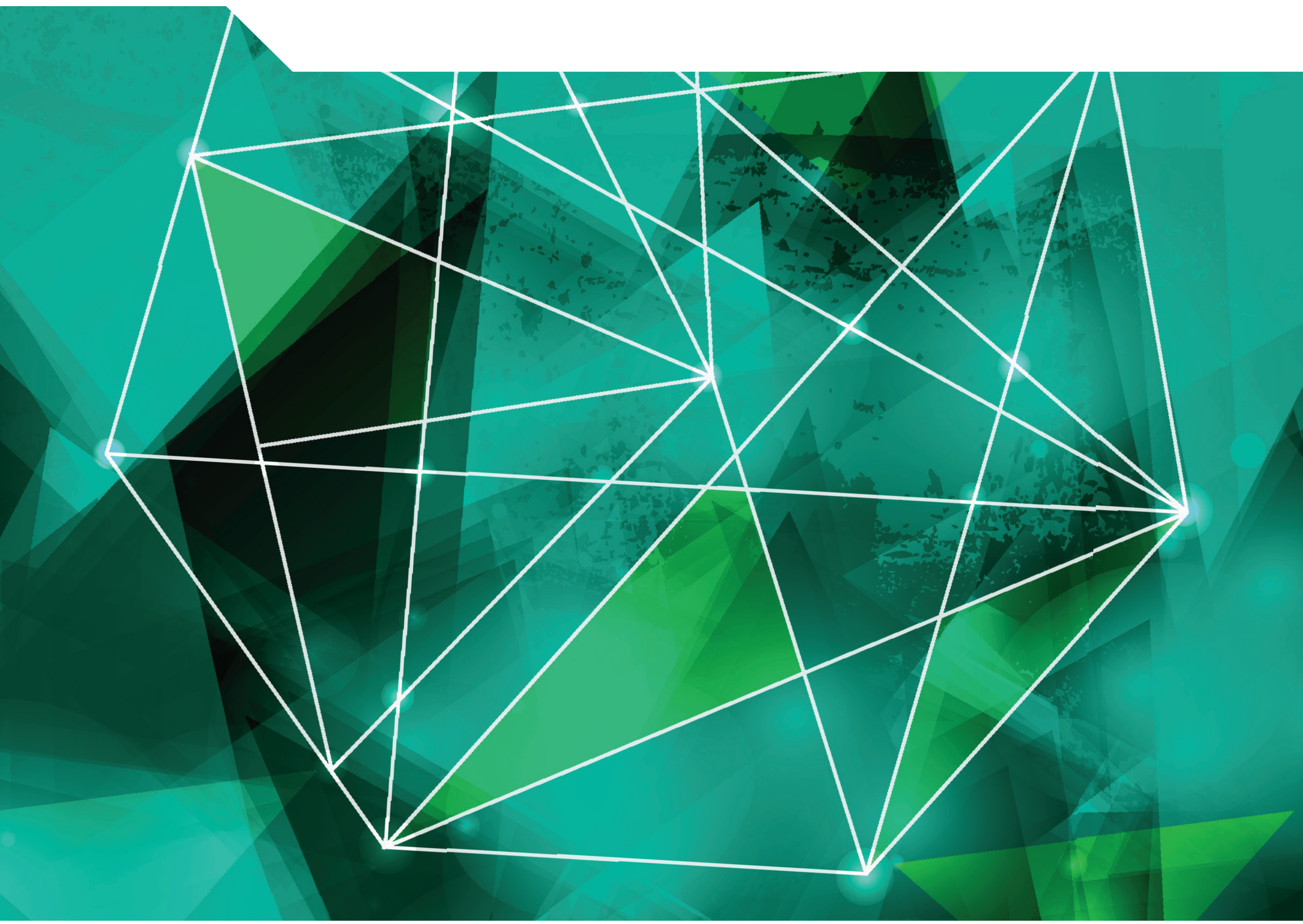
Multilateral Development Finance 2022



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Multilateral Development Finance 2022

BETTER POLICIES FOR BETTER LIVES

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Foreword

The *Multilateral Development Finance 2022* report provides an overview of the complex and evolving challenges faced by the multilateral development system. It formulates actionable policy recommendations for it to continue delivering on the 2030 Agenda in the face of successive and mutually reinforcing crises. Chapter 1 provides an overview of the main findings. Chapter 2 presents the scope of multilateral development finance and describes how the challenging global context is reshaping the system and increasing the need for reform. Chapter 3 examines funding to the multilateral development system, and reviews the implications of recent attempts to diversify and optimise funding sources. Chapter 4 sheds light on the activities financed by the multilateral development system, and outlines a path to maximise its contribution to an inclusive and sustainable recovery in developing countries.

The *Multilateral Development Finance 2022* report was prepared by the Financing for Sustainable Development (FSD) division of the OECD Development Co-operation Directorate. It is part of the directorate's work on multilateral development co-operation. The report was prepared by Abdoulaye Fabregas, Jieun Kim, Julian Kath and Qquillaccori Garcia Lopez, under the overall supervision of Olivier Cattaneo (Head of Unit, Policy Analysis and Strategy) and Haje Schütte (Head of Division, FSD).

The report has benefitted from the contributions of many colleagues. The authors would like to particularly thank the following: Ashley Palmer and Valentina Orru, for their contribution on the Global Partnership for Effective Development Co-operation monitoring exercise; Cecilia Piemonte for her inputs on the access of small island developing states to green funds; Juan Casado Asensio and Dominique Blaquier for their analyses on multilateral finance for biodiversity-related activities; Erika MacLaughlin and Edward Hainsworth for inputs on multilateral co-ordination in response to the COVID-19 crisis; Matthew Bowie for his inputs on the development infrastructure initiatives of G7 and G20 members; Julie Seghers and Julia Schnatz for their inputs on the contribution of official development assistance (ODA) to poverty and inequality reduction; Olivier Bouret and Jenny Hedman for their analyses of multilateral outflows for gender equality; and Marisa Berbegal, Giorgio Gualberti, Aussama Bejraoui, Harsh Desai, Andrzej Suchodolski and Tomas Hos for their statistical advice.

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The report benefitted from consultations with external partners from research institutes, academia and multilateral organisations, including: the Institute for Sustainable Development and International Relations, German Institute of Development and Sustainability, Dag Hammarskjöld Foundation, World Bank Group (WBG), United Nations Department of Economic and Social Affairs, United Nations Development Programme and the United Nations Development Coordination Office. Members of the OECD Development Assistance Committee (DAC) provided overall strategic guidance.

