The Two Hundred Billion Dollar Question: How to Get the Biggest Impact from the 2019 Replenishments

Andrew Rogerson and Owen Barder

Abstract

In 2019/2020 donor governments are anticipated to pledge up to $170 billion to various multilateral organisations as part of their replenishment cycles. In the past, these large replenishments have been approached piecemeal and characterised by path dependency, which arguably has led to underperformance of the multilateral system as a whole. This unusual bunching of replenishments of some of the largest organisations in 2019 provides an opportunity to think more coherently about multilateral funding and to address key systemic problems, such as overlapping mandates and under-funding of some parts of the system. In this paper we recognise that it is unlikely that donors will take a formal, system-wide approach to the replenishments, but instead provide three suggestions that could nudge donors toward better coordinating the effect of their decisions. These are (1) multilaterals should be invited to set out in advance, and in a common format, their "offer" on a number of key issues, (2) donors should increase the envelope for core multilateral funding by diverting money away from earmarked funds, and (3) donors should provide a confidential forecast of their likely replenishments to a trusted intermediary, so that the "business as usual" baseline scenario is known.

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How to Get the Biggest Impact from the 2019 Replenishments

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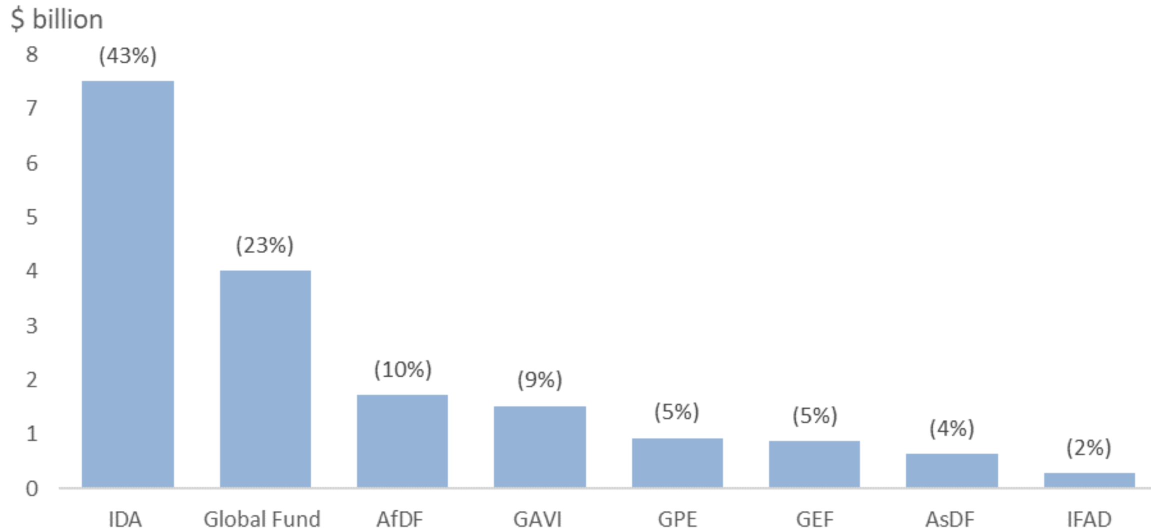
1. Introduction

In 2019/2020 we will see a bunching of large "replenishments" of multilateral organisations (Figure 1 and Table 1), adding up to US$170 billion or more, for commitment in the following few years. Five specific funds[1] are expected to account for over 90 percent of these allocations. The UK, the US, Japan, and Germany, in declining order, are the four biggest recent funders, as well as key participants in multilateral governance and performance assessments.[2] This is in addition to allocations to UN agencies, which are funded outside of replenishment processes and which this paper addresses only briefly.

Nearly half the new replenishment round of global multilateral funding will be allocated in 2019 under present rules. Funders could choose to approach these decisions piecemeal, as in previous replenishments, or they could use this as an opportunity to pursue some strategic goals for allocation and system reform. In the absence of any change, the system as a whole is likely to continue to deliver poorer value than the sum of its parts, and its dysfunctions matter to us all. If funders do want to bring about systemic change, they will need to work together with some sort of common approach. In this paper, we make proposals for how stakeholders can act together to extract the most value from their collective efforts, including three specific proposals to improve coordination and informed decision-making.

We begin with a thought experiment, by considering what an "ideal" allocation for the entire system might look like. We try to imagine what a benevolent and well-informed single funder of the entire system might choose to do to improve it. We also consider how the overall multilateral envelope can be expanded and consolidated. We then consider how individual donors might act in a networked, yet independent, manner in the real world, in which their choices depend in part on how other donors behave, and in the political context of populist headwinds. We are absolutely not talking here about introducing any top-down planning mechanism or supra-national committee, for which there is no appetite or infrastructure, but rather about pragmatic ways to help an existing ecosystem to evolve in some modestly positive directions.

Figure 1. Latest replenishments, annual equivalence (% of total in brackets)



Note: Excludes debt reflows and other financing.
Source: Morris (2018)

Three Proposals

We propose three specific ideas to improve the quality of multiple independent, but networked, decisions in the 2019 replenishments:

First, **multilaterals should be invited to set out in advance, and in a common format, their "offer" on a number of key issues** on which they presently overlap, so that donors can make reasoned judgements about resource allocation across the multilateral system (or at least "joint" decisions on pairs or small clusters of institutions) on those issues on which the work of the organisations covers much the same ground. Organisations should also set out how they will be more country-led and more accountable to people in developing countries for these offers.

Second, donors should **increase the envelope for core multilateral funding**, without increasing taxpayer outlays, by avoiding setting up new trust funds or similar mechanisms, sunsetting the trust funds they have created previously and transferring the resources into core budgets instead, and by leveraging balance sheets responsibly. (We fully recognise the strong incentives for increasing the number and size of earmarked funds, but also believe there are alternative strategies available to make core funding more visible and responsive to such interests.)

Third, donors should provide, confidentially, a forecast of their likely replenishments, however uncertain, to a trusted intermediary, who would then publish totals for each organisation (but not the individual donor allocations) so that **the "business as usual" overall replenishment for each institution is publicly known at the beginning of the year**. This would inform both the donors and the institutions during the replenishment discussions and help all stakeholders to take a view on the appropriate resource allocation for the system as a whole. These three ideas are discussed below.

We are concerned by the increasing risk of another systemic developing country **debt crisis** and its likely knock-on effects on official development finance, including multilaterals. Space does not allow us to do justice to the topic here: in Annex 1 we list some of the links between generalised debt distress and multilateral development finance and propose to return to the debt topic later.

Some Additional Background

Table 1 lists the total donor tax-funded contributions to the most recent replenishments of the largest multilateral organisations, along with their annual equivalents, and a preliminary estimate of the likely funding of the EU's pooled development efforts from 2021. The most striking feature is that the EU's development co-operation arm, discussed later, is almost as large as all the rest put together, even allowing for its longer horizon. The second obvious feature is the dominance of a small handful of other organisations, most of which are focused on global public goods like infectious disease and climate change.

Table 1. Date and expected/granted replenishment amount (direct donor contributions)

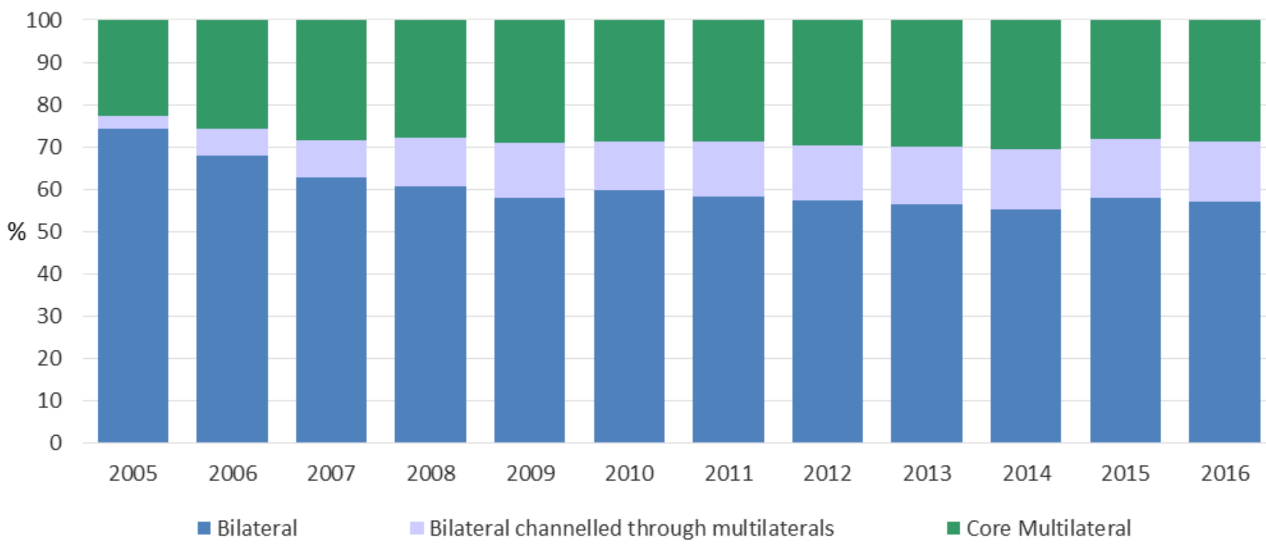
Organisation	Date	Period	Total ($m)	Annual equiv. ($m)
EU	Expected 2020	2021-2027	106,600	15,229
IDA	15/12/2016	2017-2019	22,546	7,515
Global Fund	17/09/2016	2017-2019	12,036	4,012
Green Climate Fund	20/11/2014	2015-2018	7,722	1,931
GAVI	27/01/2015	2016-2020	7,632	1,526
AfDF	29/11/2016	2017-2019	5,197	1,732
GEF	17/04/2014	2014-2018	3,682	878*
AsDF	01/05/2016	2017-2020	2,546	636
GPE	02/02/2018	2018-2020	2,259	935*
IFAD	12/02/2018	2019-2021	856	285
TOTAL			**171,076**	**34,679**

