

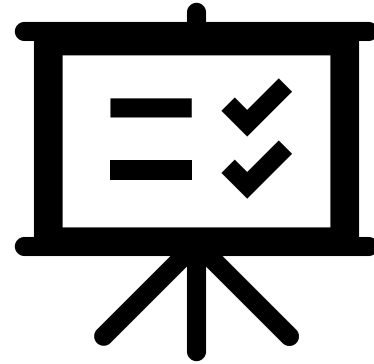
Curbing aid fragmentation through smarter multi-bi funding?

Dr Bernhard Reinsberg

NORAD Expert Workshop
Development assistance-in-trust
19 September 2019

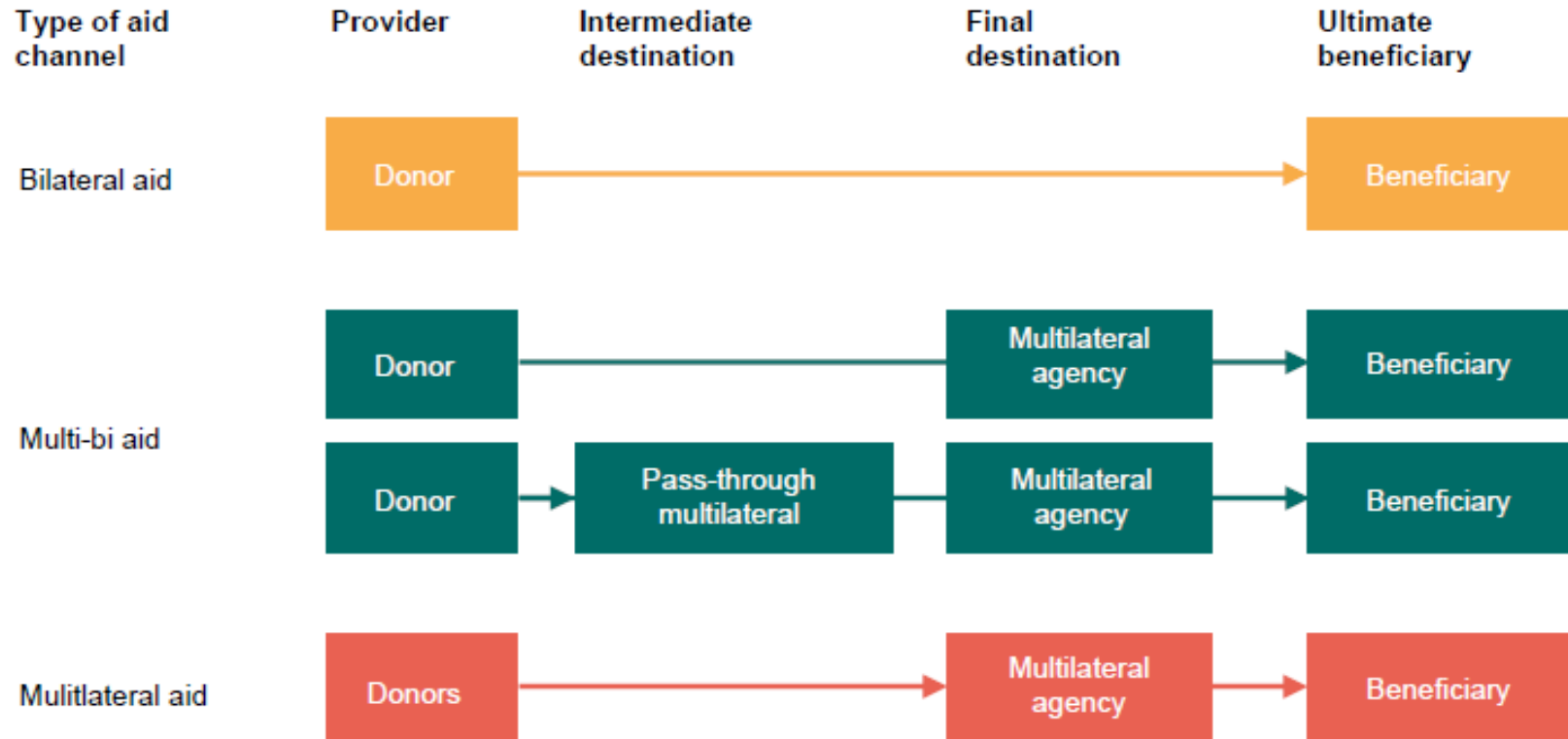
Outline

- Challenges
- Causes
- Recommendations



The twin challenges of multi-bi aid

Type of flows in the aid architecture



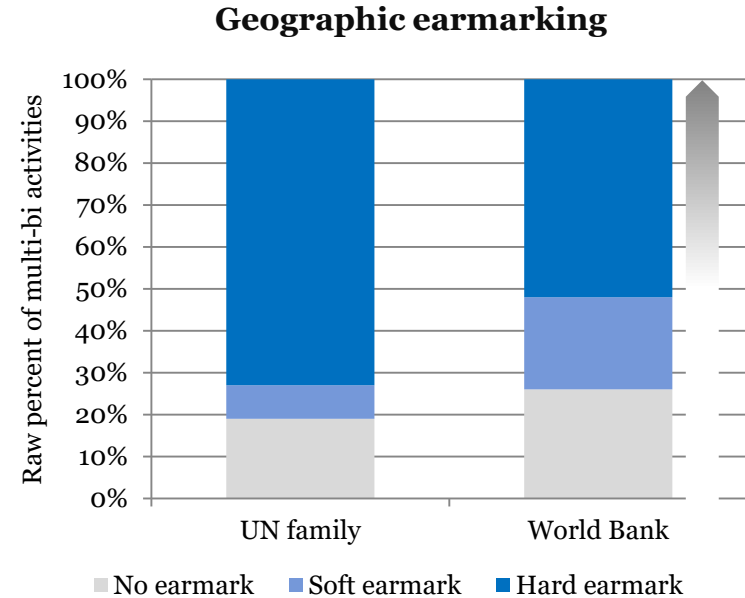
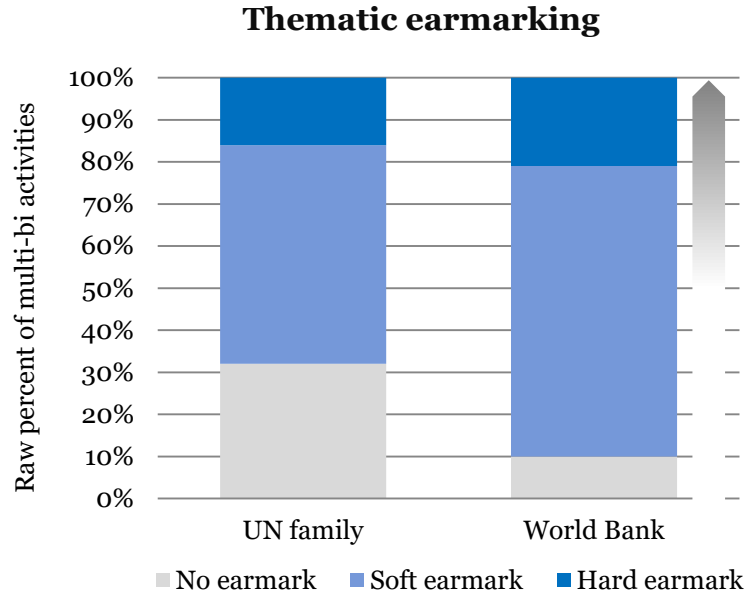
Source: Reinsberg et al. (2015).