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Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank
ADF	African Development Fund
AfDB	African Development Bank
AF	Adaptation Fund
AIIB	Asian Infrastructure Investment Bank
AsDF	Asian Development Fund
B3W	Build Back Better World
BADEA	Arab Bank for Economic Development in Africa
BDEAC	Development Bank of the Central African States
BOAD	West African Development Bank
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
CAF	Development Bank of Latin America (Corporación Andina de Fomento)
CARICOM	Caribbean Community
CCD	United Nations Convention to Combat Desertification
CDB	Caribbean Development Bank
CEB	Council of Europe Development Bank
CERF	Central Emergency Response Fund
CIF	Climate Investment Funds
CIV	Collective investment vehicle
COVAX	COVID-19 Vaccines Global Access
CRS	Creditor Reporting System
CSO	Civil society organisation
DAC	Development Assistance Committee (OECD)
DCD	Development Co-operation Directorate (OECD)
DPO	Department of Peace Operations

DRM	Domestic resource mobilisation
EBRD	European Bank for Reconstruction and Development
ECA	United Nations Economic Commission for Africa
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
EIB	European Investment Bank
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign direct investment
FIF	Financial intermediary fund
FSD	Financing for sustainable development
Gavi	Vaccine Alliance (Global Alliance for Vaccines and Immunisation)
GCF	Green Climate Fund
GDP	Gross domestic product
GEF	Global Environment Facility
GFATM	Global Fund to fight AIDS, Tuberculosis and Malaria
GGGI	Global Green Growth Institute
GHRP	Global Humanitarian Response Plan
GNI	Gross national income
GPE	Global Partnership for Education
GPEDC	Global Partnership for Effective Development Co-operation
GPG	Global public good
HIC	High-income country
HIPC	Heavily indebted poor country
IADB	Inter-American Development Bank
IAEA	International Atomic Energy Agency
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
ICSID	International Centre for the Settlement of Investment-related Disputes
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFFIm	International Finance Facility for Immunisation
IFI	International finance institution
ILO	International Labour Organisation

IMF	International Monetary Fund
INFF	Integrated national financing framework
IOM	International Organization for Migration
IsDB	Islamic Development Bank
ITC	International Trade Centre
ITU	International Telecommunication Union
LDC	Least developed country
LIC	Low-income country
LLDC	Landlocked developing country
LMIC	Lower middle-income country
MDB	Multilateral development bank
MIC	Middle-income country
MIGA	Multilateral Investment Guarantee Agency
MLF	Multilateral Fund for the Implementation of the Montreal Protocol
MOPAN	Multilateral Organisation Performance Assessment Network
NDB	New Development Bank
NDF	Nordic Development Fund
NGO	Non-governmental organisation
ODA	Official development assistance
ODF	Official development finance
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
OHCHR	Office of the United Nations High Commissioner for Human Rights
OOF	Other official flows
PAHO	Pan American Health Organization
PBF	United Nations Peacebuilding Fund
PIDG	Private Infrastructure Development Group
PPP	Public-private partnership
PPR	Pandemic Preparedness and Response Fund
PRGT	Poverty Reduction and Growth Trust
QCPR	Quadrennial Comprehensive Policy Review
RDB	Regional development bank
SDG	Sustainable Development Goal
SDR	Special drawing right
SIDS	Small island developing state

SPC	Pacific Community
SPREP	Secretariat of the Pacific Regional Environment Programme
SPRP	Strategic Preparedness and Response Plan
TOSSD	Total official support for sustainable development
UMIC	Upper middle-income country
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UN-HABITAT	United Nations Human Settlements Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNDRR	United Nations Office for Disaster Risk Reduction
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNODC	United Nations Office on Drugs and Crime
UNRISD	United Nations Research Institute for Social Development
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSDG	United Nations Sustainable Development Group
UNSSC	United Nations System Staff College
UNU	United Nations University
UNWTO	United Nations World Tourism Organisation
UPU	Universal Postal Union
USD	United States dollar
VFVT	United Nations Voluntary Fund for Victims of Torture
WBG	World Bank Group
WEF	World Economic Forum
WFP	World Food Programme

WHA	World Health Assembly
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Trade Organization

Executive summary

Nearly three years after the outbreak of the COVID-19 pandemic, a succession of mutually reinforcing crises and a challenging global context are putting the multilateral development system under pressure. The world is facing the most challenging confluence of crises in contemporary history, jeopardising decades of progress in some key development areas, such as poverty reduction, access to quality health and education and other global goals. In this context, multilateral organisations are being asked to help tackle an ever-increasing number of humanitarian and development challenges.

This report provides an overview of the complex and evolving challenges faced by the multilateral development system, and makes policy recommendations for ensuring it is fit for purpose to continue delivering on the 2030 Agenda and supporting the recovery in developing countries.

The multilateral development system faces a triple test in a challenging global context

Recent crises, such as the COVID-19 pandemic, the food and energy crises triggered by Russia's invasion of Ukraine, and climate change, have highlighted the central and growing role played by the multilateral development system in the global development agenda. In 2020, 41% of total ODA was channelled through the multilateral development system, up from 36% in 2010. The multilateral development system has a significant multiplier effect on DAC members' multilateral contributions, allowing them to pool resources with other donors (public or private) and to leverage private finance for sustainable development. It also offers multidisciplinary expertise and a global reach.

Yet the unstable global context is ushering in a more uncertain and challenging period for the governance of the multilateral development system. A trio of forces (contextual, institutional and political) is putting it to the test. First, the entry into a more shock-prone era is stretching the capacity of the system. Second, geopolitical polarisation is leading to growing tensions in the multilateral space due to competing values and priorities. Third, the legitimacy of the rules-based multilateral order inherited from the post-Second World War era is increasingly being challenged. Failure to recognise and adjust to these forces could expose the multilateral development system to a triple crisis of capacity, legitimacy and identity.

Recent crises have evidenced the need to adequately resource the multilateral development system, spurring new calls to expand the financial capacity of the major international financial institutions. However, while most stakeholders agree on the need to strengthen the system, the focus on short-term emergency response and the return of great power politics could slow down progress on other areas of the multilateral reform agenda. In recent years, for example, reform initiatives such as the UN Funding Compact have seen mixed progress, and the multilateral architecture has become more crowded, complex and fragmented than ever with new multilateral funds continuing to be established in response to emerging development challenges, such as the threat of pandemics and climate change.