*Includes previous annual equivalent grant for an overlapping year

Note: Excluding market debt and reflows (headline replenishments including these items easily exceed $200 billion). EU funding mooted at €89.2 billion converted to USD at exchange rate of 1.195: average for 2018 so far.
Source: Morris (2018)

Panning out from the funding of individual organisations, the share of a growing ODA going to all core funding of multilaterals has remained remarkably steady at around 28 percent for the past decade (figure 2). A significant recent development has been the growing additional use of multilateral channels for earmarked or "non-core" bilateral funding via specific thematic- or country-based trust funds, which has risen rapidly from low levels to about a further 12 percent of ODA. This means that about 40 percent of all aid transits now through multilateral institutions under one or other of these arrangements. We discuss some characteristics of this "parallel universe" below.

Figure 2. Composition of official development assistance (ODA) by channel



Source: OECD-DAC, Stat: DAC1

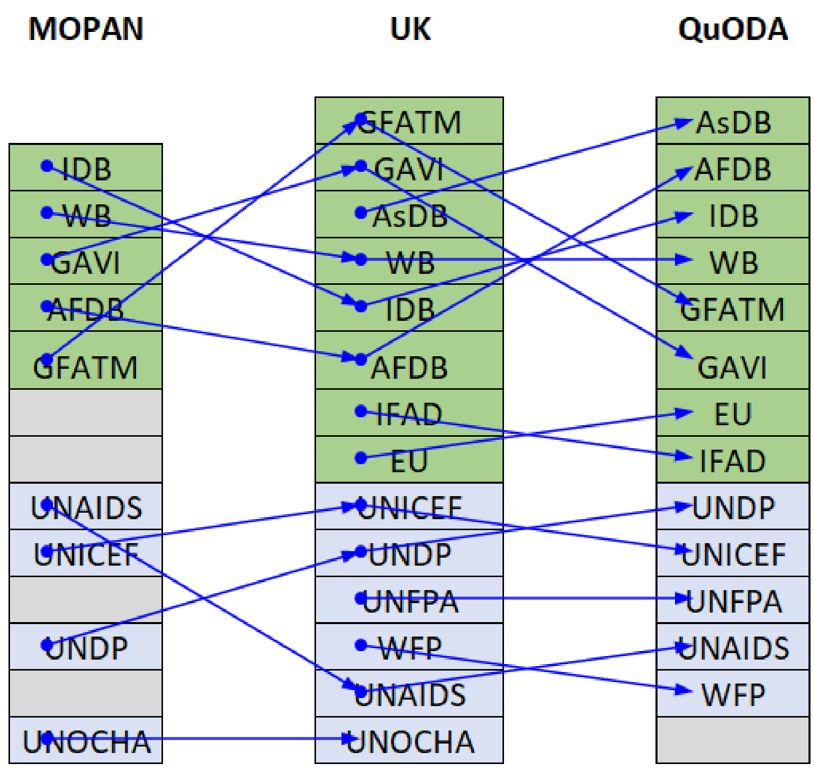
2. How Might a Single Global Funder Allocate Funding?

Think systemically. The multilateral "architecture" we inherit is neither the product of one coherent design nor run by anything like a single owner or even a reasonably well-organised consortium.[3] These institutions are diversified by function (service delivery, norm-setting, humanitarian response, bulk lending, etc.) as well as by region and/or thematic focus. They are resourced in a wide variety of ways, ranging from tightly-earmarked project finance to flexible core funding, with correspondingly different dependence on donor goodwill and other systemic implications. They are creatures of history, often exhibiting a chameleon-like ability to blend into new contexts and sometimes a super-tanker inertia, making rapid turnabout all but impossible. Most have already weathered multiple "reform" cycles and fashions, and navigated vocal and divergent stakeholder criticism, deserved or not. Of course, political feasibility and lack of consistency among donors will limit efforts to impose rational order on this ecosystem, but it is useful to start with the thought experiment of what allocation patterns and mechanisms would be desirable from the perspective of a hypothetical benevolent single owner, abstracting from the pressures arising from the individual interests of particular donors and the strategic bargaining problem they have to solve. This global owner would be seriously worried by the lack of effectiveness of the system as a whole, not just the specific parts of it favoured by one or other major funders today (and maybe not tomorrow).

What do performance evaluations of multilateral organisations tell us? Less than one might hope. Those donors and donor groups that have sought to systematise the allocation process have generally focused on two key sets of issues: the "fit" of the organisation's mission and objectives with their own; and the organisation's development effectiveness, judgements about which are the core mandate of donor-led consortia like MOPAN (the Multilateral Organisations Performance Assessment Network). However, objective measures of effectiveness that enable comparison of performance across multilateral organisations are difficult to construct, and complicated by the diversity in the organizations' missions and remits.[4] Also and perhaps most disappointingly, the voice of the organisations' "clients," people living in developing countries and the organisations and governments which represent them, does not come through as clearly in these analyses as it should, despite their substantial investment in large batteries of opinion surveys.

The four likely largest non-EU replenishments of 2019, namely the International Development Association arm of the World Bank (IDA), the African Development Fund, the Global Fund (to fight AIDS, TB and Malaria), and the Global Alliance for Vaccines and Immunisation (GAVI), have been consistently rated highest by most national and independent assessments alike, though the most recent findings by CGD, in the so-called Quality of ODA (QuODA) rankings, tend to give the edge to three regional development funds within the top echelon (Mitchell, McKee 2018). The EU has not been ranked recently by MOPAN,[5] but comes roughly mid-table in both DFID's Multilateral Development Review (MDR - UK Government (2016)) and QuODA 2018 rankings. Figures 3 and 4 show the rankings of major multilateral organisations according to different assessments, in 2015/2016 and 2011 respectively. The periods and assessments are chosen according to data availability. (Note that the methodologies used differ considerably across these pillars, with MOPAN generally covering a larger range of performance measures than the others).

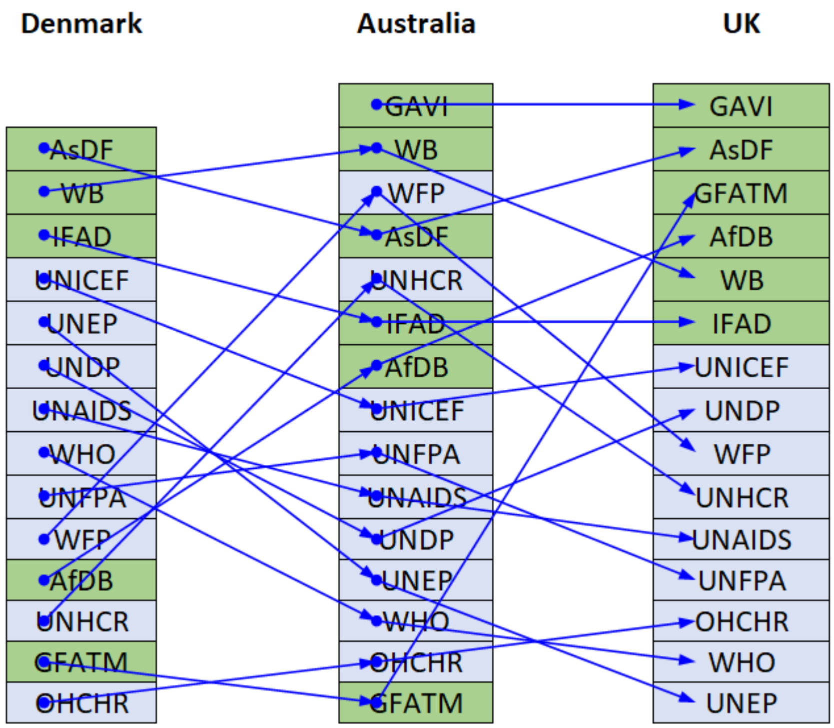
Figure 3. Rankings of multilateral organisations according to different performance assessments in 2015/2016: MOPAN, DFID MDR, and QuODA 2018



Notes: QuODA ranks AfDF and IDA. In DFID rankings, "contribution to UK objectives" is ignored other than for EU, UNICEF and UNDP which have indistinguishable ratings on organisational strength. Blue = UN, Green = Other, Grey = Missing.
Source: See endnote four. All organisations are included that appear in more than one ranking.

The rankings are consistent in whom they rank as being in the top or bottom halves of the table: in each case all UN organisations are in the lower (blue) half, with the funds and IDA constituting the upper half (green). However, within these two groups there is considerable difference in the rankings implied by the different assessments, especially in the top half. This complicates attempts to use these rankings when deciding on allocations: the only clear conclusion from comparing the different assessments is that UN organisations are judged to perform less well in terms of organisational strength, and these organisations are not funded via replenishment cycles.

