



## Key points

- A donor's multilateral resource allocation system should be transparent and auditable, recognising the importance of informed judgement
- It should use quantification, recognising both its role and its limitations
- Development effectiveness is important, but objective measurement is difficult: one priority is to improve the information base

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## Multilateral resource allocation: best practice approaches

Tony Faint and Deborah Johnson

**G**overnment donors provide billions of dollars in development assistance via multilateral organisations (MOs) each year. But what would best practice in donor allocation of resources to MOs look like? And what are the principles and options for a manageable and auditable allocation system? An ODI study for the UK Department for International Development (DFID), completed in 2009, reviewed current best practice and made proposals for improvement/refinement. This Project Briefing reviews the key findings and recommendations from the final report on that study (Highton et al., 2009), which proposes a structured approach to gather and use all relevant evidence to facilitate informed decisions on resource allocation.

### The multilateral system

Multilateral Organisations (MOs), such as the UN Group and the World Bank, are a key component of development activities and resource flows (Box 1) and have advantages for donors as channels for aid. They are well placed to provide global public goods, including combating climate change and global pandemics. They can support the harmonisation of development assistance to specific countries, and can take advantage of economies of scale to have greater breadth and depth than most bilateral agencies. Their perceived neutrality is an asset in politically sensitive contexts and fragile states.

But decisions on how much to allocate to each MO when budgets are limited pose major challenges for donors. There are many MOs, and it is hard to compare allocations among them, given their varied objectives and strategies, effectiveness, structure, governance and size. How, for example, should a donor weight efforts to improve human rights against those to improve to health or education? It is difficult

### Box 1: Multilateral organisations

Multilateral organisations (MOs) account for 28% of global official development assistance, providing around \$35 billion in 2008, up from \$23 billion in 1989. They work in a complex landscape. Members of the OECD's Development Assistance Committee (DAC) report contributions to over 200 multilateral agencies, with different yet often overlapping functions. However, four-fifths of the allocations went to just six 'clusters' of multilateral entities from 2004-2008: EU institutions (37%), the International Development Association of the World Bank (21%), the UN Funds and Programmes (10%), the Global Fund (6%), the African Development Bank (4%), and the Asian Development Bank (3%).

Source: OECD DAC (2010).

to reach systematic decisions across MOs, as they have different cycles of fundraising, often with public pressure from groups that support their mandates. The range of ways in which multilateral activities can be resourced also creates complexity. Donors may fund anything from tightly-earmarked project implementation to completely flexible core funding, and different funding mechanisms have different levels of effectiveness and varying systemic implications. Any allocation system contains a large element of judgement, making a transparent and auditable system particularly important.

### Measuring development effectiveness

Donors that try to systematise the allocation process have focused, in general, on two issues: the alignment of the MO's mission and objectives with those of the donor; and the MO's development effectiveness. However, measures of development effectiveness to

compare performance across MOs are hard to construct, and are complicated by differing missions and modes of operation. A wealth of information is available from the MOs themselves, but most relates to inputs and outputs rather than impact or development effectiveness. The Multilateral Organisation Performance Assessment Network (MOPAN) is an international network that tries to address some of these issues, but it has focused on agency-by-agency reviews to date, avoiding cross-agency comparisons. Most assessments of development effectiveness, including MOPAN, hesitate to assess results directly and focus instead on the 'value chain' that leads to results: which reflects organisational, rather than development, effectiveness. So, if an MO has the right mandate, and performs efficiently and effectively as an organisation, it is considered likely to achieve results.

## An improved approach

To address these challenges, the report on ODI's research suggests a manageable and auditable approach to increasing the effectiveness and consistency of donor allocations to MOs. The approach focuses on assembling evidence at an increasingly aggregated level in a way that contributes to more organised thinking on allocations. It stresses the importance of informed judgement, given the limited available data, and the difficulty of consistent assessment of the range of objectives and activities of MOs. It uses quantification as an input to a broader allocation process, and calls for a closer look at allocations from several perspectives, in a process of triangulation. The approach has three main stages:

- rating MOs against five aggregate 'lenses'
- presenting and quantifying resulting information
- concrete recommendations on allocations

## The five 'lenses'

The MO characteristics of relevance to resource decisions could be structured in many ways. At the heart of the approach proposed is the use of five lenses, or clusters of related indicators – each including complementary indicators shown in Table 1:

- Lens 1: Alignment of donor and MO objectives
- Lens 2: Development effectiveness
- Lens 3: The role of the MO in international development architecture
- Lens 4: Potential for reform/improvement and for a donor's influence on this
- Lens 5: Scale

### Lens 1: Alignment

This aims to capture the extent to which an MO is aligned with the development objectives of the donor. While there is broad consensus amongst donors on development objectives, including on the Millennium Development Goals (MDGs), each donor is likely to have slightly different priorities and place

a different weight on objectives. In assessing this lens, an overly literal focus on the specific objectives and targets of the MDGs may be counterproductive. Instead, the focus should be on sustainable poverty reduction in all its dimensions, as well as on related global public goods, such as climate change mitigation, or on addressing the challenges facing fragile states. Different donors may vary in how much they see multilateralism as an objective in its own right.