Earmarking can undermine the effectiveness of multilateral organizations.

- High transaction costs
- Policy incoherence
- Harmful competition
- Politicization of multilateral institutions

Reinsberg, B. (2016). [The implications of multi-bi financing on multilateral agencies: The example of the World Bank](#). In: Mahn, T., Negre, M., & Klingebiel, S. (eds.). *The fragmentation of aid: concepts, measurements and implications for development cooperation*. Basingstoke: Palgrave Macmillan, 185-198.

Depth of earmarking by institutional family (2010-12)



Notes: Graphs based on total number of multi-bi activities while excluding unearmarked funds.

Data source: Eichenauer, V. Z., & Reinsberg, B. (2017). What determines earmarked funding to international development organizations? Evidence from the new [multi-bi aid data](#). *Review of International Organizations*, 12(2), 171-197.

Multi-bi aid increases the fragmentation of the multilateral system.

- Fragmentation is the degree to which aid is distributed across different delivery channels
 - Agency-hosted trust funds increase internal fragmentation of multilateral agencies
 - Pass-through multilaterals increase aid fragmentation at the country level

Concentration by aid type

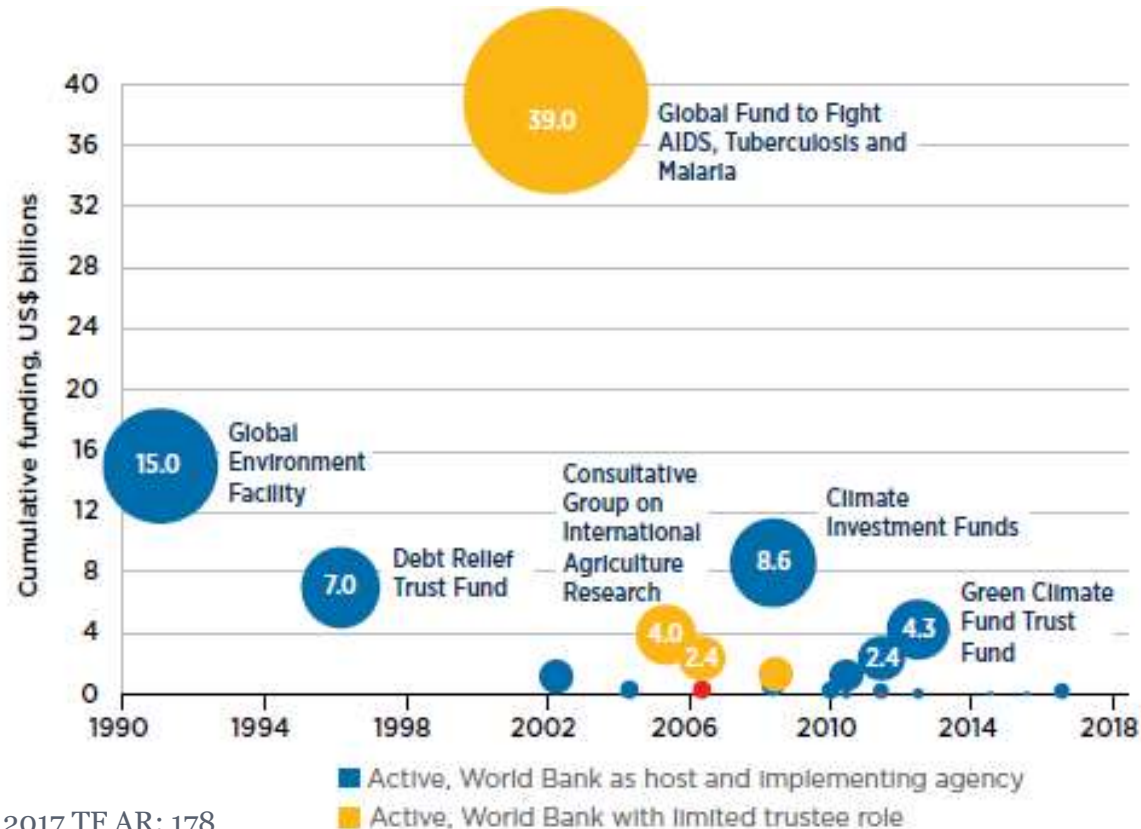


Concentration is measured by the **Herfindahl index**, based on relative funding shares of IOs in a donor portfolio