Multilateral organisations are under pressure to optimise and diversify their funding

Despite tightening budget constraints, official providers' contributions to the multilateral system continued to grow in 2020, reaching an all-time high of USD 76.4 billion. In parallel, multilateral organisations have deftly tapped into alternative sources to raise exceptional amounts of finance.

However, these positive trends mask a set of intensifying funding vulnerabilities. In line with the pattern observed over the past two decades, the share of multilateral contributions earmarked for specific objectives has continued to rise. Between 2015 and 2020, for example, the share of DAC members' earmarked contributions in their total ODA grew from 13% to 16%. Although this trend partly results from the need to respond to more frequent crises, it is increasing the volatility of multilateral organisations' funding and exacerbating the rigidities in the system.

As multilateral organisations seek ways to diversify and optimise their funding sources to fulfil growing financing needs, they increasingly rely on the private sector. The organisations that are part of the UN development system are seeing an increase in contributions from private donors, such as philanthropies, while the multilateral development banks (MDBs) face calls to better leverage their balance sheets in order to mobilise a larger share of their funding from capital markets. The G20 Independent Review of MDBs' Capital Adequacy Frameworks released in July 2022, for example, encouraged shareholders to consider adaptations to current frameworks in order to maximise MDBs' financing capacity, potentially unlocking hundreds of billions of dollars in additional lending.

Greater effectiveness and prioritisation of multilateral development finance is required to support an inclusive and sustainable recovery in developing countries

In recent years, the multilateral development system has provided record volumes of financing to support developing countries' responses to the COVID-19 pandemic, amounting to a total of USD 185.1 billion in 2020, an increase of 31% from 2019. A series of exceptional measures taken by MDBs largely contributed to this surge; all together, MDBs accounted for 79% of the total USD 61.5 billion increase in multilateral financing in 2020.

Despite considerable efforts deployed by multilateral organisations, resources are still insufficient to meet the magnitude of the challenges faced by developing countries. In 2022, UN humanitarian assistance had a record funding shortfall (around USD 31.4 billion, corresponding to a 63% financing gap).

Multilateral organisations' ability to adapt to shifting priorities during the crisis was key to avoiding further economic and social damage in developing countries. In 2020, some multilateral organisations repurposed parts of their portfolios towards activities directly relevant to the crisis response. While this revealed some much-needed agility on the part of organisations often criticised for their slow and bureaucratic processes, it also added to the challenge of achieving greater coherence across the system.

Keeping focused: On reform, sustainability and inclusiveness

Ensuring greater effectiveness and prioritisation of multilateral development finance will be particularly important to make the most of stretched resources. In the context of growing financing needs and constrained development budgets, avoiding overlaps and redundancies across multilateral organisations' mandates and portfolios, ensuring complementarity between multilateral and bilateral efforts, and addressing the lack of whole-of-system accountability will be key to achieving the greatest development impact. Equally important will be to ensure that multilateral development finance helps realise the promise of building back better in developing countries by contributing to both pillars of the recovery – social inclusiveness and environmental sustainability. Increasing the multilateral focus on those furthest behind and on areas where it can have the greatest impact, such as the climate agenda, can be an effective way to maximise multilateral development finance.

Based on this review of the trends in and pressures on the multilateral development system, this report makes a series of recommendations for the main funders and shareholders of the system (the members of the Development Assistance Committee) and for multilateral development organisations, summarised as follows:

- Develop a holistic vision for the multilateral system to ensure its fitness to meet new global development challenges.
- Provide sustainable and predictable funding to multilateral organisations for a more resilient system, and support the implementation of innovative approaches to improve its financial capacity.
- Improve co-ordination across the system to increase the coherence and complementarity of multilateral efforts.
- Ensure that the needs and priorities of the poor and marginalised become a priority in multilateral investments.
- Mainstream climate and biodiversity further in multilateral development finance.

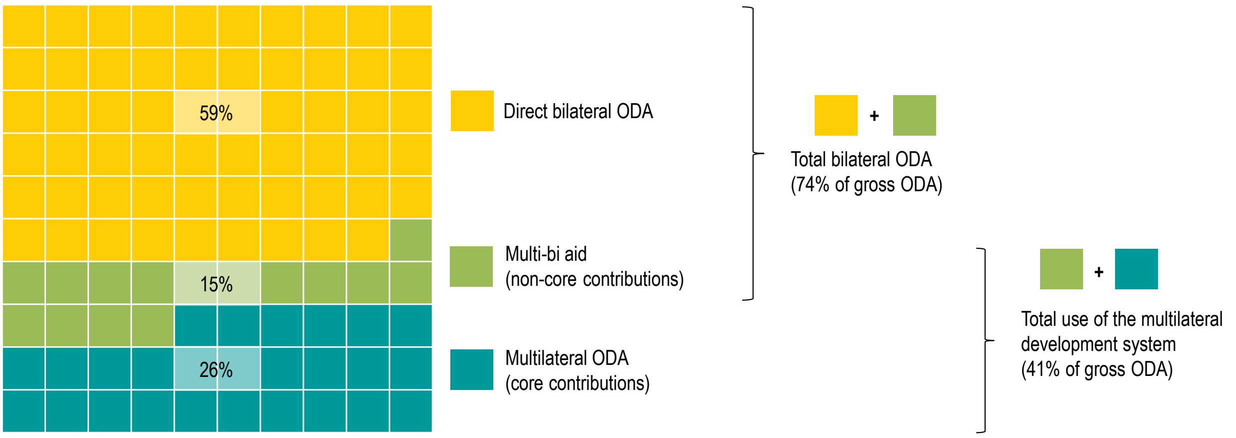
1 Overview

1.1. Multilateral development finance in context

Multilateral development organisations are at the heart of the development co-operation system. They channel a large and growing share of total official development assistance (ODA). The volume of ODA channelled through multilateral development organisations amounted to USD 78.6 billion in 2020, or 41% of total ODA (Figure 1.1). This amount is made up of: (i) contributions to the budgets of multilateral organisations (known as "core" or "multilateral ODA"), representing 26% of total ODA; and (ii) non-core contributions earmarked through multilateral organisations (so-called "multi-bi aid"), accounting for 15% of total ODA. These non-core, or earmarked, contributions are resources channelled through multilateral organisations over which the donor retains some degree of control and that can be earmarked for a specific country, project, region, sector or theme. Although smaller in volume and share, earmarked contributions have been rising steadily over the past two decades, while the share of core contributions has remained constant.