Figure 4. Rankings of multilateral organisations according to different performance assessments in 2011: Australian Multilateral Assessment, DFID MAR, and Danish Multilateral Review (based on MOPAN 2011 assessments)



Notes: DFID ranks AfDF and IDA, instead of AfDB and WB. QuODA has rankings for 2009 but compares far fewer organisations. Assessments of alignment with national objectives are not included.
Source: Danish Government (2013), Australian Government (2012), UK Government (2011)

The rankings according to different assessments in the earlier periods show far less concordance: rank correlations between the assessments range between 0.15 (between the UK and the Danish Review) and 0.38 (between the UK and Australian Assessment). This is particularly surprising given that both the Australian and Danish assessments use information from MOPAN; the latter is reliant on MOPAN for all data points included.

Moreover, the typically very large differences between this leading group's funding trajectories and their rivals' cannot be explained just by variations in rated performance,[6] suggesting inertia (and sunk-cost realism), herding effects, and an array of other decision criteria, for example around the benefits of nurturing long-term relationships, unconnected to perceptions of effectiveness. Donor countries appear to use periodic assessments of major organisations as validation (or *ex post* rationalisation) for politically-influenced decisions to maintain, reduce, or increase past contribution levels at the margin, rather than as the main plank of any zero-based overhaul. (An illustration of the pragmatic Swedish approach is shown in figure 5). High-performing organisations also become adept at presenting their case to funders, so causality may run from higher funding to better performance indicators as well as vice versa. The wise global owner should be alert to capture by management and to self-serving rhetoric or tick-box correctness taking the place of robust attribution for real outcomes and impact.

Figure 5. Sweden's 4-box approach to multilateral funding

Enhanced effectiveness and relevant Increased contributions, non-earmarked and multi-year contributions	**High effectiveness and relevant** Unchanged contributions, non-earmarked and multi-year contributions
Low effectiveness but relevant Contributions and short-term financing	**Not relevant** Reduced contributions and possible phasing out

Source: Government offices of Sweden (2018)

3. What Systemic Problems Would a Wise Global Owner Choose to Address First and Foremost?

The one-at-a-time replenishment process that institutions and their funders are accustomed to navigating today reinforces a combination of "systemic myopia and inertia," in which one heavily star-rated organisation is funded to some limit of political feasibility, whereas all the others interacting with it are left for another day, or never. We should be much more concerned about how the different parts fit together, or fail to, but this shifting focus and the intensity of revolving-door negotiations accommodates complacency or a sense of helplessness about systemic failings such as overlaps, duplication and waste. These tend to get relegated to the "too difficult" category, in the heat of the individual replenishment transaction. Here are just some key illustrations.

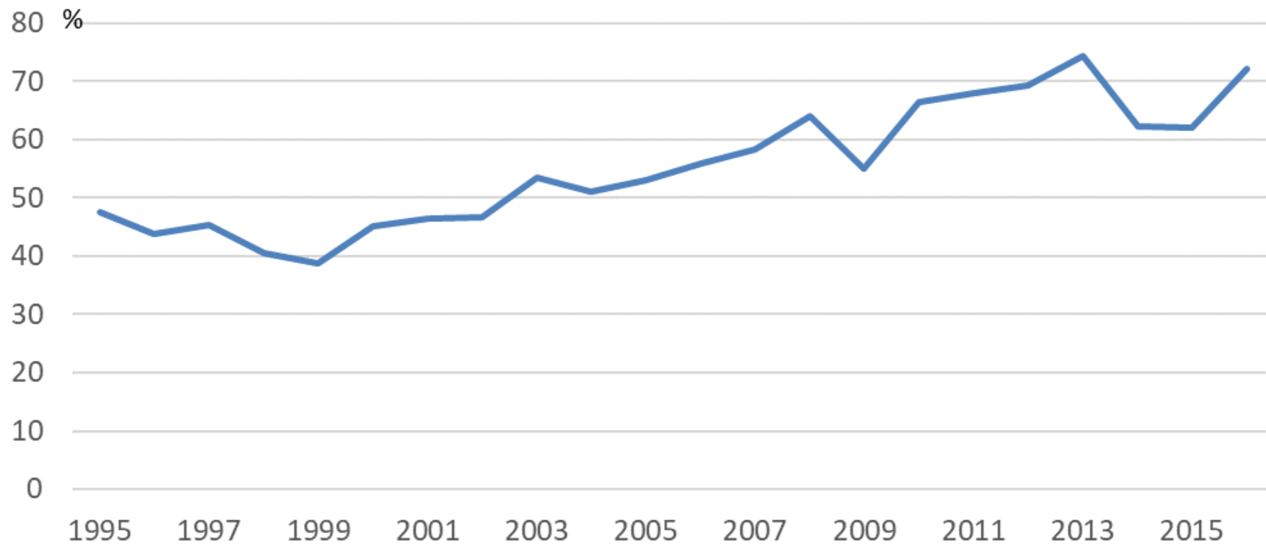
Problem 1: Geographic and thematic overlap between major multilateral organisations: choice is fine, but organisations should show their distinctive impact

Overall, the current owner-members of the system have never charted a sufficiently clear path between collaboration and competition among the major organisations they jointly sponsor, and particularly the multilateral banks across parts of the UN system, that would help set mandate boundaries and allocations between them. The resulting overlaps and uncertainty have been aggravated recently by emerging powers partly voting with their feet by setting up parallel new institutions when they felt their voice and distinctive experience were not sufficiently heard in older ones, as in the Asian Infrastructure Development Bank alongside the Asian Development Bank, or the cross-regional New Development Bank alongside the World Bank. But they did not overtly reject the older models either, and indeed grafted many of the operating methods of the older institutions onto the new institutions. Donors can also help push organisations into mandate creep and competition through specific funding behaviours, such as earmarked funding, discussed below. Also, variations in the credibility of organisational leadership can cut across an ostensiblylogical "division of labour" between institutions, as when the European Reconstruction and Development Bank was authorised to expand Southward and Eastward into quite different regional contexts, despite its name and historic mandate, reflecting greater confidence in its leadership than in other regional development banks. We will examine three other examples of such overlaps below, suggesting how they could be addressed.

Example A: Geographic Overlap between IDA and the African Development Fund

This is partly a consequence, paradoxically, of decades of successful development in Asia and Latin America, which has resulted in the vast majority of remaining low-income and least-developed countries now being concentrated in Africa. So, IDA, whose resolute focus is on the poorest and least-creditworthy countries globally, is rapidly becoming an "Africa Facility" by another name, but endowed with a large multiple of the concessional funds hitherto available to the African Bank's (AfDB) soft window. Since 1995, the share of IDA spent in Africa has risen from 45 percent to 72 percent (Figure 6).

Figure 6. Proportion of IDA spent in Africa



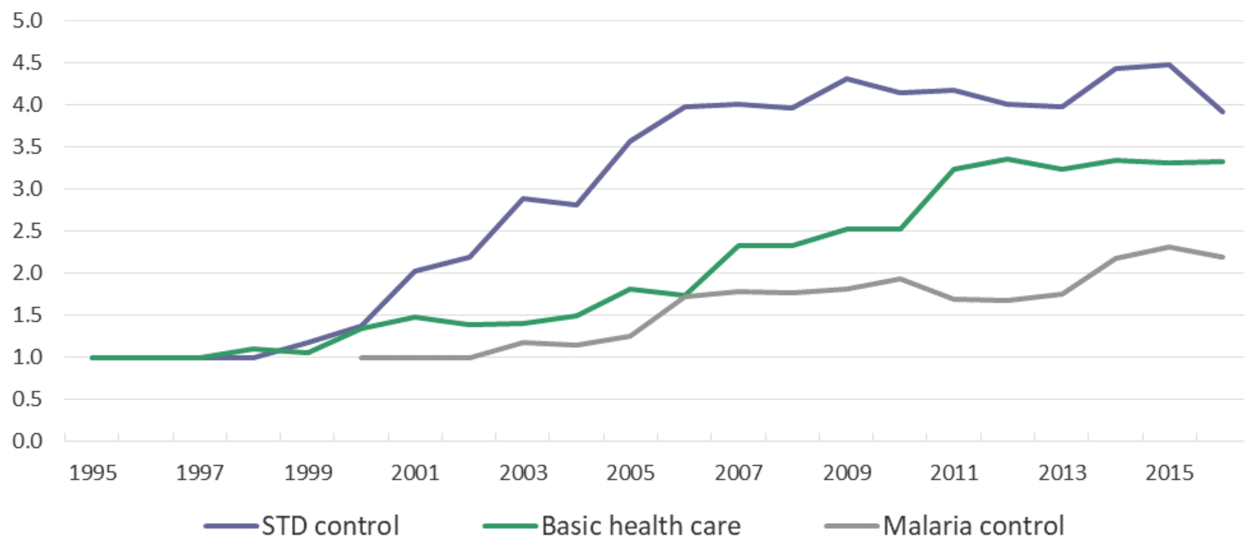
Source: OECD DAC2a. Dip in 2014 is because of a short, sharp increase in spending in Pakistan.