$1/N$ 1

low high

FIFs by year of establishment and cumulative funding

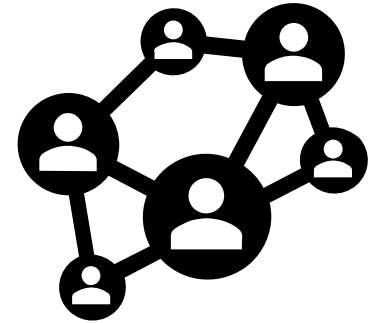


Source: WB 2017 TF AR: 178

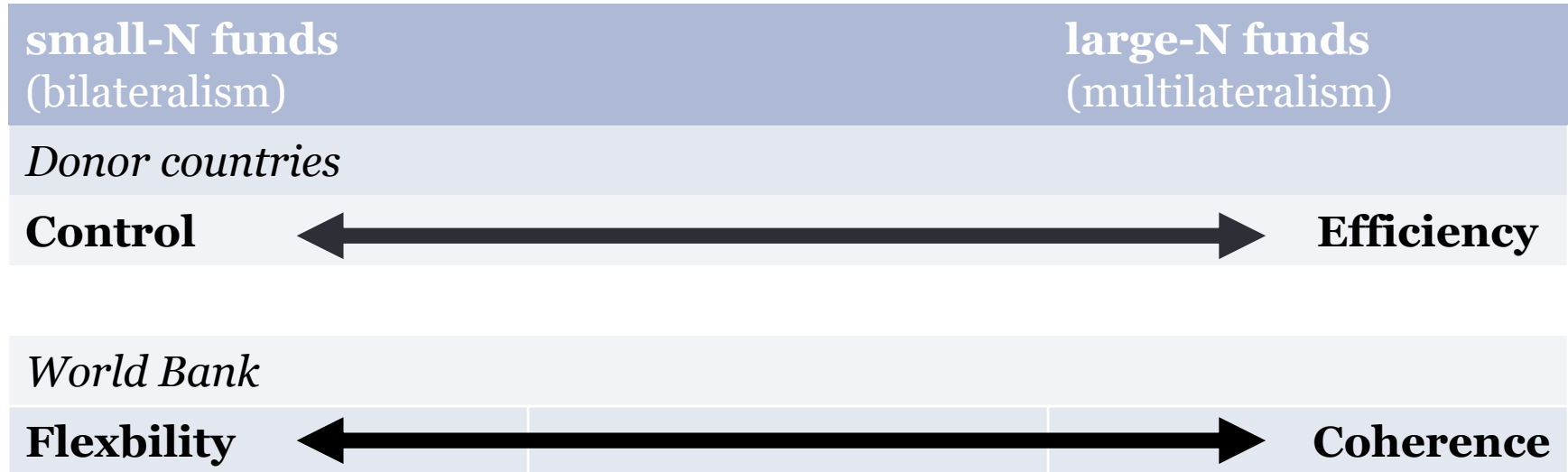
Causes of fragmentation

Fragmentation is the consequence of decentralization of key stakeholders.

- **Donor countries:** Increasing shares of foreign aid given through line ministries and country offices
- **Multilateral agencies:** Increasing share of operations devolved to the field (through *Strategic Compact* at the World Bank)



A framework of analysis of TF type tradeoffs



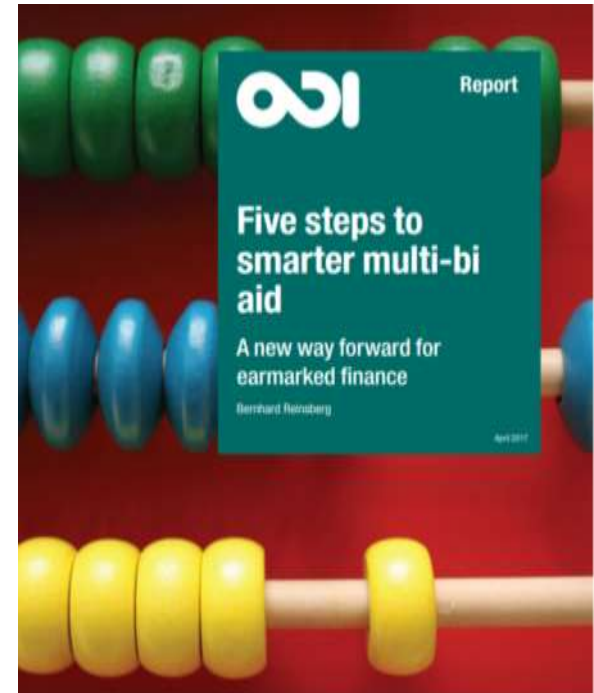
Reinsberg, B. (2017). [Organizational reform and the rise of trust funds](#): lessons from the World Bank. [Review of International Organizations](#), 12(2), 199-226.

The way forward

Centralization does not solve the problem (or solves one but creates another).

Five steps to curb fragmentation.

1. Improve data quality and data management
2. Recover full economic cost of earmarking
3. Fee modalities for improving impact
4. Rules for minimizing portfolio fragmentation
5. Enhance country ownership and participation



Thank you for your attention

Dr Bernhard Reinsberg

bernhard.reinsberg@web.de

<https://bernhadreinsberg.wordpress.com/multi-bi-aid/>

Questions for discussion

- Is fragmentation a problem? And for whom?
- Is earmarking always bad?
- Will moves toward standardization solve the problem?
- Can the proposed reforms re-engineer incentives so as to reduce earmarking and reduce fragmentation?

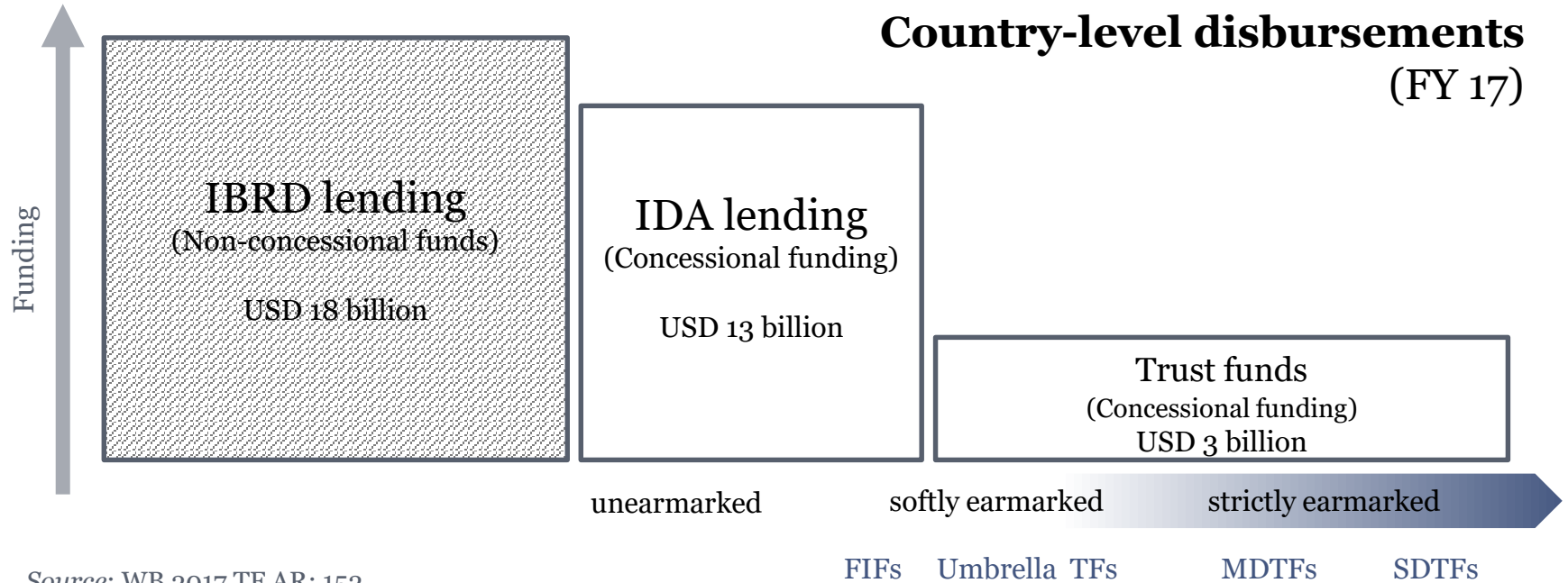
Supplemental appendix

What is multi-bi aid?

