themes that are time-bound, rather than by an organisation's fundamental objective or existing mandate, future funding may become unpredictable. For this reason it seems plausible, on the grounds of predictability, to couple non-core funds with a minimum of core funding.

Core funding helps to support the basic institutional infrastructure that underpins both core and non-core funding. Nevertheless, some multilateral organisations increasingly see non-core funding as a separate business line that includes all associated costs, and some, such as the World Food Programme, rely very little on core funding for any of their operations. In fact, the aid effectiveness principles relating to non-core funding do not apply to humanitarian aid which is, by nature, unpredictable.

Figure 2.2. **Total use of the multilateral system, gross disbursements in 2008**
(Excluding EU Institutions and Korea as donors)



* 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.

Source: OECD DAC aggregate statistics and Creditor Reporting System, 2010.

Chapter 3 looks more closely at the non-core funding of UNDP and the World Bank. As illustrated in Figure 2.2 and according to data reported to the DAC, the World Bank is the largest single recipient of non-core funding with USD 2.4 billion. UNDP is the second largest UN non-core recipient (USD 1.8 billion), after the World Food Programme (USD 2.9 billion) which depends, by nature, on assistance earmarked for specific emergency operations and receives very little core funding. Until recently, EU Institutions did not accept earmarked funds, which explains their very small share of non-core multilateral ODA.

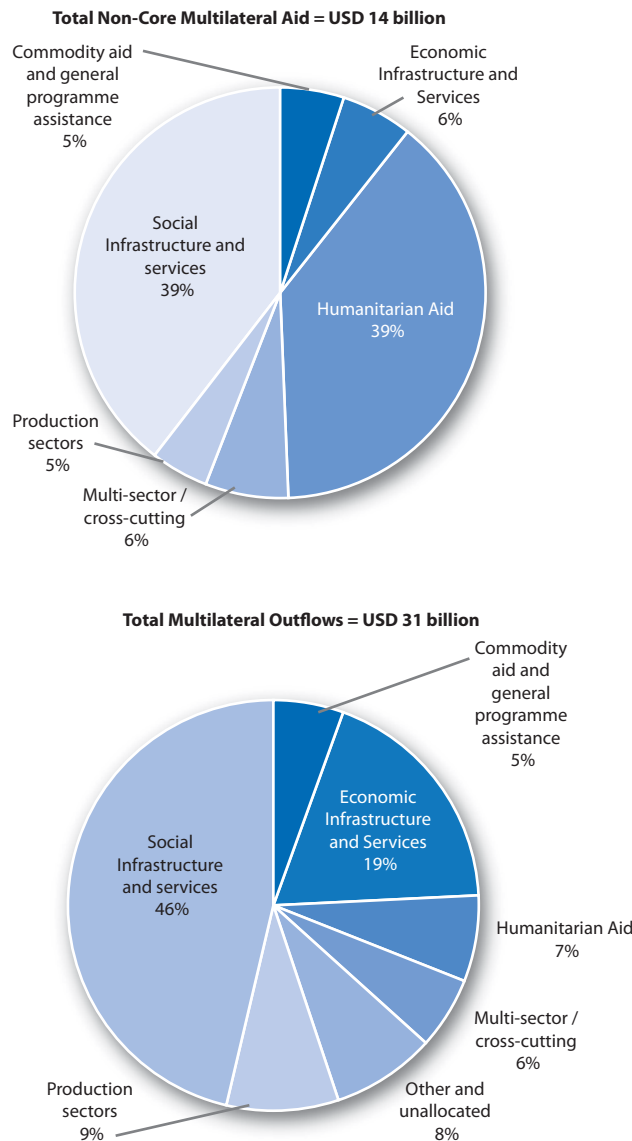
Level of non-core earmarking and country-level aid delivery

Over 80% of non-core funds are earmarked for a specific country or region. The remaining one-fifth are not country-or region-specific at the outset, but earmarked by sector.

Sectors and recipients of non-core support compared to other channels

Multilateral outflows reported to the DAC relate only to disbursements from core un-earmarked contributions. Humanitarian activities account for a much higher share of non-core multilateral aid (39% or USD 5.5 billion) than of core multilateral outflows (7% or USD 2.1 billion), as illustrated in Figure 2.3. In fact, non-core ODA earmarked for humanitarian purposes and routed through multilateral organisations is the single most important channel of humanitarian aid in volume, as bilateral humanitarian aid directly to partner countries represents USD 3.5 billion. Non-core humanitarian aid to the WFP represents nearly half of total non-core multilateral humanitarian aid. Humanitarian aid encompasses emergency response; reconstruction, relief, and rehabilitation; and disaster prevention and preparedness.