The bigger IDA therefore operates increasingly in the AfDB's back yard, partly duplicating its local presence (of the two, IDA also has the wider and deeper field staff footprint). Abstracting from geopolitics and personalities, a wise global owner might still choose to fund two such parallel programmes, despite the arguably higher transactions costs involved, assuming they genuinely offer different value propositions. But such an owner would consider the respective strengths of the institutions in deciding an allocation of funding and mandates, for example, requiring them to set out their respective contributions to outcomes, not just different branding and voting structures.[7]

Example B: Thematic overlap in health systems and earmarked interventions

A similar dilemma applies to the multiple overlaps between IDA for health (health systems and mother-child health in particular), the World Bank's dedicated grant-based global health financing facility (GFF), GAVI and the Global Fund.[8] Over recent decades there has been a proliferation of multilateral donors disbursing aid with the same stated purpose, in the same countries. For example, in 2000, IDA was the only organisation operating in Lesotho with the purpose of "STD control," including HIV/AIDS. By 2016, six other large organisations were operating in Lesotho with the same stated purpose (and this is without taking account of bilateral donors). Other countries also recorded similar increases, as demonstrated by figure 7.

Figure 7. Average number of multilateral donors per country for stated purposes



Source: OECD DAC Stats: CRS data (downloaded April 2018)

A single wise global owner, even if appreciating the positives of this amount of differentiation (and the arguable negatives of any substantial consolidation) would at least consider one such thematic budget as a whole, and apply a single coherent set of allocation and pricing terms. So, for example, the owners could ask each of the applicants for funding to show how and where it is most cost-effective, applying a common yardstick (such as the dollar cost per quality-adjusted life year saved, or QALY). The organisations would then have an incentive to specialise in countries, and interventions, where the return to their particular investment offer is highest. Conversely, they should make way for others (or be denied funding in preference to others) based on different country choices and disease burdens, not a fixed overall footprint and a one-size-fits-all replenishment pitch.

In reality, the major global health actors and their multiple advocates will naturally seek to assert their unique "brand identity"—so, for example, one may emphasise its results-driven approach more than the others, who are of course also interested in results—and to avoid thereby any direct competition on "price," i.e., cost-effectiveness. Allowing brand image to obscure underlying difference in price is unfortunate: a degree of competitive pressure on cost, as well as on other dimensions of concern to donors, would be salutary. Recipient countries at the moment are too often pushed toward first nominally accepting, then trying to neutralise, the resulting excessive earmarks for specific diseases or interventions through their own budget flexibility, if they can. (Some will also protest that IDA itself must not become "earmarked by purpose"—but that is effectively what the GFF, alongside other semi-earmarked thematic facilities linked to IDA, is already starting to do.)

Example C: Institutional overlap between the two largest global development retailers, the EU Institutions (managed by the Commission) and the World Bank

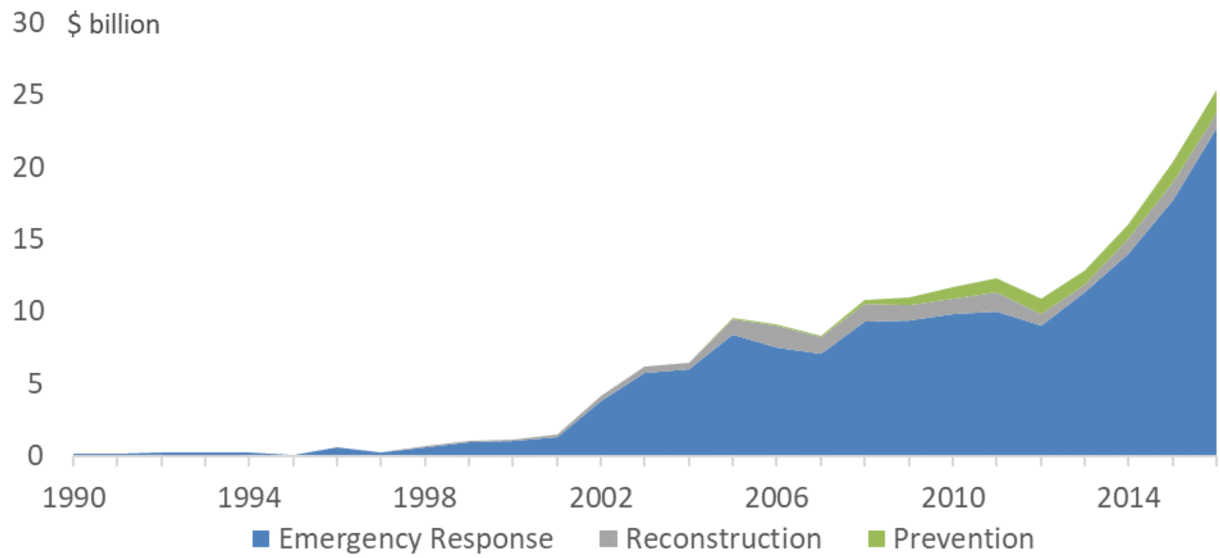
The arcane process of EU budget setting (in particular the seven-year MFF due to be decided by 2020) partly obscures the real choice that EU members have as between two such "department store," cross-regional, cross-sectoral major development agencies. Some Member States may consider the development part of the EU budget to have a low opportunity cost, if they believe that any increases there are at the expense of (in their eyes) lower priority non-development budget lines, and vice versa, that cuts in the development instrument would only be reallocated to less desirable expenditure purposes.

A prudent single owner would not need to play such tactical games but should instead focus on the intrinsic effectiveness of the EU's development arms (short answer: the European Development Fund is highly rated, the rest of the EU development budget somewhat less so, but the two are slated to merge into a single budget instrument from 2020). A wise single owner (or at least the group of European donors for whom that choice is real) should also ask what makes the EU's development action truly distinctive compared to the World Bank's (main line of answer: it comes bundled with other EU policy levers, such as trade, environment, migration, foreign and security instruments).[9] This remains a strong objective argument for supporting part or all of the EU's development budget.[10]

Problem 2: Not enough "stitches in time" for disaster prevention and early humanitarian responses

The humanitarian (reactive) share of aid, including multilateral aid, is rising along with conflict duration and severity, and the frequency of natural catastrophes and disease outbreaks[11] especially those linked to climate change. Partly because of institutional specialisation (relief agencies do not systematically access "long term" development budgets and vice versa), there is chronic underfunding of disaster preparedness and of fast first responses at scale, both of which should reduce total intervention costs over time. Figure 8 below highlights this growing imbalance:

Figure 8. Humanitarian ODA spending



Notes: Figures refer to disbursements from all donors, constant 2015 dollars.
Source: OECD DAC CRS – purpose codes 72010+72040+72050, 73010, 74010

Insurance-based funding instruments, made possible in part by big improvements in data and geophysical modelling, should be hugely increased. These would improve incentives to invest in resilience, improve disaster response planning and increase speed of response. A prudent global owner would ensure there were cost-effective forms of insurance-like cover and prevention investments in place, rather than only providing second-best de facto public insurance, tying down ever-larger earmarked cash reserves and providing sub-optimal response in the event of a disaster.[12]

Problem 3: Under-funding of smaller, especially normative, parts of the system which could have major spread effects

A very long tail of smaller organisations, mostly UN specialised agencies, together account for less around 16 percent of multilateral core funding, and this share has fallen over time.[13] They typically do not use multiannual replenishments for their funding, instead using annual assessments and ad-hoc funding calls. In so doing, they are becoming highly dependent on earmarked funds, carrying the risk of further fragmentation of their mandate. Some agencies, like the Food and Agriculture Organisation (FAO), are already highly if not entirely dependent on such funding. They mostly offer, with varying degrees of effectiveness, global standard-setting, advisory and monitoring services, also part-funded outside of aid budgets by other donor-country ministries, of health for example. More generally, only four UN agencies showing expenditure on "normative, treaty creation or knowledge activities" record any core funding beyond their assessed contributions.[14] Within development departments, they typically attract less attention and score somewhat worse on standard multilateral assessments, which are principally tailored to bulk programme spenders, or at least to more tangible investment and output profiles.[15] In some cases their core funding has arguably eroded to the point where their original mission may be impaired: some of them may have been forced into ever-more-painful productivity improvements as their resources flat-lined while target populations and the extent of the challenges within their mandate expanded.[16]

The prudent global owner would allocate a somewhat increased, but still small overall, slice to this messy but potentially high-value segment of the multilateral system, on parts of which many other development actors rely. But such an owner would not do this in a scattergun approach: it would be firmly selective. It would concentrate support on a subset of demonstrably important systemic functions whose absence or failure would incur high expected costs—a combination of the probability of occurrence and the severity of impact, as with classic risk register analyses. So, for example, adequate resourcing of pandemic disease surveillance and first-response action and its effective co-ordination would most likely take high priority, but not exclusively so. Agencies making a robust case that their own norm-setting and monitoring functions are systemically crucial could compete for additional funding against similar yardsticks.[17]

Proposal 1: Donors should commission specific comparison "offers" by multilaterals on key thematic priorities.