Donor contributions to multilateral organizations that are earmarked for specific sectors, themes, regions, or countries and that are managed separately from core resources of host organizations

- **Purposes** of multi-bi aid
- **Variety** of multi-bi aid arrangements
- **Varying degrees of earmarking** of multi-bi aid

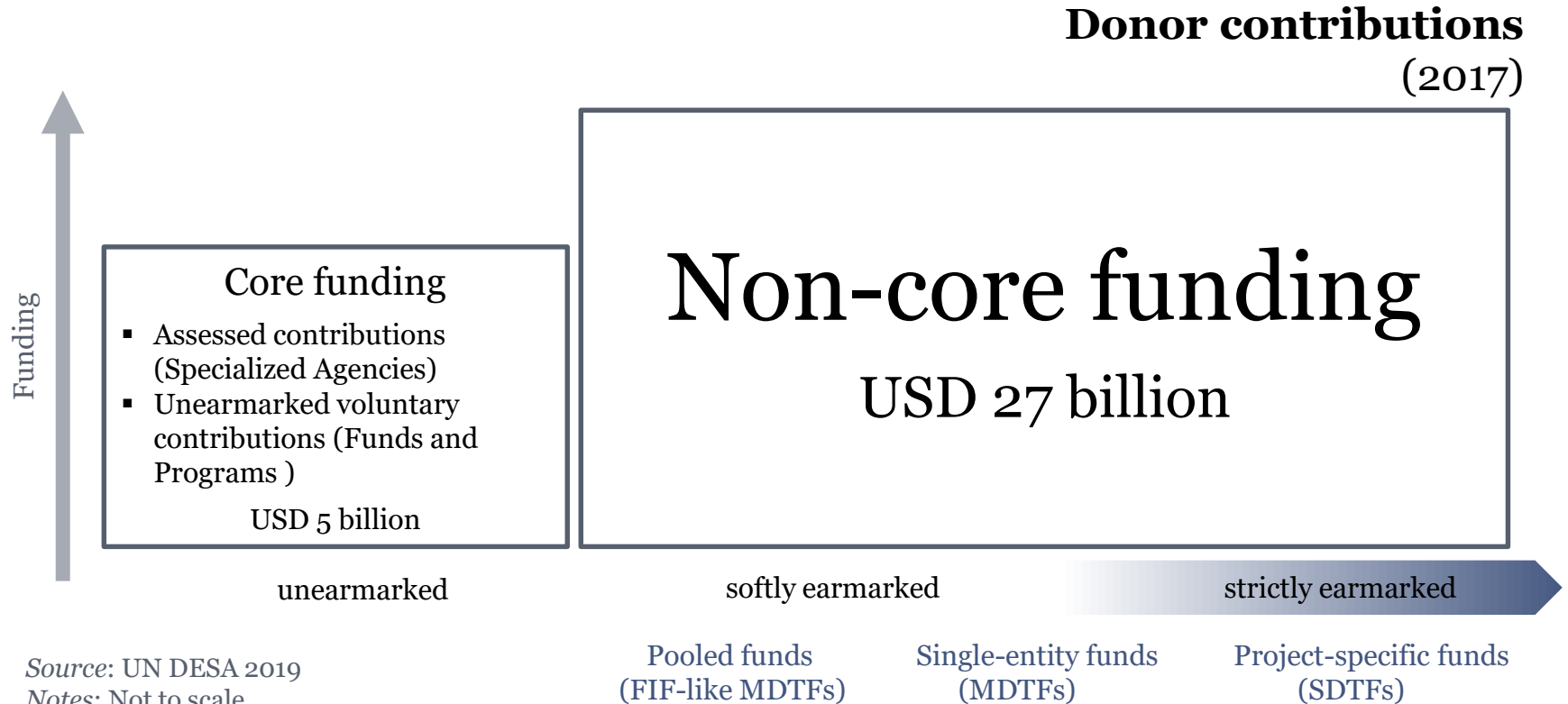
World Bank



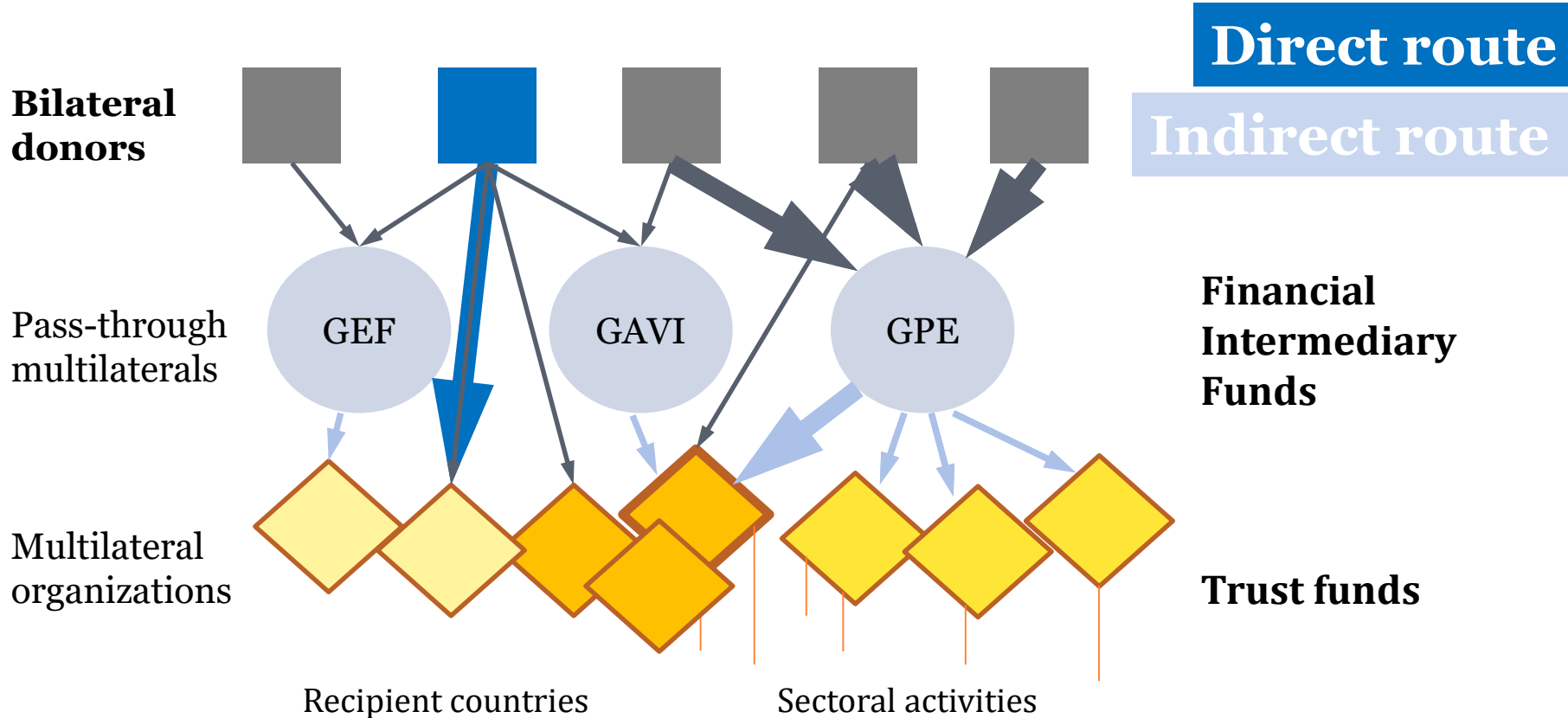
Source: WB 2017 TF AR: 152

Notes: Not to scale

United Nations



The emerging hierarchy of earmarked funding channels



Takeaway 1: Multi-bi aid and channel fragmentation are closely related

- TFs provide the low-cost vehicle to increase delivery channels
 - Managerial challenge at portfolio level
 - Operational challenge at TF level
- FIFs increase complexity of aid architecture by adding a new layer

Tradeoffs for donors

- Choice among different aid modalities requires donors to balance *efficiency* versus *control*
 - Bilateral channels provide donors with control
 - Multilateral channels provide donors with efficiency
- Donors pick bilateral aid when their salient preferences are concerned

Milner, H. V. (2006). Why multilateralism? Foreign aid and domestic principal-agent problems. *Delegation and agency in international organizations*, Cambridge University Press, 107-139.

Milner, H. V., & Tingley, D. (2013). The choice for multilateralism: Foreign aid and American foreign policy. *Review of International Organizations*, 8(3), 313-341.

Which kind of multilateralism?

- Choice among different trust funds requires donors to balance *efficiency* versus *control*
 - Large-n funds facilitate burden-sharing but dilute own preferences