Figure 1.1. More than 40% of total ODA is channelled through multilateral development organisations

DAC countries' and other official providers' bilateral and multilateral ODA



Note: Calculations based on gross disbursements, in 2020 constant prices.
Source: Authors' calculations based on the OECD Creditor Reporting System, (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

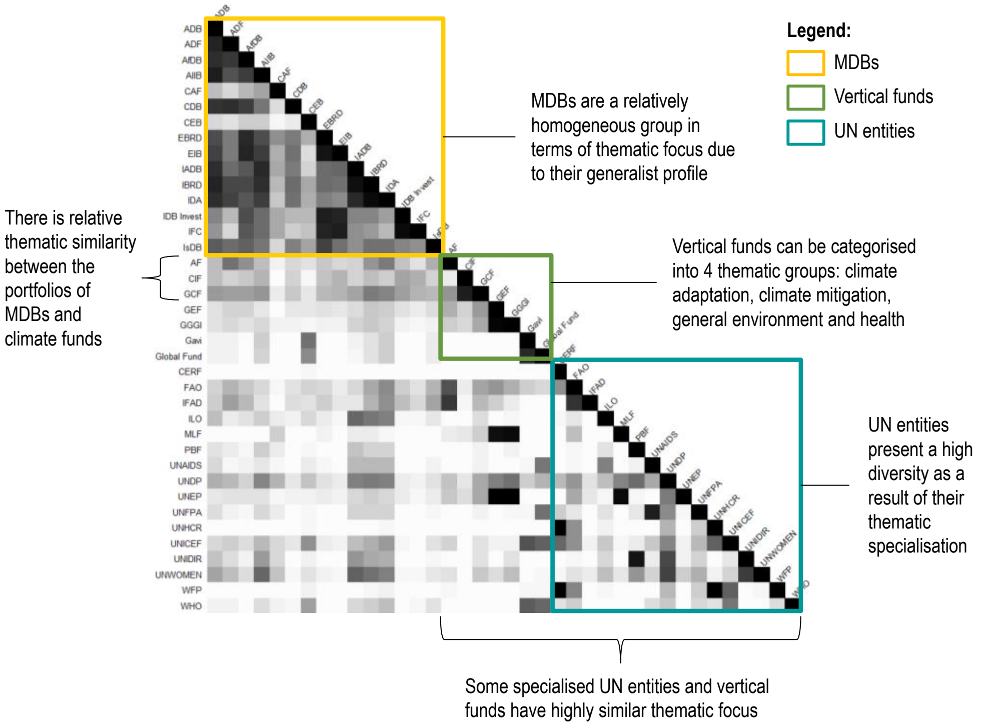
Multilateral development organisations form a complex ecosystem. The analysis in this report shows that the number of active multilateral entities has grown steadily over the past few decades. Today, the multilateral development system comprises more than 200 entities. In the long run, this continued fragmentation could pose risks to systemic coherence and accountability, especially if new ad hoc structures continue to be created and superimposed on the pre-existing multilateral architecture.

The centre of gravity of the multilateral development system remains in a handful of multilateral organisations. Ten multilateral entities, out of more than 200, account for 70% of total financing from the multilateral development system. The largest multilateral development banks (MDBs) are over-represented among these "vital few", along with the development institutions of the European Union. The multilateral development system also includes a multitude of smaller and more specialised entities. United Nations (UN) funds and programmes, UN agencies and vertical funds account for a large share of the remaining 30% of multilateral financing. This part of the system is more fragmented and includes entities with smaller portfolios and greater thematic specialisation, which often channel funds earmarked by bilateral providers.

The large number of organisations that make up the multilateral development system has resulted in a multifaceted and versatile architecture. Rather than a monolithic structure, the multilateral development system is an intricate institutional patchwork of entities with diverse constituencies (global, regional or South-South), geographic scope (regional or global), thematic focus (single-focus or wide-ranging), financing instruments (grants, concessional and non-concessional loans, equity, guarantees) and operational models (banks, funds, agencies). While this contributes to the versatility of multilateral development finance, the increasingly crowded and complex multilateral architecture makes it difficult to obtain a clear understanding of the division of roles and to identify potential overlaps in the organisations' portfolios (Figure 1.2).

Figure 1.2. Multilateral development organisations form an intricate patchwork with diverse thematic focus

Matrix of portfolio similarity scores across multilateral development organisations (2012-20 average)



Note: Calculations are based on commitments, in 2020 constant prices. Darker shading reflects a high level of thematic similarity between two portfolios. The portfolio similarity scores of multilateral development organisations are calculated with cosine similarity, following the approach used in *Comparing multilateral and bilateral aid: a portfolio similarity analysis* (OECD, 2022[2]), https://www.oecd.org/dac/2022-mdf-comparing-multilateral-bilateral-aid.pdf.