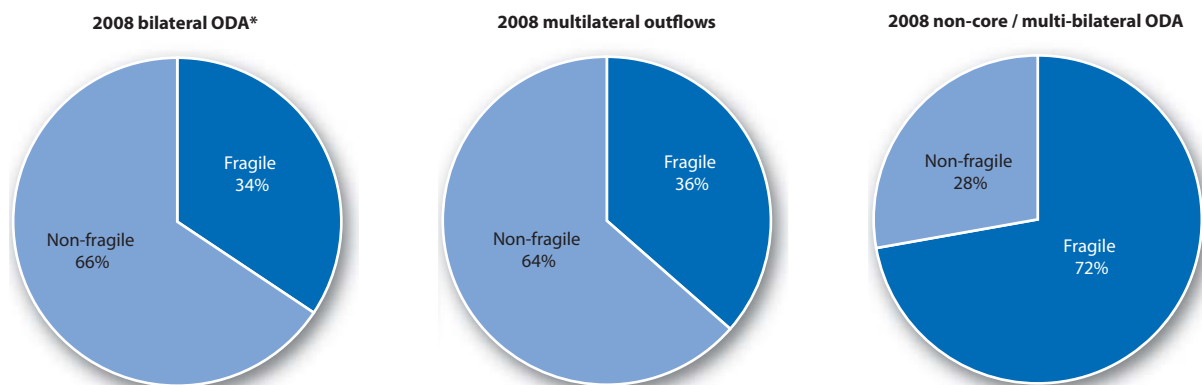
Figure 2.3. **Gross non-core multilateral aid disbursements and multilateral outflows in 2008**
(In USD, excluding debt relief)



Source: OECD Creditor Reporting System, 2010.

Non-core activities focus less on “economic infrastructure and activities” (which embraces transport, communications, energy generation, banking and financial services, and business development) than core multilateral outflows. Non-core and core multilateral aid account for similar proportions of aid towards “social infrastructure and services”, a category that includes education, health, and economic policy and planning. Non-core multilateral aid and multilateral outflows follow similar patterns of geographical allocation, with sub-Saharan Africa as the top recipient. However, non-core multilateral ODA reaches a higher proportion of fragile states: 72% of non-core funds allocated to specific countries go to fragile states as opposed to 36% of core multilateral outflows and 34% of bilateral ODA (see Figure 2.4).

Figure 2.4. Share of aid flows going to fragile and conflict-affected states



* This excludes multi-bilateral ODA.

Note: Total bilateral ODA (allocated to specific countries): USD 69 billion. Total multilateral outflows (allocated to specific countries): USD 29 billion. Total multi-bilateral ODA (allocated to specific countries): USD 9 billion.

Source: OECD Creditor Reporting System, 2010.

Channels of aid delivery in different partner countries

In addition to core multilateral outflows, an average of 19% of CPA is channelled through multilateral organisations¹ to fragile and conflict states compared to 9% in other countries. This small difference may be due to the fact that multilateral entities have a greater presence in fragile and conflict-affected states than bilateral agencies and are entrusted with resources from bilateral partners not active in those countries. In some ways it is surprising that there is not a greater difference between the two, but this is probably due to large volumes of ODA from large bilateral donors in some fragile and conflict states.

Further work could analyse these funding channels in more detail from the point of view of partner countries. Table 2.1 shows information on the shares of concessional official development finance that was delivered to nine countries as bilateral, multi-bi (non-core), and core multilateral outflows in 2008. Sudan and Afghanistan rely more on channels of non-core multilateral ODA, as evidenced by the large volume of resources managed by specific trust funds to these countries. Bolivia, Indonesia, and Zambia rely heavily on bilateral ODA (more than 72%), whereas Haiti, Mongolia and Uzbekistan depend more on core multilateral outflows than the other countries in the table.

Table 2.1. Channels of country programmable aid in nine partner countries, 2008

| | Bilateral ODA | | |
|-------------|---------------|-----------------------|-----------------------|
| | Bilateral | Non-core multilateral | Multilateral Outflows |
| Afghanistan | 65% | 27% | 8% |
| Bolivia | 76% | 6% | 17% |
| Haiti | 52% | 17% | 31% |
| Indonesia | 74% | 7% | 19% |
| Mongolia | 65% | 7% | 28% |
| Sudan | 33% | 58% | 9% |
| Uzbekistan | 69% | 4% | 27% |
| Viet Nam | 60% | 6% | 34% |
| Zambia | 72% | 2% | 25% |

Source: OECD DAC aggregate statistics and Creditor Reporting System, 2010.

¹ Secretariat estimate, based on country programmable aid plus humanitarian assistance.

Main findings

- In 2008, 29% of DAC countries' total aid transiting through the multilateral system was earmarked (non-core). This rose to 39% when all contributions to EU Institutions were excluded.
- Donors earmark funds for specific countries and sectors to gain greater visibility and influence in the multilateral system.
- From a multilateral organisation's perspective, excessive earmarking risks weakening its governance and complicates accountability. However, such risks may be better than the alternative of multiple, single-donor, parallel initiatives.
- Non-core, or earmarked, multilateral ODA is the single-most important channel for humanitarian aid. It also targets a higher proportion of fragile states than multilateral outflows or bilateral ODA.

Questions for future policy discussions

- Is there a growing trend towards non-core funding? What might the implications be for development effectiveness?



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