 - Small-n funds give less bang-for-the-buck but ensure control (the extreme case being single-donor funds)
- Donors pick less-earmarked funds when their preferences are aligned

Reinsberg, B., Michaelowa, K., & Knack, S. (2017). [Which Donors, Which Funds?](#) Bilateral Donors' Choice of Multilateral Funds at the World Bank. [International Organization](#), 71(4), 767-802

Portfolio choice of multilateral organizations

- A donor will choose the ones in which it has the greatest *leverage over policy* (despite some inevitable loss of control) and which are *effective*
- Conditions under which an IO is more likely to be chosen
 - Greater alignment of IO mandate with donor preferences
 - Greater alignment of foreign policy interests among member states

Schneider, C. J., & Tobin, J. L. (2013). Interest coalitions and multilateral aid allocation in the European Union. *International Studies Quarterly*, 57(1), 103-114.

McLean, E. V. (2012). Donors' preferences and agent choice: Delegation of European development aid. *International Studies Quarterly*, 56(2), 381-395.

Tradeoffs for the World Bank

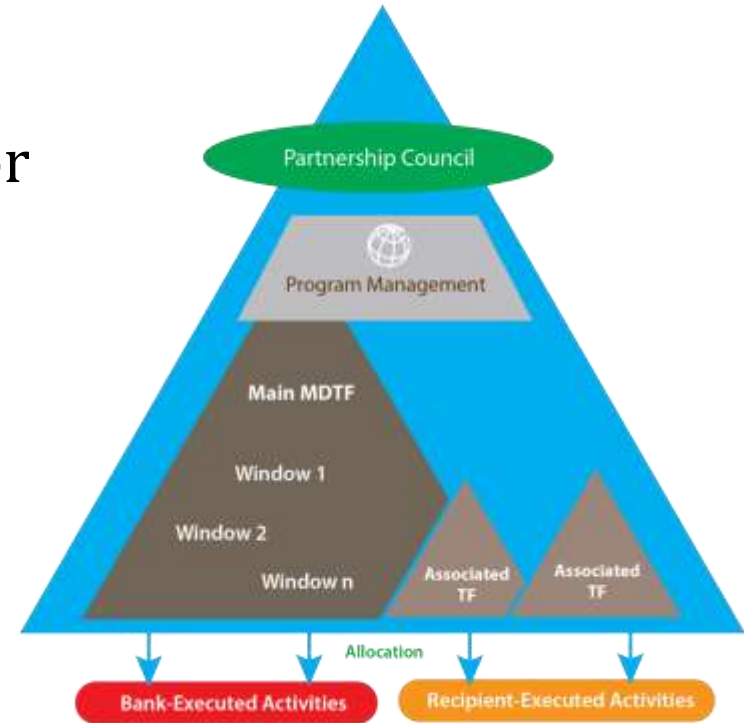
	IBRD/IDA TFs	FIFs
Benefits	<ul style="list-style-type: none">▪ Relevant to country needs▪ Fully integrated into operational procedures	<ul style="list-style-type: none">▪ New business line (Global Public Goods)▪ Partnership with other agencies
Costs	<ul style="list-style-type: none">▪ Fragmented landscape▪ (Hard) earmarking▪ Additional reporting	<ul style="list-style-type: none">▪ Lack of alignment with country assistance strategy▪ Lack of management oversight▪ (Perceived) conflicts of interest▪ Complexity due to customization