Source: Authors' calculations based on OECD Creditor Reporting System, (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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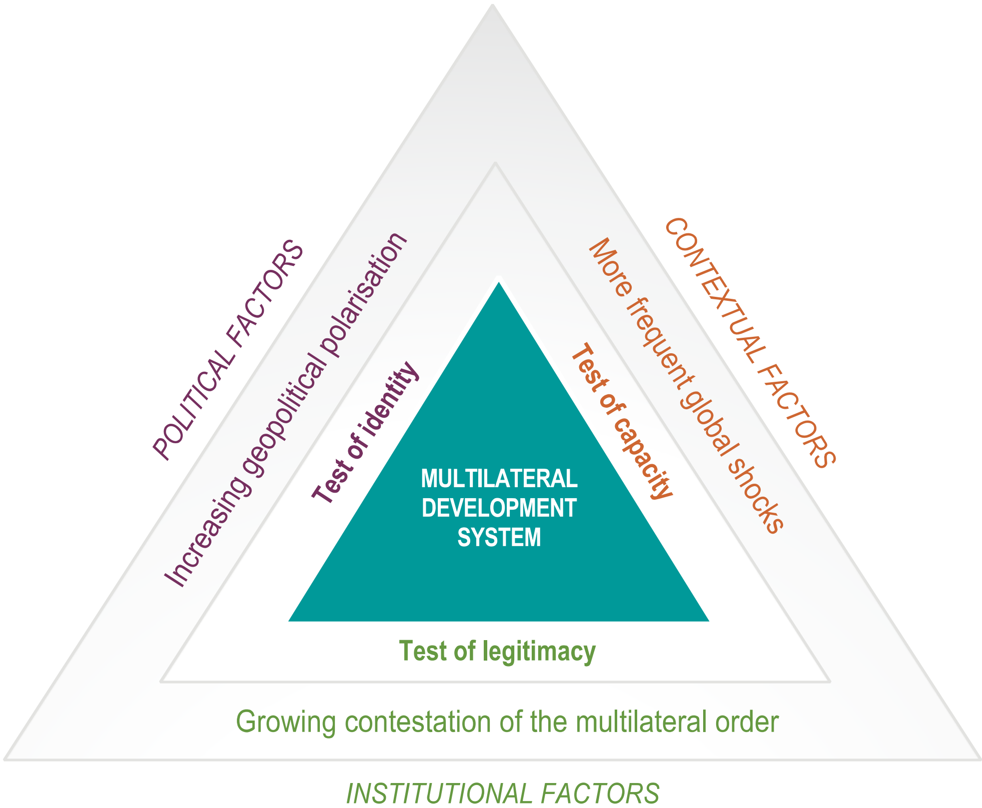
Multilateral development finance faces growing pressures in an unstable global context. A combination of three forces (contextual, institutional and political) is putting the system to the test (Figure 1.3). First, successive crises are stretching multilateral resources across an ever-increasing list of development priorities and testing the system's capacity to remain relevant in a more shock-prone world. Second, growing geopolitical polarisation is affecting the multilateral space and may result in tensions between diverging and competing values and priorities. Third, the rules-based multilateral order inherited from the Second World War is seeing its legitimacy challenged, and faces mounting contestation and criticism, including from some of its former champions. Failure to adjust to these forces could put the multilateral development system on the verge of a triple crisis of capacity, legitimacy and identity.

Figure 1.3. A triangle of forces is reshaping the multilateral development system



Source: Authors' illustration.

The new global context calls for reassessing the adequacy of the current multilateral architecture and governance. The triple crises of the COVID-19 pandemic, Russia's invasion of Ukraine and the threat of climate change have exposed some key shortcomings of the multilateral development system and highlighted the need to better equip its organisations. As a result, greater attention has been drawn to the need to scale up multilateral development finance, as evidenced by recent calls to reform the global financial architecture and revisit the toolkit and operational model of the major international financial institutions (US Department of the Treasury, 2022[3]) (Government of Barbados, 2022[4]). However, some other parts of the reform agenda appear to have lost steam. This includes efforts to rationalise and improve the coherence of the multilateral architecture, as well as to increase funding to the core functions of the system to build its resilience to deal with future crises (UN, 2022[5]).

Looking forward, the three global forces may further complicate the reform of the multilateral system. First, as already observed during the COVID-19 pandemic, more frequent crises could increase policymakers' short-term focus on emergency responses at the expense of longer-term investments to strengthen the multilateral development system. In addition, the increased financing needs from successive shocks could translate into a further expansion, fragmentation and complexity of the multilateral system. Second, the shift to a more polarised geopolitical order could make it even more difficult to achieve the level of consensus required to undertake fundamental reforms. Finally, the reduced trust in multilateral approaches could in the long term affect the willingness of member states to continue investing in the multilateral development system.

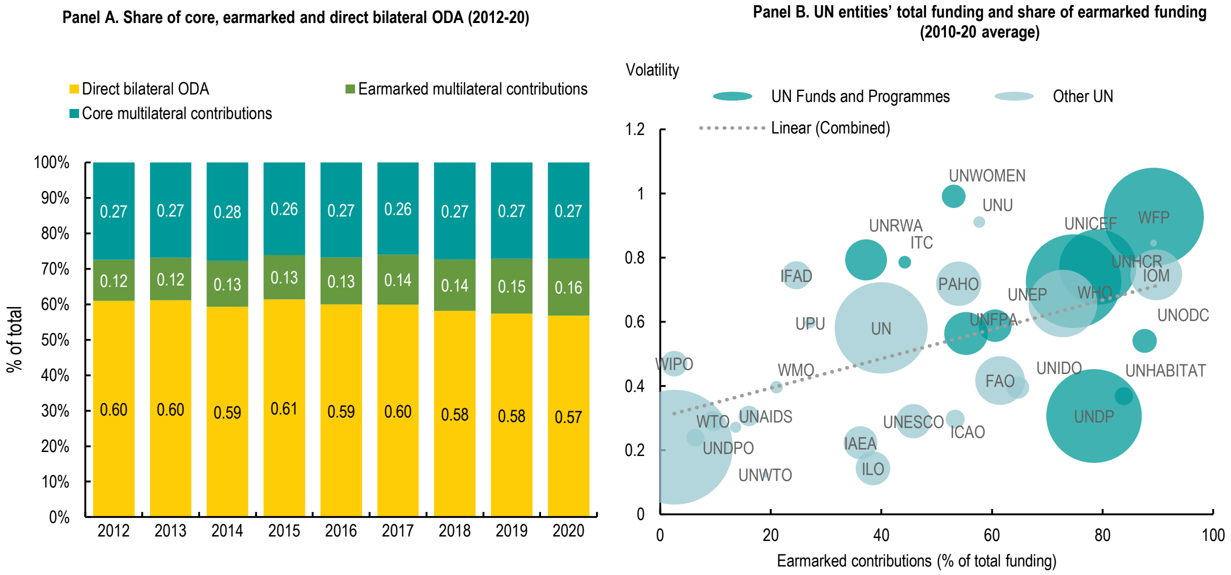
1.2. Funding to the multilateral development system

Despite DAC member countries' tightening budget constraints during the pandemic, inflows to the multilateral system continued to rise in 2020. Over the past decade, the multilateral development system has channelled growing volumes of ODA to developing countries. Between 2012 and 2019, core and non-core contributions to multilateral development organisations increased from USD 56.8 billion to USD 70.6 billion (up 24%). The outbreak of the COVID-19 pandemic in 2020 seems to have accelerated this trend, with DAC members' multilateral contributions reaching an all-time high of USD 76.4 billion in 2020.

However, the increase in multilateral contributions was not enough to meet the growing funding needs resulting from multiple concurrent crises. Funding shortages plagued humanitarian agencies throughout 2021, especially as scale-up was required for several concurrent emergencies, including in Afghanistan and Ethiopia, and the ongoing effects of the COVID-19 crisis continued to impact vulnerable communities. The funding gap increased further in 2022 as developing countries faced soaring food and energy prices and the additional impact of Russia's war against Ukraine. As of early October 2022, the UN Office for the Coordination of Humanitarian Affairs (UNOCHA) reported a record shortfall of USD 31.4 billion, corresponding to 63% of total funding requirements (UNOCHA, 2022[6]).