For a handful of key global challenges, it is both necessary and feasible for all the multilaterals responding to them, and seeking substantial support from donors for these responses in their upcoming replenishments, to clarify their distinctive intended approaches and contributions well ahead of replenishment, so that donors have better benchmarks for their decisions. Think, for example, of:

- Health Systems Strengthening;
- African Growth and Economic Transformation; and
- Effective Medium-Term Support for Fragile States, and
- Education

among the more obvious potentially overlapping priorities. In each case, the relevant organisations that are major actors in these spaces should be asked, well ahead of all the replenishments, to produce very short, but specific, statements documenting their intended contributions and resource requirements for those contributions, along with basic cost-effectiveness indicators of their track records in these areas. This would not necessarily amount to fully quantified "bids" as such-but would encourage awareness of how these offers are likely to differ between organisations, which may choose to collaborate as well as to "compete" in such arenas. Evidence of responsiveness to country demand, inclusiveness of their priority-setting processes, and accountability to national stakeholders would need to feature prominently in these offers.

This would not be a formal competition for resources, but it would provide additional background information for funders as they consider the replenishments, alongside the coverage of their existing strategies, which often give no clear sense of fit with the rest of the multilateral system. Funders would need to form their own conclusions, along with other materials, of course, but the availability of this information would be likely to nudge donors towards some structured discussion within and among them on how the different parts of the multilateral system interact, where resources and mandates can best be allocated, and where overlap and duplication might be avoided. If organisations think they can improve their offer significantly by collaborating with others, they should be encouraged to make that an explicit part of their offer. Indeed, donor funding to one major agency should in future be conditional to its pursuing specific partnerships, with results indicators, with other agencies.

There have been few, if any, known recent cases of donors, let alone a whole donor collective, making "joint" decisions on the respective merits of two or more multilaterals in delivering a particular set of priorities. Partly this relates to the inertia of not having such comparisons to hand in manageable form well ahead of individual replenishment discussions, which our proposal would help address. Partly it calls for quite joined-up thinking within different internal cultures of donor agencies, and absent immediate political pressure which tends to spike with case-by-case negotiations. There is no formal barrier to it, but we would be interested in hearing of cases where a more rational approach was taken.

4. How Big Should the Overall Envelope Be?

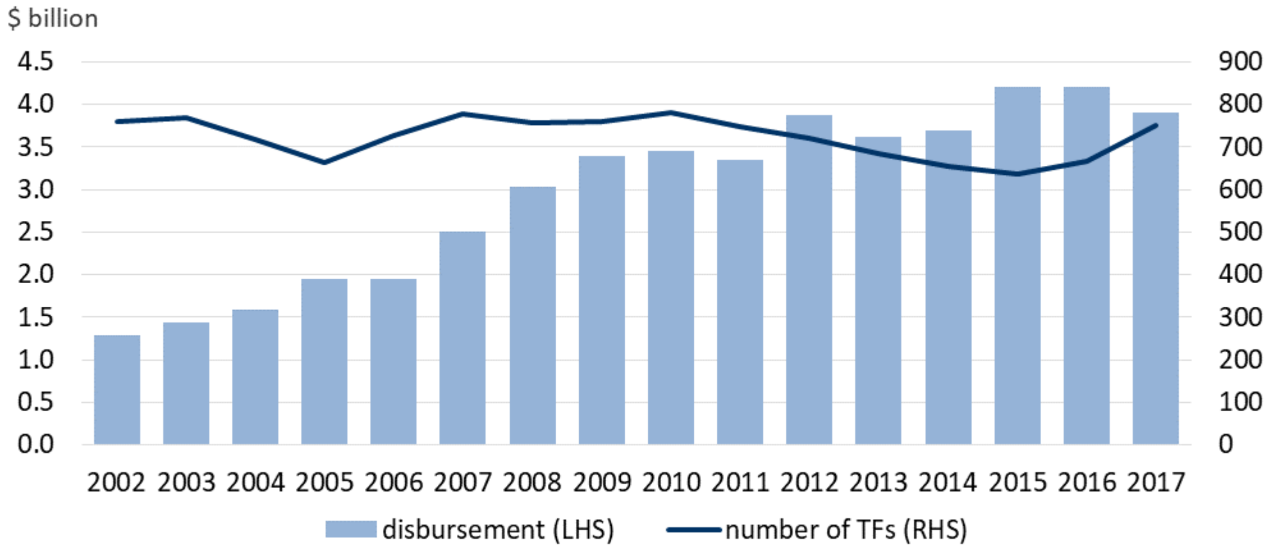
Think big before you think small. Our main focus in this paper is on *concessional* finance, which can be a slippery concept to pin down in accounting terms but boils down to allocating subsidies ultimately financed by taxpayers in donor countries. Because these are scarce public resources, it matters very much how they are deployed, whether as stand-alone grants or mixed in or "blended" with other sources, for example borrowings from international markets and loans repaid by poor countries. To ease the pressure on concessional finance in the context of 2019 replenishments, it is helpful nonetheless to have a three-part funding pie in mind. There is, first, the overt replenishment grant "pot" to which donor countries contribute cash or at least firm cash promises, the iceberg above the waterline. Then there is less visibly but also powerfully (2) a large array of parallel "non-core" grant trust funds, also mainly from taxpayer funds entrusted to the same organisations and (3) in the case of the World Bank, ADB, GAVI and maybe others, the ability to add or "front load" moneys raised from markets. Combined, these two could make the 2019 replenishments affordable with a much smaller additional cash call from donors.[18]

Proposal 2: Donors should aim to increase core funding of multilaterals in the 2019 replenishments, financed at least in part by reducing the use of trust funds and other "multi-bi" instruments.

Rationalise the chaotic web of "multi-bi" trust funds, integrating them in the mainstream replenishments. *Within* the big recipients like the WB, why "hire a dog and bark yourself"? Use the same mainstream guidance and accountability structures you already trust for regular replenishments, rather than multiplying side-deals which introduce complexities and overlaps and could ultimately undermine institutional coherence. *Across* institutions, e.g., between the WB and the global funds in health, why first set up new grant channels to substitute for a lender who has been seen as less effective in some areas, then provide that lender with large new pots of thematically earmarked grants (as in, the Global Financing Facility) so that it can compete more keenly with the vertical funds you originally set up as substitutes?

The World Bank, in particular, and several of the regional banks, are often considered a "safe pair of hands" for trust funds (Figure 9), compared for example to alternatives such as some parts of the UN system—a comparison which is rarely made explicit. This combines with other likely funder motivations, such as the presumed interest and ability of the trust fund contributor to influence that organisation's policy in a particular direction, effectively a bribe to bypass normal governance mechanisms, however benignly intended.

Figure 9. World Bank trust funds: cash disbursements and total number



Notes: IFC trust funds not included. Disbursements are measured in constant 2016 dollars, converted using OECD CRS total aid deflator
Source: World Bank Trust Fund annual reports, various

Donors may also be seeking to overlay their thematic priorities on a supposedly "country-driven" model, which inevitably raises development effectiveness concerns. This may in the end prove to be a fallacy of composition, as different trust funder priorities inevitably both diverge and change over time: a kaleidoscope of priorities is no priority at all and frees the hand of management to pick and choose. It is not a given that mainstream development bank policies, as set by their boards, can be durably altered by such earmarked contributions—and it could be a cause for concern in terms of governance integrity if true.[19] A prudent single owner, and realistically also a responsible majority-owner group like the major four global donors, should stop introducing, and gradually phase out, most of these "multi-bi" anomalies. This could be done for example by applying sunset clauses and announcing that say two thirds of the resulting savings will be diverted to the core replenishment of the relevant parent fund (for example, IDA)—adjusting its financial terms as appropriate.

In real life, of course we acknowledge the multiple incentives encouraging trust fund donors, and recipient multilaterals like the World Bank, to add to the number and size of such earmarked mini-lateral deals and vehicles. These include perfectly legitimate interests in raising donor visibility, the appearance or reality of being able to accelerate funding in priority areas faster than the normal programming process for core funding might permit, and in some cases the sense of being able to help shape or develop key policies faster in collaboration with willing staff and managements. We will develop this issue further in a forthcoming paper, in which we will also present possible corrective strategies that would apply first-best solutions to increase the flexibility and attributability of core funding, for example in the case of IDA.

Make judicious use of leverage opportunities. Deploying market borrowings comes in two broad forms. You can "front load" by borrowing from markets now, distributing the bond proceeds as grants and repaying out of future ODA, as with immunisation (GAVI-IFFim). This makes sense when bringing funding forward has irreversible positively disruptive impact.[20] Or, you can borrow from markets and on-lend the proceeds to poor countries at concessional rates, as IDA is now doing, which, at least initially, leaves a smaller margin to be covered by grant aid. How much you can raise this way depends on balance sheet slack (which only IDA still has at scale, for now), evolving market rates, and related prospects of rising debt distress in low-income countries (see Annex 1).We should also bear in mind when considering IDA market borrowings, in particular, that they are only made possible by "equity" built up through the application of generations of past grants, that is, grants and loans reinforce each other over time.