World Bank responses

	IBRD/IDA TFs	FIFs
Previous reforms	<ul style="list-style-type: none"> ▪ Phase I (2001-07): financial controls ▪ Phase II (2007-13): business process integration ▪ Phase III (2013-17): lifecycle approach and management oversight; umbrella facilities; standardized AAs and cost recovery 	2013 FIF Framework taking a lifecycle approach: <ul style="list-style-type: none"> ▪ Identification, preparation, and approval; ▪ Operational and portfolio management of ongoing programs ▪ Planning and managing possible exits
Proposed reforms	<i>Second-generation umbrella funds</i>	<i>2019 FIF Management Framework</i>

Second-generation umbrella funds

- The main goal is to pre-balance *efficiency* and *control* for the donor toward efficient mechanisms
- Activities that do not fit within umbrella can be accommodated via standardized stand-alone TFs



Source: WBTF Partner Consultation, Paris, 01/2019

Key features of Umbrella Funds

Governance	<ul style="list-style-type: none">▪ Steering committee meets annually to provide strategic guidance▪ Additional contact points as needed
Managing donor preferences	<ul style="list-style-type: none">▪ Strategic guidance during annual meeting▪ Where needed, preferencing of contributions within Umbrella MDTF▪ No (strict) earmarking (only via associated standard TFs)
Reporting and results framework	<ul style="list-style-type: none">▪ Annual report▪ Evaluations every five years at umbrella level
Visibility and communication	<ul style="list-style-type: none">▪ Develop and implement a Communication and Visibility Plan

Bank-wide roll-out underway following pilot phase until June 2019

Recipient-country perspectives

- Multi-bi aid likely a double-edge sword—**potentially additional funding** at the expense of **greater fragmentation** (especially from FIFs—as in the climate finance area)
- But some recipients value greater choice

Aid fragmentation:

- Kilby, C. (2011). What determines the size of aid projects?. *World Development*, 39(11), 1981-1994.
- Humphrey, C., & Michaelowa, K. (2013). Shopping for development: Multilateral lending, shareholder composition and borrower preferences. *World Development*, 44, 142-155.

Recipient-country perspectives

- Key hypotheses
 - **Direct consequences** of multi-bi aid for recipient countries can be significant especially where FIFs have proliferated
 - **Indirect consequences** can be significant in some contexts— notably under competition for funding among UN agencies at country level
- But multi-bi aid does not need to be bad provided that some of its adverse system-level consequences can be kept in check

Takeaway 2: Fragmentation is likely to persist under given incentives

- Donors balance need for control *versus* desire for efficiency
- World Bank balances need for flexibility *versus* desire for greater coherence
- Recipient countries unlikely to have strong preferences—most affected by potential implications of multi-bi aid on organizational performance of host IOs

Takeaway 3: Reforming the multilateral system is a shared responsibility

- Stakeholders can start by getting their own house in order
- Stakeholders need to work collectively to change the incentives structures

Concrete steps for donors

Government-wide pooling of data

- Donors need to ramp up their internal systems to obtain their *TF portfolio at a glance* (across all multilateral agencies)
- Coordinated by a central TF unit with advisory role

Evidence-based allocation

- TF engagement decisions to be based on multilateral engagement strategy
- Each engagement must be justified against criteria and superiority of TF mechanism be demonstrated

An example of a multilateral engagement strategy: <https://www.government.se/reports/2016/02/strategy-for-swedens-cooperation-with-the-world-bank-group-20162018/>

Concrete steps for World Bank and other agencies

TF data portal

- Publicize better data to enable historically-informed research on the causes, effects, and consequences of TFs
- Life-cycle projections to better understand how portfolio develops
- Conduct portfolio reviews with donors (*Spring Cleaning*)

FIF reporting

- Work with IO partners to make available comprehensive data on *all* FIFs—similar variables as for IBRD/IDA TFs

What can they both do?

- Lack of awareness: Educate decisionmakers about range of governance options for TFs and non-TF alternatives
- Incentives structures: Understand fragmentation as a result of tradeoffs for development stakeholders
→ Increase costs of collectively inferior TF options
- Need to empower the development stakeholders that suffer from fragmentation while building their capacity to navigate the range of TF options

Multi-bi aid data

- Collection of three datasets based on our original coding of earmarked activities from the OECD/DAC Creditor Reporting System
- Current coverage for 1990-2012 period but applied for grant to extend to 1990-2019 period

[Codebook](#)

[Publication](#)

[Data download](#)

Multi-bi aid data

Component 1

- List of ODA-eligible multilateral organizations and their major institutionalized trust funds (262 full IOs, 47 FIFs, with own *parentID*, and 398 agency TFs, identified via *childID*)
- Provides the basis for assessment of depth of earmarking from the perspective of *parentID*)

Multi-bi aid data

Component 2

- Earmarked activities from 23 DAC donors as reported in the OECD/CRS Creditor Reporting System
 - Identified all earmarked activities for extended time period and corrected coding errors
 - Assessed depth of earmarking for each activity across three dimensions and three intensity levels
 - Geographic earmarking
 - Thematic earmarking
 - Institutional earmarking