In addition, some worrying funding patterns risk constraining multilateral development organisations' flexibility to respond and adapt to new challenges. This is, for example, the case of donors' increasing tendency to earmark their contributions. Funds earmarked through the multilateral development system represent a growing share of Development Assistance Committee (DAC) members' ODA. The share of DAC members' non-core (earmarked) contributions in their total ODA grew from 13% to 16% between 2015 and 2020, while the share of their core contributions increased only slightly, from 26% to 27% (Figure 1.4). With a growing portion of development finance channelled through the multilateral development system earmarked for specific objectives, core functions are receiving less funding proportionally. In the long run, this could lead to a gradual erosion of the critical functions of the multilateral system, such as providing strategic and long-term oversight of key reforms, and adapting to the evolving and expanding nature of global development challenges.

Figure 1.4. The rise of earmarked ODA contributes to volatile funding for multilateral organisations



Note: Calculations are based on gross disbursement, in 2020 constant prices. In Panel B, the vertical axis corresponds to a measure of volatility, calculated as the relative standard deviation (also known as coefficient of variation). The horizontal axis shows earmarked contributions as a share of total funding (core and non-core, earmarked, contributions) received by UN entities. The size of the bubbles corresponds to the average annual funding volume of the different UN entities.

Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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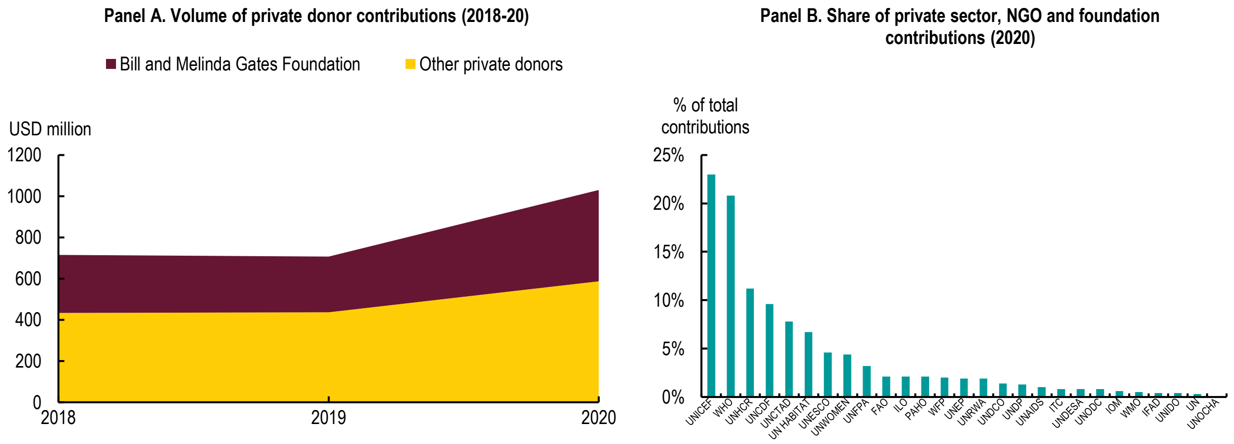
The UN Development System (UNDS), which is very reliant on earmarked contributions, has been seeking to overcome these vulnerabilities through system-wide reforms and greater engagement of private actors. UN member states adopted the Funding Compact in 2019 as a framework to align their financial support to the UNDS with the 2030 Agenda for Sustainable Development. However, the Funding Compact has seen mixed progress so far. In order to respond to growing demand from developing countries, many UN entities are increasingly seeking to diversify their funding base, including through contributions from the private sector. In fact, for some UN entities, the share of contributions received from private stakeholders, foundations and NGOs already represents more than 20% of total donor contributions (Figure 1.5). While the diversification of funding sources is a positive development, an over-reliance on private actors could ultimately have the same adverse effects as an uncontrolled rise of earmarked funding from donor governments and should thus be monitored with care. Potential implications include the disregard of programme priorities defined by intergovernmental bodies, high transaction costs and reduced coherence of multilateral strategies.

Figure 1.5. Private contributions to the UNDS increased significantly in 2020, but their share of total funding varies considerably across UN entities



Note: In Panel B, private, foundations and NGOs' contributions are calculated as a share of each UN entity's total funding (excluding local resources).
Source: Authors' calculations based on (UNCEB, 2022[7]) "Financial Statistics", https://unsceb.org/financial-statistics.

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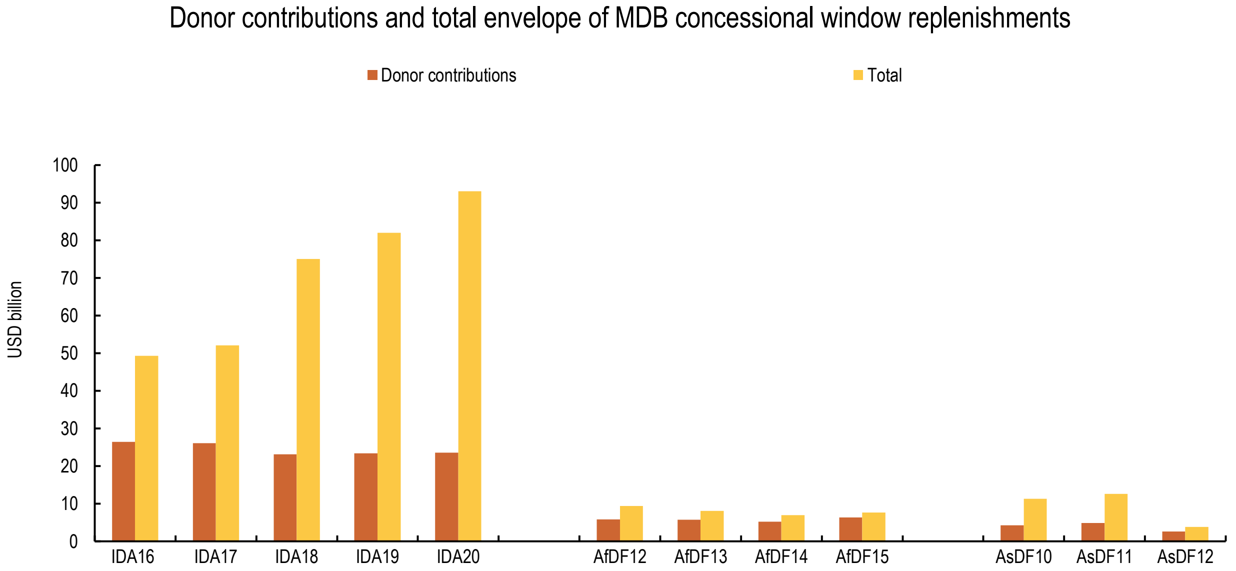
The MDBs' ability to raise financing from capital markets provided them with the flexibility to ramp up their lending during the pandemic. Successive bonds issuances, backed by recent capital increases, have allowed MDBs to scale up their lending in recent years. On the other hand, donor contributions to MDBs' concessional windows have been stagnating (Figure 1.6) and MDBs' financing headroom could narrow in the future due to the combined effect of tightening financial conditions and member governments' hesitation to further bolster their capital base. As a consequence, MDBs are increasingly under pressure from their shareholders to revisit and optimise their capital adequacy approaches. For example, the recent G20 review of MDBs' capital adequacy frameworks, released in July 2022, provided recommendations to unlock additional MDB lending capacity. Some of these initiatives open up new entry points for DAC members and other official donors as investors or guarantee providers to MDBs.