5. What Can Individual Major Donors to 2019/20 Multilateral Replenishments Do about All This?

OK, so now let's accept that no one country or caucus actually owns or controls this system. There is no one benevolent owner who can single-handedly improve the system. We are now in the realm of political networks and possibilities. Consider, however, some basic facts: the UK is the single largest core (and overall) funder of the multilateral system by some measures, ahead of the US and Japan (especially if one excludes the UN agencies not undergoing replenishment in 2019, see note 1). One of these three countries is also already the single largest funder of 42 out of the largest 52 multilateral organisations.[21] Nonetheless, even their largest burden-share stake is usually below 30 percent.[22] The US, at least comparable to the UK when one excludes the EU, also has some veto rights, so definitely possesses a big stick, but it, and indeed all the individual leading donors, including in some notable 2019 cases the Bill and Melinda Gates Foundation, still need to walk softly with that stick, in Theodore Roosevelt's phrase, and bring others along with them. *What strategies might they deploy?*

Option A. Mirror others' behaviour

This would mean adopting a relatively passive investor strategy, akin to buying a market index, not picking underlying shares. The donor would first spread stakes across organisations roughly in proportion to its overall global share of multilateral core funding (integrating major trust funds, as above), preferably incorporating recent performance-related adjustments, and then mirror the average expected out-turn of replenishment from all donors, say up or down 10 percent from the baseline. This could be seen as the default option. However, mirroring the average outturn means accepting that one's specific burden-sharing rank can move up and down unexpectedly via the disproportionate behaviour of one or more other large donors in a replenishment, a risk that could be mitigated with Option D.[23]

Option B. Target a few strategic–systemic corrections, hoping to persuade others to follow

For example, lean against the relative underfunding of the African Development Fund, of less popular but high-impact normative and surveillance agencies, of disaster preparedness and insurance etc., and rationalise allocations to the health agencies group, as suggested above. The individual donor would need to accept the risk that others either do not follow its lead, or worse, they actually drop back and allow it to substitute for them. This is the kind of "burden non-sharing" that when exposed quickly loses popularity with domestic audiences (below Section 5), so ideally the situation requires some pre-announcement negotiations and sufficient assurances from like-minded donors.

Option C. Try to establish, or formalise, an explicit division of labour for a few major replenishments

This includes on funding roles but more generally as "champions," with the other large donors, where the lead donor also supplies others with evidence, analyses and policy recommendations as a public good, and undertakes scoping discussions with the institution on behalf of others-who remain free to set their own funding decisions. So, for example, the UK might take "pole position" for IDA, the US for GFATM (both essentially formalising current realities), perhaps the Nordics for GAVI, and so on. There could be joint leadership—as now—with France and Germany on the EU's future Development instrument, especially if the UK decides to contribute voluntarily to part of it in future (see note 8).

Option D. Offer structured incentives for others to burden-share

A variant of C, whereby (as the US has already done for GFATM) one major donor's stake is linked upwards, downwards, or in both directions, to the sum of others' replenishment pledges—either for all donors or some subset (G7, European including non-EU etc.). This requires considerable budget flexibility, especially if match-funding is unexpectedly successful (see note 18), unless absolute upper bounds are also set, diminishing the appeal of the offer.

Option E. Signal intentions clearly and co-ordinate intensively with others

This could apply in the absence of more specific options as in A-D, or preferably in addition to one or more of them. It is important in particular at both tail ends of the organisation performance distribution, i.e., (1) when an MO is perceived/shown to be failing in terms of relevance, effectiveness or both, and so in imminent danger of losing funding from one or more major donors, affecting others, and conversely (2) where performance has been at least maintained at high levels and perhaps also improved so noticeably, and its programmes appear so well justified and therefore the likely financing gap is so pressing, that a large absolute increase is warranted that would also necessarily affect the overall balance of the replenishment funding pool. Major donors should then caucus to discuss the evidence and particular conditions or triggers for such actions, and how best to communicate them to the organisation.

Proposal 3: Donors should share confidential forward replenishment intentions at the outset with a trusted third party, which should publish anticipated totals for each organisation (but not broken down by donor).

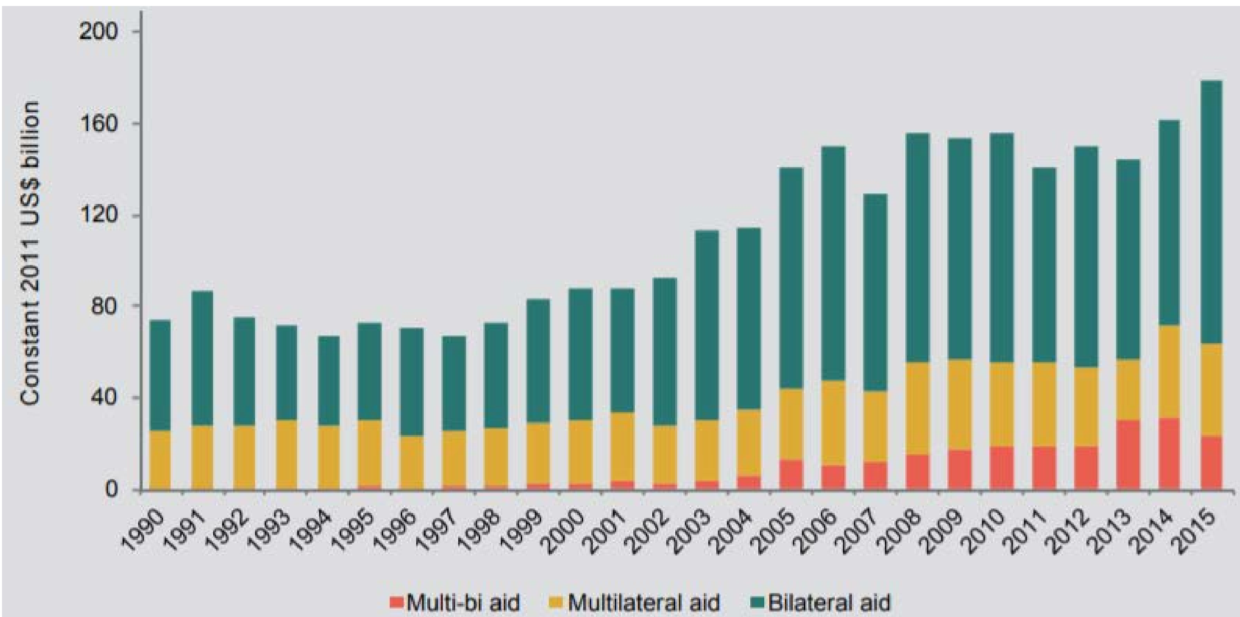
To improve the coordination of the replenishments without taking away from the sovereign autonomy of individual donors or attempting to overlay a coordinating committee, we suggest an approach often termed "knowledge escrows," and already adopted by the DAC in the context of informing aid recipient governments of likely out-turns of future aid intentions by the entire donor collective. In the context of bilateral country allocations, each donor declares their intended (but not guaranteed) three-year forward aid envelope for every country, in strict confidence to the DAC Secretariat, who only publish totals by country, not the donor breakdown. This has been shown to be a reasonably reliable estimate, compared to subsequent out-turns, and appreciated as great improvement on the information then available to the government.

The replenishment analogue would see donors pass on their estimated contribution to each organisation to a single trusted intermediary, perhaps the DAC, who would then provide to all donors the totals for each organisation. Knowing the anticipated overall total, and their (private) intended budget by organisation, each donor could see more clearly whether their burden-sharing intentions look feasible, make the necessary reallocations and form tactical alliances with others within and across individual replenishments. The organisations could also see how ambitious their initial "ask" is likely to be relative to donor funding intentions. Intentions can readily be compared, a few months later, with negotiated out-turn: it is entirely possible that in the first-round intentions understate availability, but the gap is likely to close thereafter. Secure communications and storage procedures may be needed, which might justify the added expense of e.g. specialised accounting firms, but the key political assurance would be the independence of the intermediary itself-for example the DAC Secretariat, MOPAN, or perhaps the Center for Global Development?

6. Final Words about Populism and Transparency

Pooled development funding through multilateral organisations is widely perceived as under threat, along with other global and regional commons initiatives, such as effective responses to climate change. In fact, development aid overall is still, by some measures, still just about rising in real terms, albeit very slowly, though it may have peaked if in-country refugee costs are included.[24] The share of core multilateral aid in this total has been more or less flat for many years (Figure 2, as discussed above), but the overall use of multilaterals (i.e., including earmarked resources and trust funds as discussed above) is still at or near an all-time high (Figure 10).

Figure 10. Total ODA by channel from 1990



Notes: OECD DAC1 only has data on multi-bi aid back to 2005. This chart is taken from Reinsberg (2017) to provide a longer time frame and is based on data from Eichenauer and Reinsberg (2017) and constructed from the CRS project-level data. It should be noted that 1) totals are in 2011 dollars and 2) the definition of multi-bi is slightly different to the DAC.

This might yet mean, also given all the lags and accounting complexities involved, that political support for aid and for multilateral aid in particular is approaching a cliff-edge: this outcome is plausible, but uncertain. It is definitely a contingency worth planning for. Should we stick to our guns if and when others retreat, for how long, and why?

Public opinion surveys have for some time shown a disconnect between sustained support for development *goals* like poverty eradication and weaker, even eroding, confidence in aid agencies, bilateral or multilateral, to deliver the *means*.[25] Proxies for populist sentiment[26] on the other hand tend to focus on individual attitudes to how globalisation, and free trade in particular, affects us, from which a broader distrust of multilateral action and institutions has to be inferred, probably also in the aid field.