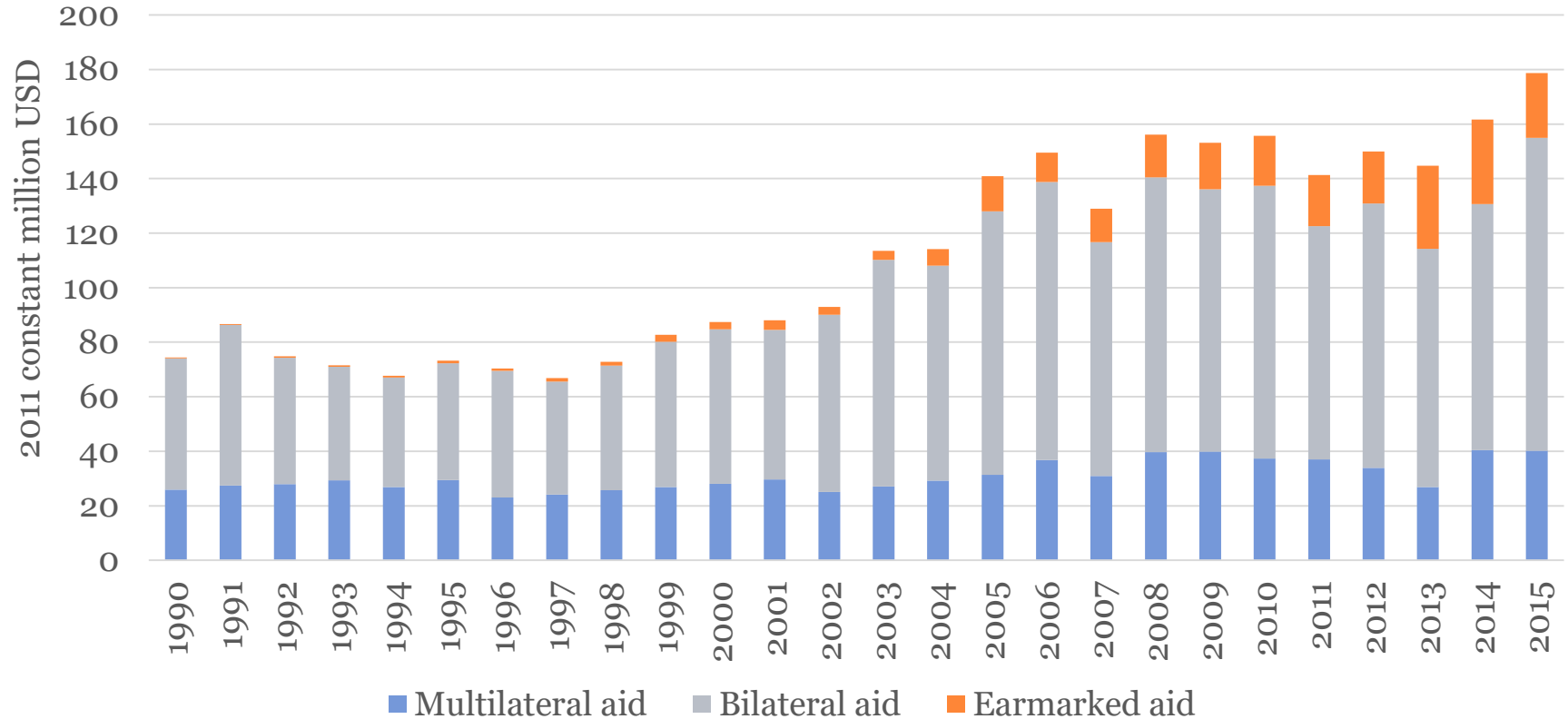
Multi-bi aid data

Component 3

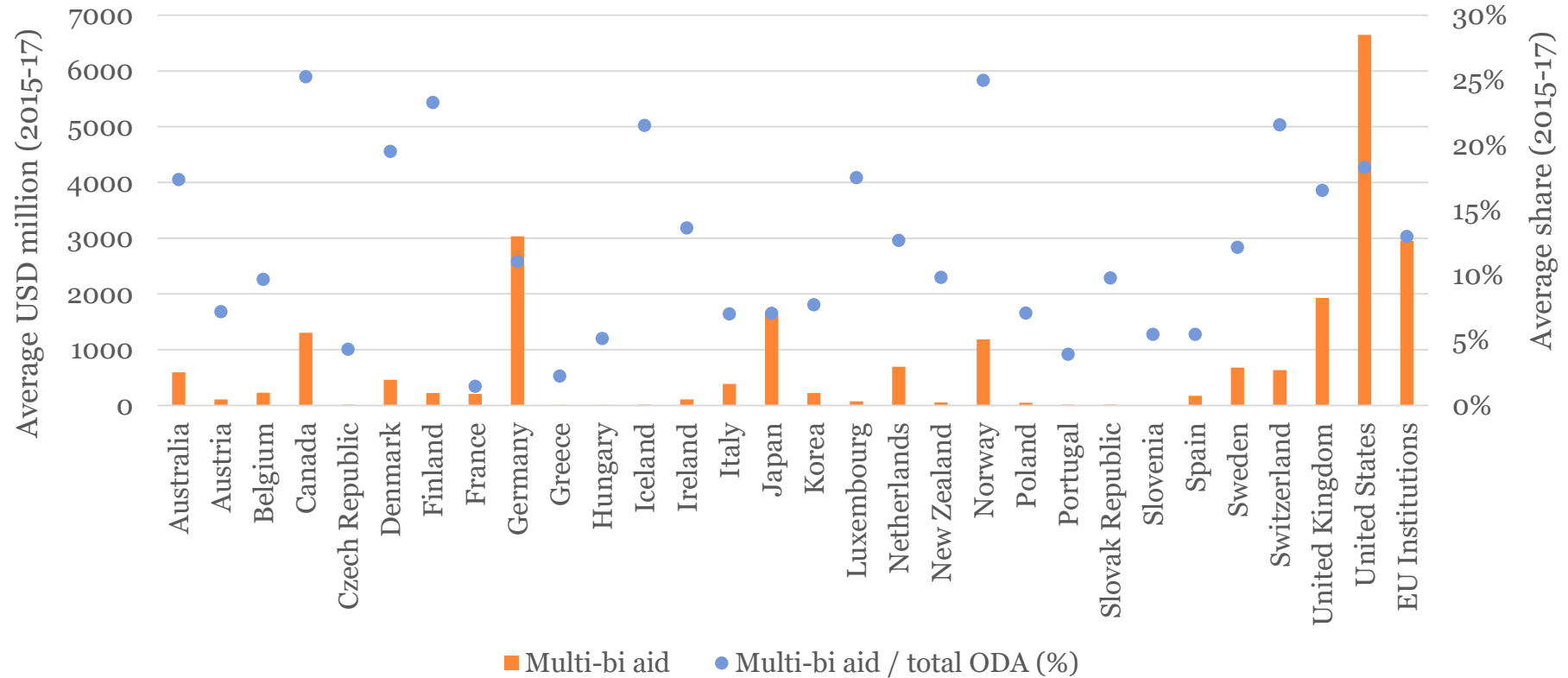
- Aggregation of multi-bi aid activities and pro-rata attribution of pass-through multilaterals outflows to DAC donor countries
- Country-year data on two channels for routing earmarked aid
 - Direct route: donor contributions to agency TFs
 - Indirect route: through membership in pass-through multilaterals

Toy example: Assuming GFATM provides USD 100 million in a given year. France has a share of 25% in the GFATM, then its pro-rata multi-bi aid via the indirect route is USD 25 million.