Figure 1.6. Donor contributions to the replenishments of MDBs' concessional windows have stagnated



Source: Authors' analysis based on replenishment reports of the IDA (International Development Association), AfDF (African Development Fund) and AsDF (Asian Development Fund).

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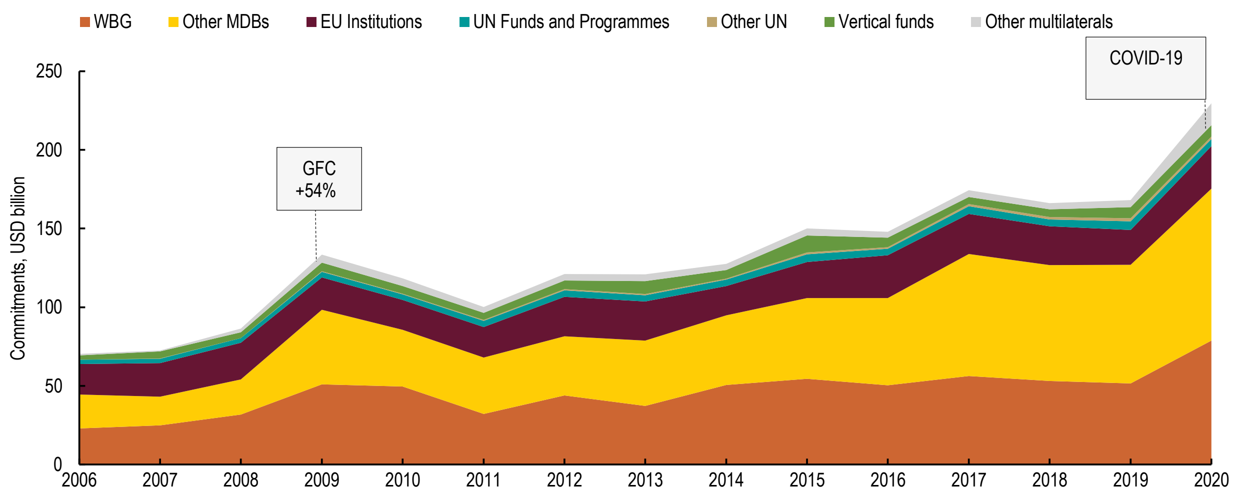
Increased funding to vertical funds helps scale up multilateral development finance but risks exacerbating pressures on the system. Recent crises show that donor governments continue to resort to vertical funds in the face of emerging global challenges. For example, a new fund for Pandemic Preparedness and Response (PPR) was officially established in September 2022 to tackle the COVID-19 pandemic. With the heightened visibility provided to global health issues in recent years, the two major health funds – the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) and Gavi, the Vaccine Alliance – also benefitted from successful replenishments. However, in the absence of a reform of traditional multilateral organisations, the creation of new vertical funds risks entrenching existing weaknesses in the multilateral development system. Most vertical funds ultimately rely on the implementing capacity of existing multilateral organisations, as they channel a large part of their resources through other multilateral entities such as UN entities and MDBs (Akmal et al., 2021[8]). Therefore, while the establishment of new funds may be an effective way to respond to emerging development challenges, it is not a substitute for multilateral reform in the long term.

1.3. Financing from the multilateral development system

The multilateral development system played a crucial role in the COVID-19 crisis response. Financing from the multilateral development system reached an all-time high in 2020. Multilateral disbursements rose by 31% in 2020, reaching USD 185.1 billion, while multilateral commitments increased by 37% (Figure 1.7). MDBs have been driving the rapid increase in financing provided by multilateral development organisations. Commitments from the WBG and other MDBs increased by 50% and 29%, respectively, between 2019 and 2020. Taken together, the MDBs accounted for 79% of the total USD 61.5 billion increase in multilateral commitments in 2020. The share of financing from the International Monetary Fund (IMF) reported to the OECD Creditor Reporting System (CRS) increased by more than six times between 2019 and 2020, reaching USD 10 billion, up from only USD 1.6 billion in 2019 and an average of USD 1.3 billion between 2010 and 2019.

Compared to the response to the global financial crisis, the increase in multilateral financing to tackle the COVID-19 crisis was larger in volume but less significant in relative terms. The surge in multilateral commitments was USD 20 billion higher in 2020 compared to 2009. Yet the relative increase in total multilateral development finance in response to the pandemic in 2020 was around 18 percentage points lower than during the global financial crisis. In the case of MDBs, the relative increase observed in 2020 was about half as large as the rise in MDBs' financing in 2009. This is despite the fact that for developing countries, the socioeconomic consequences of the pandemic were more serious than the impact of the global financial crisis.