### Lens 2: Development effectiveness

The fundamental question on development effectiveness is that of an MO's impact on the ground, not just its outputs. There is some solid evidence from evaluations at the level of projects or programmes and, in some cases, from rigorous impact analysis. It is, however, extremely difficult to make generalisations across countries or organisations.

In the absence of direct evidence of impact, past studies of the performance of MOs have focused on approaches and systems (such as the monitoring of alignment or managing for results required under the Paris or Accra Declarations, or MOPAN's institutional analyses).

How efficiently MOs allocate their money to maximise their impact is an important part of development effectiveness. However, given their diverse objectives and activities, it would be misleading to use the approach of Dollar and Collier (1999) that compares donor cross-country allocations on the basis of IDA criteria and weights. In principle it is possible, however, to use other criteria to assess the allocative efficiency of more specialised agencies, tailored to their scope and mandate. In theory, it is possible to construct model allocations based on indices developed to measure the specific problem that the MO seeks to address (such as an index of health status for MOs providing health funding). However, since available sources will provide only partial information, the new approach suggested by the ODI research would mean supplementing these with judgements from informed staff, both internal and external. It is considered to be likely to achieve results.

### Lens 3: International development architecture

A few MOs occupy a central position in the global development system. The UN plays an important role in conflict situations. UNDP has a coordinating role in the UN family and universal coverage in developing countries; and the World Bank has a comparative advantage in cross-sectoral systemic issues, often leading in-country donor dialogue with development partners. Some merit funding because they provide important contributions to development beyond their operational functions, including normative, advocacy and policy leadership and can, therefore, contribute to the overall effectiveness of the international system. Some derive legitimacy from the breadth of their membership. Lens 3 factors such issues into multilateral resource allocation.

**Table 1: The 5 lenses, levels and evidence base**

|               | Level 1  |                                 | Level 2   | Evidence base   |
|---------------|--|---------------------------------|---|---|
| <b>Lens 1</b> | Congruence with a donor's objectives/ strategies | 1.1<br>1.2<br>1.3<br>1.4<br>1.5 | Poverty focus<br>Sustainable growth<br>MDG relevance<br>Human rights and governance<br>Contribution to GPGs and climate change                            | Government policy documents<br>Ministerial statements<br>Institutional strategy papers<br>Annual reports<br>MO reporting  |
| <b>Lens 2</b> | Development effectiveness                        | 2.1<br>2.2<br>2.3<br>2.4        | Management/staff effectiveness<br>Paris/Accra systems, staff incentives<br>Partnership behaviour<br>Impact on the ground                                  | MOPAN, COMPAS, MEFF<br>DFID effectiveness assessments<br>MOs' evaluation/internal audit outputs,<br>Reports from NGOs and think tanks, and donor professionals' views |
| <b>Lens 3</b> | Role in international architecture               | 3.1<br>3.2<br>3.3<br>3.4        | Intellectual leadership<br>Appropriateness of mandate<br>Alignment of activities with comparative advantage<br>Sound governance arrangements, ldc 'voice' | MO reporting<br>Donors' institutional strategies<br>NGOs and think tanks<br>Donor professionals' views  |
| <b>Lens 4</b> | Potential for reform/improvement                 | 4.1<br>4.2<br>4.3<br>4.4        | Need for reform<br>Prospects for improvement<br>Openness to influence<br>Coalition-building potential   | Donor professionals' views<br>Contacts between donors<br>Membership coalitions  |
| <b>Lens 5</b> | Scale  | 5.1<br>5.2<br>5.3               | Turnover/scale of outputs<br>Beneficiaries reached<br>Other indicators  | MO annual and other reports<br>Synthesis documents, notably the DAC multilateral aid reviews  |

More specific architectural issues arise on relative funding between global and regional MOs, cross-sectoral MOs such as the Multilateral Development Banks (MDBs) and MOs that are sectoral or sub-sectoral, as well as among MOs in the same sector.