But, do populists actually care about multilateral versus bilateral aid choices, as such? (Even less so, about core versus earmarked funding, grants versus loans versus blends, and so on?). We surmise not, and not just because of the tediously technical and accounting nature of some of these debates, which can be a turn-off even for many within the committed international development community. Those political forces who simply reject any international uses of "our" taxes (perhaps with limited defence exceptions) presumably also dislike both channels of delivery for that main reason. Nonetheless, bilateral aid often attracts more national-level scrutiny and criticism, partly as a result of routine parliamentary processes which tend to focus more on national administrations and their budgets.[27] Those political actors and advocates, on the other hand, who concede the value of at least *some* national-interest uses of aid, such as tackling the "root causes" of migration and infectious disease, may be surprisingly pragmatic, or indifferent, as to which channels have the greatest chance of success in those quests. Familiarity with the national ones may also breed a degree of unwarranted contempt, relative to more remote or sophisticated-looking options. This again is plausible, but uncertain. Also, you should be careful what you wish for. Using aid to slow down migration (from low-income countries), for example, is undoubtedly politically popular, but runs against all available evidence. This shows that aid to low and low-middle income countries, below about USD7,000 per capita income, is actually associated with increased, not decreased, outward migration toward richer countries.[28]

With both constituencies-the aid deniers and the narrow national-interest supporters—**it makes little sense to try to "bury the news**" of how much is actually being spent on multilateral organisations, for what and when, in an increasingly fragmented mosaic of partial announcements. This drip-feeding can backfire when subjected to aggressive media scrutiny, as we saw a few years ago when corruption findings revealed by an organisation's own audit controls, quickly stopped and affecting a tiny fraction of their portfolio, were portrayed as if the vast bulk of aid through that channel, indeed the entire aid system, were unsound. As bad news typically travels faster and further, a complete picture of the numbers and reasons behind replenishment will always be better than half-truths, which when uncovered can generate additional hostility.

7. Conclusion

The main conclusions of this analysis are:

a) A lot of concessional finance is at stake in the various replenishments which will be decided in 2019.

b) Donors should take an overall view of the multilateral organisations, rather than treat the replenishments one at a time; and should consider how they can work together to bring about systemic reforms.

c) Donors should increase core funding, and reduce earmarked funding, including through trust funds, to the multilateral system.

d) Donors should ask relevant multilaterals to set out, in advance, their offers on areas of overlap, so that donors can take an informed view of the respective contributions of each organisation.

e) Donors should share confidentially their anticipated replenishment amounts, and the anticipated totals for each institution should be published at the outset, to inform donor and organisational decisions and to nudge the community towards thinking about the replenishments in the round.

Annex 1. Seven ways in which a full-blown developing country debt crisis could upset many development finance apple carts

1. New waves of multilateral as well as bilateral developing country **debt relief**, stretching out a decade or more, on the track record of the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI). Funding of this relief is formally outside of major replenishments, but ultimately taps into same official development assistance pool.

2. **Moral hazard**, all over again. The likely affected countries include several for whom earlier write-downs were supposed to be definitive solutions. As before, there will be tensions between countries who have met their obligations and not, and between low-income countries and middle-income borrowers, also about how resources like hard-window surpluses are deployed.

3. The crisis will also affect the speed/reversibility of country "**graduation,**" from grant-only to soft loans to blends and beyond, spreading available concessional resources even more thinly.

4. **Financial engineering** tools, such as buy-downs and tailored guarantees (for example those now being considered to promote education loans by development banks), will become costlier and may appear more suspect.

5. What about "**shock" facilities**-the financial equivalent of early disaster response? Should they be earmarked within development bank replenishments, or set up separately?

6. **The Belt and Road Initiative** (China) and other massive less-concessional lending—who steps in if/when such megaprojects start to fail? What roles for "Western" donors and for the international financial institutions?

7. More generally on **blended finance instruments** from any source. If these reach the much larger scale advocated by many institutions, how will the international community disentangle private and official responsibilities for the ensuing debt write-downs?

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Endnotes

[1] IDA, EU- NDICI (proposed Neighbourhood, Development and International Cooperation Instrument), GAVI, GFATM, and AFDF. Using Morris (2018) tables of 2017-2019 replenishments (or most recent) totalling $123b as a conservative baseline, plus the proposal for the EU-NDICI, currently being mooted at €89.2 billion (around $107b) in current prices over 7 years starting 2021. Comparative reviews of multilateral funding often exclude the EU, both because non-EU DAC members do not normally have an option to participate in this funding and because the EU, represented by the European Commission, is a member of the DAC in its own right as a quasi-bilateral. See section 3C for further discussion.

[2] See for example McArthur and Rasmussen, (2017). Aggregate replenishment numbers inherently "roll-up" future streams of funding which are typically committed over 3- or 4-year periods and disbursed over an even longer horizon. This tends to distort comparison across multilateral organisations with different funding profiles. The donor rank ordering changes, for example, if all significant UN-based organisations, not just the few who expect some replenishment-based funding, are included. Then the US is the largest single aggregate multilateral spender, whilst the UK currently leads on IDA, for example, and Germany on the EU. The optional inclusion of the EU's pooled development spend, with its upcoming "replenishment" of roughly twice the average length of other organisations, likewise changes the rankings, both between EU members and not, and within the EU membership.

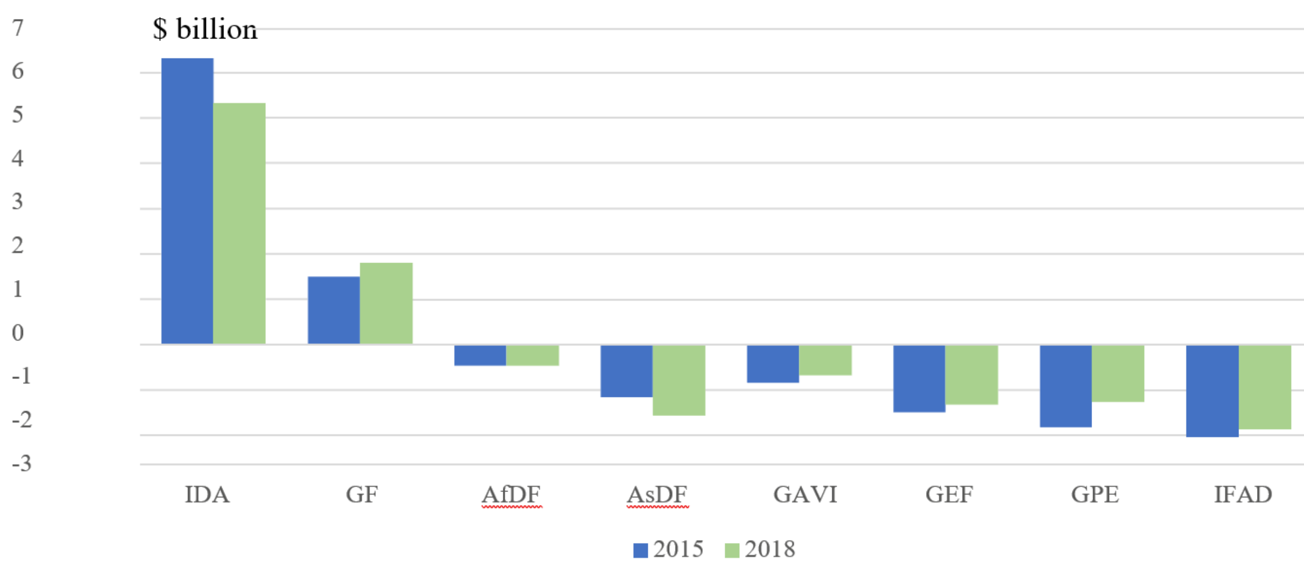
[3] For comprehensive reviews of patterns of multilateral development finance, see OECD-DAC Multilateral Aid Report series, especially 2011, 2013, 2016 and most recently 2018. Kharas and Rogerson (2017), among others, argue that financial pressures on agencies that rely mostly or entirely on periodic donor subsidies will most likely intensify in the near future, to the point that they will have to enter into joint ventures with others with a more diversified resource base, trim their ambitions, and/or consolidate or merge with others.

[4] This is illustrated by comparing different assessments (although most bilateral instruments build on both MOPAN and QuODA to some extent, and explicitly factor in national priorities): DFID for example rates GFATM as a more effective organisation than the IDB (ignoring alignment with UK priorities), whereas MOPAN rates the latter equal or better to the former in every key performance indicator (KPI). There is broader divergence in how organisations are ranked (comparing the MOPAN 2015-2016 assessments with the DFID MDR (2016)). Assigning equal weights to KPIs in MOPAN assessments, and using a reasonable, but still overly mechanical, scoring system to translate qualitative assessments into a raw numerical score, the ordering of the top 4 is reversed. Nevertheless, correlation between rankings is fairly high: 0.8 between MDR and our constructed MOPAN ranking. A similar picture can be found by comparing QUODA 2014 scores with DFID's 2013 update. Although QuODA does not produce an overall score, we assign equal weights to the four components and average the rankings across them; these overall rankings should be treated with caution. The new QuODA ratings (2018) were published by CGD on September 18 along with the non-aid dimensions of the Commitment to Development Index 2018.