Evolution of multi-bi funding in the aid architecture

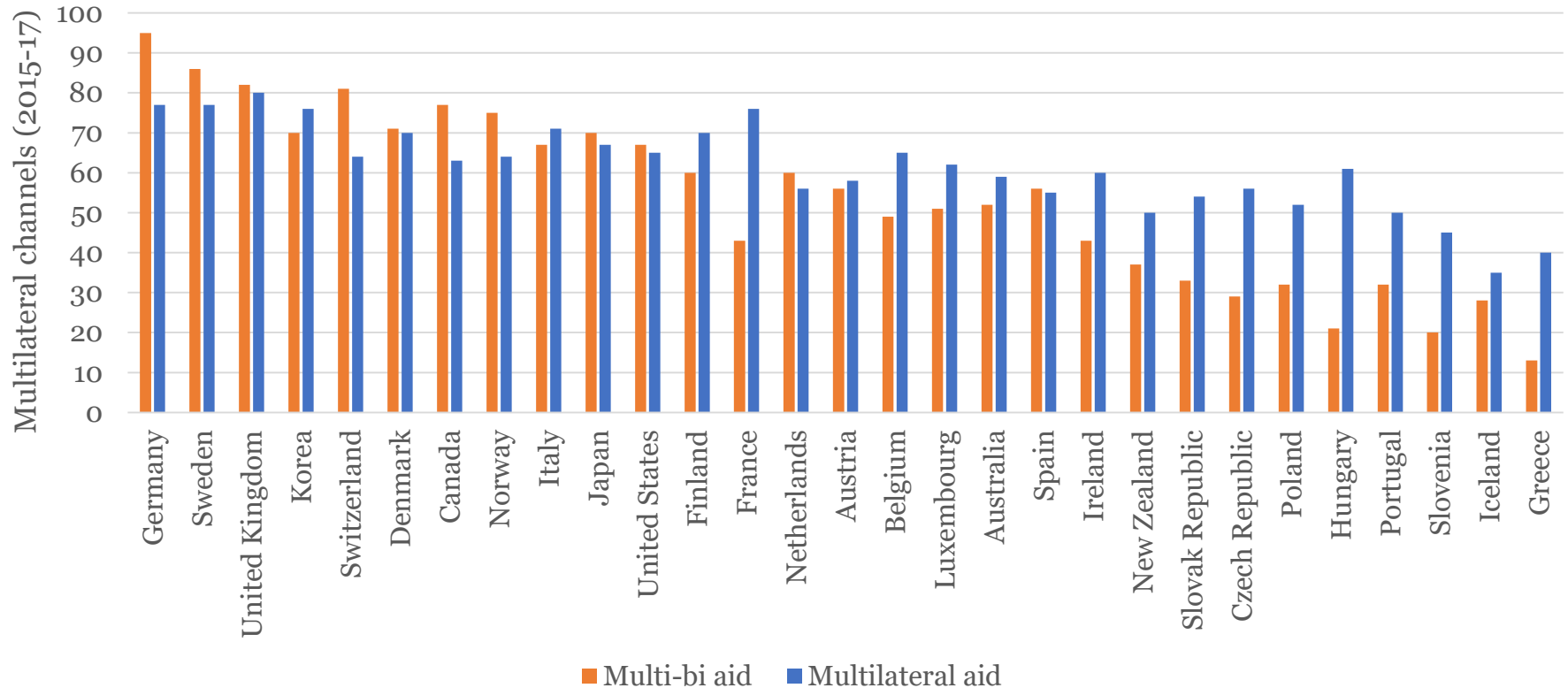


Key donors of multi-bi aid



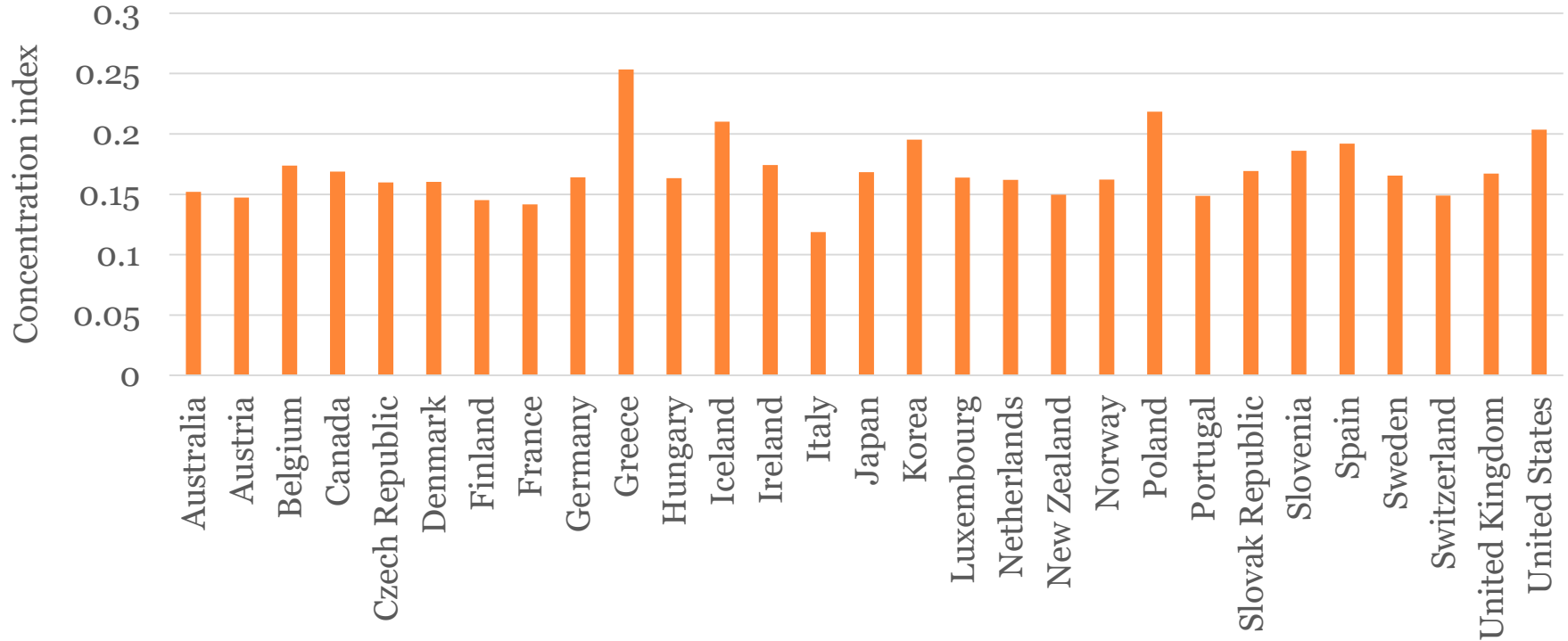
Notes: Averages for 2015-17
Source: stats.oecd.org (DAC1)

Number of multilateral channels by aid type



Notes: Averages for 2015-17
 Source: stats.oecd.org (CRS+)

Concentration index of multi-bi aid



Notes: Averages for 2015-17
Source: stats.oecd.org (CRS+)