#### **Lens 4: Reform and improvement**

Lens 4 seeks to integrate reform and improvement within MOs into the assessment methodology. In a model of best practice, donors will use their funding of the multilateral system to improve the functioning of MOs and support their ongoing programmes, leading to better results in the medium term. They will, therefore, increase financial and other support when an organisation appears to be on a path of reform and increased effectiveness. Examples include new leadership with a credible reform agenda or governance reform to give developing countries more voice. Donor allocations should also take into account whether increased (or decreased) financing with other donors can affect an agency's reform process and effectiveness. Increased allocations may, on occasion, need to be earmarked to the desired reforms.

#### **Lens 5: Scale**

This lens differs from the others. It is needed because if two MOs do equally well when viewed through lenses 1 to 4, more resources should go to the one with the greater scale (a combination of reach and the efficient cost of doing business). This applies particularly to MOs financing services at country level, with different degrees of a geographical reach or sector specialisation. The simplest available metric for comparing scale is annual turnover. Information on numbers of beneficiaries, unit costs and the nature of services provided may be supplementary indicators.

While this is the best starting point currently available to assess scale, it has limitations. It is already heavily influenced by the first four lenses, as the volume of resources going to an MO reflects collective decisions by donors over time, influenced (to some degree) by the considerations contained in the other lenses. There is, therefore, an element of circularity in including the present scale of an agency's operations in the assessment. Current turnover may also reflect views on relative development or political priorities that have not stood the test of time and experience.

Assessing optimal scale using current turnover also rewards inefficient behaviour in the past. However, some thought is necessary on desired (rather than actual) scale. This would reflect the impact of inherited judgements and decisions, and the ability of MOs to absorb resources and avoid perverse results, such as a high proportion of resources going to an effective organisation whose ability to absorb funds is limited by its scope and mandate.

#### **Presentation and quantification**

A crucial part of improving multilateral allocations is presenting information in a clear and consistent way to increase transparency and auditability. Our research suggests a two-level assessment matrix, with level 1 showing the ratings for a given MO on the five lenses, and level 2 the backup ratings, information and judgements contributing to the assessment for each lens. The evidence used and the nature of the judgements involved would be clear.

Ratings could be purely qualitative, but this would not help much in allocating scarce resources among MOs. Given the limitations of the data base, the study proposes a simple scale of 1 to 6 for ratings of lenses 1 to 4, to assist decision-makers. Diamond

diagrams could help to facilitate presentation. In principle the same process could be applied to the indicators underlying each lens (though this might overcomplicate the process). The 1 to 6 scale is not, however, applicable to Lens 5, where the starting point would be turnover and its two key components: number of beneficiaries and unit costs.

## From analysis to recommendations

A weighted average rating for lenses 1 to 4 for each MO could be derived from the two-level assessment matrix. This would suggest preliminary recommendations on the direction and rough magnitude of change in allocations to an MO, but would be need to be checked and analysed in a variety of ways.

The problem of dealing with scale without introducing circularity would, however, remain. The study recommends a triangulation process to look at the question from different perspectives. One type of analysis is to compare ratings amongst clusters of organisations, for example the UN family, the MDBs, or global funds. Another is to compare relative performance within common sectors. Constraints, such as commitments to given institutions or sectors, would need to be incorporated at this stage, though most are time-related and should not hinder changes in the allocation pattern in the medium to long term.

## Conclusions

Our research suggests that donors should adopt a system based on the five-lens approach described in this paper for the MOs receiving the bulk of a donor's multilateral spend. Information and judgements should be shown in an allocation matrix, the results of which should be analysed by triangulation

from several perspectives to provide a basis for decision-making. A simplified system could be applied to smaller allocations.

Second, the research study recommends that donors should enhance the evidence base on multilateral effectiveness, by working with and trying to increase the range of MOPAN, but also through targeted surveys of staff from across a range of stakeholders including partner governments. Collaboratively, donors could explore the creation of an informal network of those interested in multilateral resource allocation, to exchange views on experience and methodology.

The study also recommends the preparation of multilateral aid strategies by donors, which several already have in place, and a comprehensive assembly of data on resource flows to each MO, including contributions made through donors' bilateral programmes. The OECD-DAC has already made moves in this direction.

The new UK government has commissioned a Multilateral Aid Review (MAR) of all core multilateral funding channels, designed to ensure the alignment of resource use to objectives. The assessment framework for the MAR draws on the advice provided in the ODI study, including breaking down development effectiveness into discrete areas. The review is expected to be concluded by early 2011 and we hope it will be a step towards best practice.

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### Project information:

This study was commissioned by the UK Department for International Development (DFID) in 2009 to enhance understanding of the evidence, tools and methodologies available for resource allocation decisions. It was based on reviews of existing studies and of current good practice of a range of donors in Multilateral Resource Allocation (MRA). These reviews were supplemented by interviews with DFID staff, other donor agencies and the Secretariat of the Development Assistance Committee (DAC).

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