[5] The EU has not been assessed by MOPAN in recent years-see MOPAN's Strategic Review, (MOPAN 2018), which recommends its future inclusion. MOPAN assessments are not designed to be directly comparable across agencies (MOPAN op cit.). In practice over 90% of KPI for all agencies assessed in the last (2016-17) cycle score as Satisfactory or Highly Satisfactory, within the context of the individual agencies' different mandates. Indicators that directly focus on evaluated results and their targeting and sustainability tend to have fewer highly satisfactory scores across all MO than do those assessing strategic focus, management and organizational systems etc.

[6] The following chart (derived from Morris, S, op cit.) shows the top 8 replenishments over the past 2 cycles, relative to a 2015 average replenishment of $2333m, and a 2018 average replenishment of £2197m for these eight MOs.

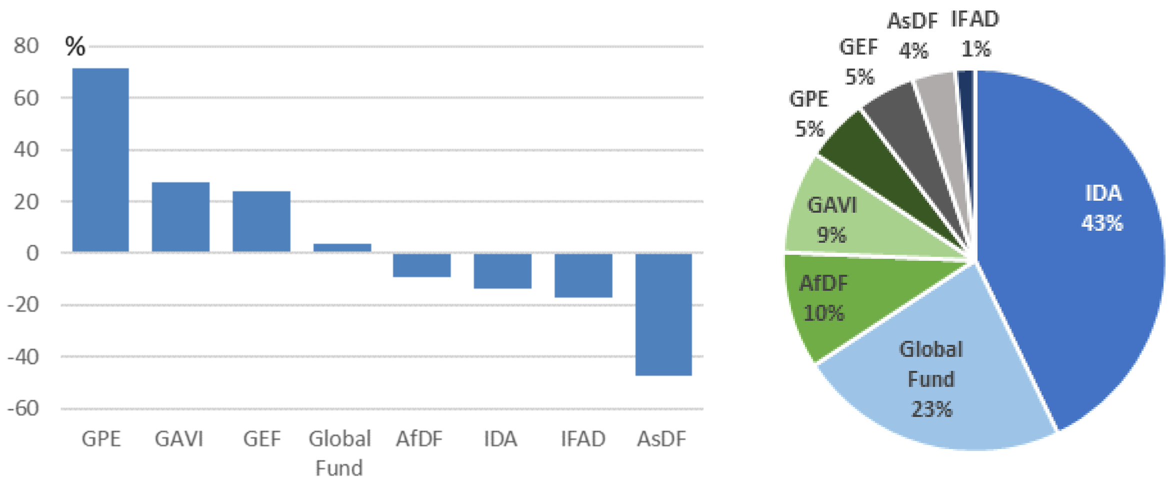
Figure EN1: Funding in different replenishments, relative to average funding



Notes: Zero line is equal to average funding of $2333m in 2015 and $2197 in 2018. Some organisations have different funding cycles, these figures pertain to annual equivalence of the replenishment funding covering these years.

Source: Morris (2018)

Figure EN2: Share of donor funding in most recent replenishment round and percentage increase between rounds.



Notes: IDA decline is possibly in part a donor response to "market debt" and "reflows" constituting additional financing for IDA and reducing the need for additional grant funding. The AsDF decline is as a result of a merger of instruments, as discussed in the comment above.

Source: Morris (2018)

The IDA 2018 figure is shown net of market borrowings (which otherwise would have pushed its total well above the 2015 level) and GAVI likewise does not include market borrowings under IFFIm. Apart from the obvious skew in favour of IDA, and to a lesser extent GFATM, with respect to the others, there is at best a slight relative improvement (smaller negative deviation from average over time) for the others, most of which are highly rated, some higher than IDA or GF. The obvious exception is the Asian Development Fund, whose resourcing needs were sharply reduced in 2018 due to the intervening unification of the ADB's balance sheet.

[7] See Birdsall (2018)

[8] Merger of the last two has sometimes been mooted (e.g. Cometto et al (2009)) but would address only part of this problem.

[9] It also has greater flexibility than the World Bank for aiding non-state institutions directly, without State guarantees or loan pass-through arrangements.

[10] The particular choice set for the UK post-Brexit, which could well involve selective continued engagement in the EU's humanitarian action, migration and peacekeeping support programmes, will be developed in a UK-specific version of this paper.

[11] See Talbot, Dercon and Barder (2017), especially on: p.12 vulnerability of low income countries; p.15 damages and deaths in poor countries; p. 19 more natural disasters over time;

p.26 & 27 funding lag examples from Ebola and Somalia famine.

[12] Insurance-type arrangements should include equitable mechanisms for subsidizing premia, and incentives linking the cost of such cover to the investments in preparedness and resilience made by the insured governments (Talbot et al, op cit.)

[13] In 2016, the top 15 MO accounted for 84% of core multilateral funding by DAC members (DAC 2017, Members' use of the Multilateral System). In 2010, the comparable figure was 82%. Figures on some of the smaller organisations may not yet be systematically reported to the DAC.

[14] Source: UN CEB Financial Statistics Database (UN (2017))

[15] A growing component of organisational funding by some donors (e.g. DFID in the case of GFATM) is now linked to payment-by-results agreements, which are also easier to specify for organisations providing more tangible inputs.

[16] For example, core funding for WHO fell by 8% between 2010 and 2016, despite the populations it serves, and some measures of their disease burdens, steadily growing (UN (2017)).

[17] This argument potentially extends to other standard-setting and surveillance functions, for example those designed to preserve global financial stability, in particular by the IMF. In its case it is not so much a question of the organisation's overall resourcing level, as one of needing to cross-subsidise such global public good functions from other activities.

[18] Hypothetically, extra market borrowings on a comparable scale to IDA-18 ($25b) and GAVI- IFFIm ($2.6b to date, from IFFIm website), in the next replenishment cycle, plus a shift of 2/3rds of the annual flows from WB trust funds to core funding (say, $6 billion disbursements a year for five years), would already account for nearly half of the aggregate 2017-19 replenishment volume, EU excluded. Such re-structuring would however imply that other perhaps equally deserving agencies, without sufficient access to such alternative mechanisms, should receive some offsetting direct grant support.

[19] These concerns have been around for some time but are not easily addressed. So, for example, the 2012 IEG Evaluation of the World Bank's Trust Funds (IEG (2012)) summarized: "without greater integration of trust funds into Bank sector and country assistance strategies, however, it is not possible to determine how trust funds affect Bank work overall, or whether they help to generate an optimal allocation of total available resources. The question this raises for the coherence of Bank business is not the targeting of resources on a particular issue, *but rather how the determination is made of which issues to target and who is driving the agenda of the Bank*" (our italics). The report's specific recommendations for an overall restructuring of TFs were subsequently rejected by management.

[20] If there were no such effect, borrowing from future generations to, say, vaccinate the current one would require a value judgement favouring today's child over tomorrow's, or assumes that the latter will somehow be taken care of by other means. The effect of "herd immunity" achieved by scaling up vaccination coverage, whereby at a given threshold level, disease transmission can be disrupted and therefore future immunisation efforts become durably more cost-effective, justifies the time-shift from "grants tomorrow" to "grants today," but by no means all development efforts have such characteristics. See e.g. Barder and Yeh (2006)

[21] McArthur and Rasmussen, op cit.

[22] With rare exceptions in the case of the larger organisations: the UK funded 30% of the last GAVI replenishment, for example (McArthur and Rasmussen, op.cit.), and about 25% for GPE and for overall World Bank trust funds. US contributions to the Global Fund are capped by Congress at 33% of overall donor contributions and have typically maintained that level.

[23] A more extreme version of this strategy is for the donor to set his/her individual multilateral allocation in fixed proportion to their actual or target share of the whole donor group-but that obviously does not recognise high or low effectiveness or relevance.

[24] Net of refugee costs, in 2017 net DAC ODA rose by 0.6% over 2016 (DAC 2018). Final 2017 multilateral figures have not been released yet, but in 2016 the core multilateral share of ODA fell slightly, to 28%, a level which has remained roughly constant over the last decade. The use of earmarked or non-core resources by multilaterals, reported as bilateral aid, has continued to rise, and so has the total "use of the multilateral system," combining core and non-core, at 41% of net ODA (DAC 2016).

[25] See e.g. IPSOS-MORI (2012): over half those surveyed thought that "aid is wasted." The Eurobarometer series shows more, but still nuanced, support for aid (see for example EU DG Communications (2017)), including EU aid.

[26] Such as the Edelman Trust Barometer (see Kharas and Rogerson, op. cit.)

[27] So for example, the UK's Independent Commission on Aid Impact (ICAI) has produced 69 reviews of the UK aid programme, but only five have been specifically about multilateral engagement, and four of these pertain to relationships with particular organisations rather than the entire system. (REF: https://icai.independent.gov.uk/reports/). Also, in response to a survey of bilateral donors on their motivations for spending money via multilateral channels (Greenhill and Rabinowitz, ODI 2017), several answered that this channel can help insulate them from political risks. For elements of the media hostile to aid, bilateral aid "scandals" typically also provide a more direct route to apply political pressure, given that donor governments are wholly responsible for such programmes.

[28] Clemens and Postel (2018). For a further discussion on migration and aid, see also Kharas and Rogerson (2017). A number of more promising approaches, including supporting migrant and displaced persons' integration in labour markets of first-destination middle-income countries, are being tested, but have yet to demonstrate their effectiveness. Clemens and Postel (op cit.) also find that the pattern of aid-funded investments does not yet differ significantly between recipient countries with high, versus low, out-migration.