Figure 1.7. The multilateral response to the pandemic was larger in volume than to the global financial crisis, but was smaller in relative terms



Note: GFC=global financial crisis. Calculations are based on commitments, in 2020 constant prices.
Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Report System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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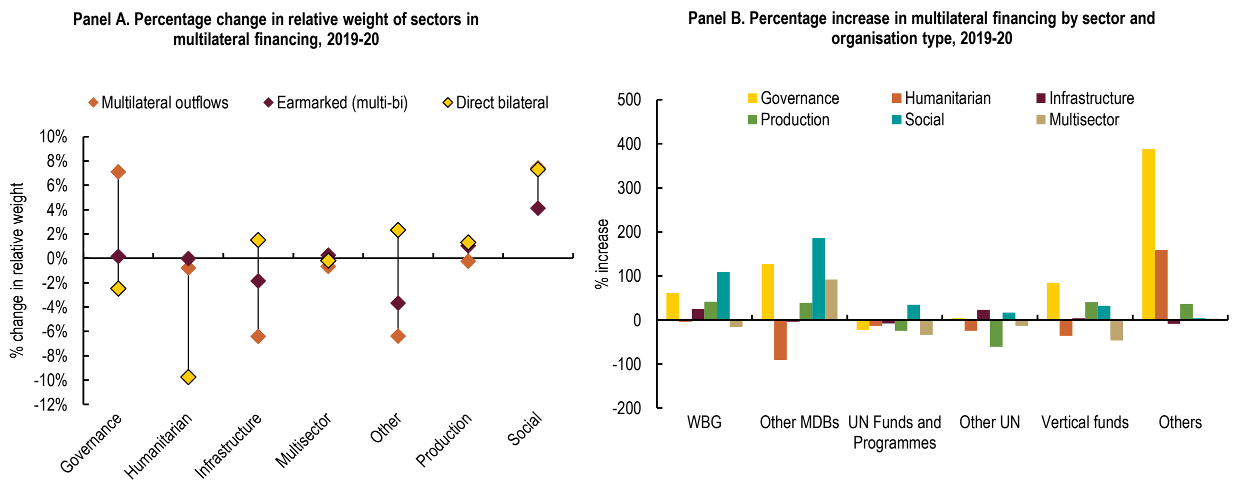
Multilateral development finance retains its particular focus on middle-income countries. In recent years, multilateral development finance has increasingly focused on middle-income countries, driven by the growth in MDBs' outflows. This trend, already highlighted in the previous edition of this report (OECD, 2020[9]), continues. Between 2018 and 2019, for example, the share of financing provided by multilateral organisations to middle-income countries increased from 68% to 70%, largely driven by a growing share of multilateral financing to lower-middle income countries (LMICs). The initial pandemic response further geared multilateral development finance towards LMICs. In 2020, LMICs received 42% of the financing provided by multilateral organisations, up from 38% the previous year.

The contribution of multilateral development finance is critical to support a recovery that is both inclusive and sustainable in developing countries. The multilateral development system is faced with the challenge of helping realise the promise of building back better in developing countries. In order to build the resilience of developing countries against future shocks, multilateral development finance needs to incorporate a joint focus on social inclusiveness and environmental sustainability. Looking forward, these two pillars provide a compass to ensure multilateral development finance helps address the recent rise in poverty and inequality (including gender-based), as well as the impacts of the twin climate and biodiversity crises.

Recent crises resulted in increased multilateral focus on the fight against poverty and inequality. The COVID-19 pandemic saw increased multilateral financing to poverty and inequality-oriented sectors. Social sectors accounted for 24% and 25% of multilateral outflows and earmarked flows, respectively, in 2020, up from 17% and 18% the previous year (Figure 1.8). The shift to social sectors in multilateral organisations' portfolios was the most pronounced for MDBs, driven by their strong contribution to strengthening social protection systems. Health spending was another key driver of the surge in social sector financing in the first year of the pandemic. However, the focus on the COVID-19 response appears to have crowded out financing to some other health areas. For example, basic nutrition and basic health infrastructure saw a decrease in financing of 72% (USD 700 million) and 20% (USD 240 million), respectively, compared to 2019.

Figure 1.8. Multilateral portfolios pivoted towards poverty and inequality-oriented sectors in 2020



Note: Calculations are based on commitments, in 2020 constant prices. The chart in Panel B is based on commitments from multilateral outflows only (excluding earmarked flows).
Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Report System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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Preventing the rise in poverty and inequality from becoming entrenched will require sustained support from multilateral organisations. The succession of multidimensional crises has undone several years of progress in the fight against poverty and inequality. In the years leading up to the COVID-19 pandemic, developing countries were making significant progress on reducing poverty. The pandemic and Russia's war against Ukraine, which led to an additional 75 million to 95 million people living in extreme poverty, marked the end of a two-decade downward trend in extreme poverty (Gerszon Mahler et al., 2022[10]). It also set back hard-won progress in multiple areas of sustainable development. Recent crises have demonstrated that the multilateral development system can play a key role in support of the poor and marginalised; for example, through reforms and activities aimed at strengthening social protection systems, and access to health and education opportunities. The vast protracted effects of recent crises on poverty and inequality, with millions of people thrown back into extreme poverty and an exacerbation of existing inequalities, require multilateral organisations to provide continued support to key areas with a recognised contribution to the fight against poverty and inequality in coming years.

On the sustainability front, the multilateral development system is a major and growing actor in the area of green finance. Multilateral climate finance has grown at a rapid pace since 2016, from USD 25.4 billion in 2016, to USD 50.5 billion in 2020. Thanks to this rapid growth, the multilateral development system accounted for 44% (USD 36.9 billion) of total climate finance provided or mobilised by developed countries in 2020 (USD 86 billion in 2020). MDBs provided the vast majority of climate-related multilateral outflows in 2020 (93%), followed by vertical funds (6%). The past decade has also seen a growth of multilateral financing for biodiversity. A recent study, for example, shows that multilateral development finance for biodiversity-related activities increased by 325% between 2011 and 2020, from USD 1.6 billion to USD 7 billion (Casado-Asensio, Blaquier and and Sedemund, 2022[11]). Yet, persistent bottlenecks in multilateral green finance continue to constrain resource mobilisation and effective resource deployment. These bottlenecks owe in part to the complexity of the multilateral climate finance architecture, as well as to the intricate application processes and requirements involved in accessing funds – especially challenging for the low-income countries which need these resources most.

Looking forward, greater effort by multilateral development organisations will be required to close the growing gap in green finance. The twin climate and biodiversity crises call for a strong response from multilateral stakeholders. According to recent estimates from the Intergovernmental Panel on Climate Change (IPCC), the volume of climate finance flows needs to increase by three to six times by 2030 to limit global warming to below 2°C (Intergovernmental Panel on Climate Change, 2022[12]). While public finance alone will not suffice to close the climate investment gap, multilateral providers can send a clear signal to private investors by increasing their efforts to align their official development finance flows with the Paris Agreement.

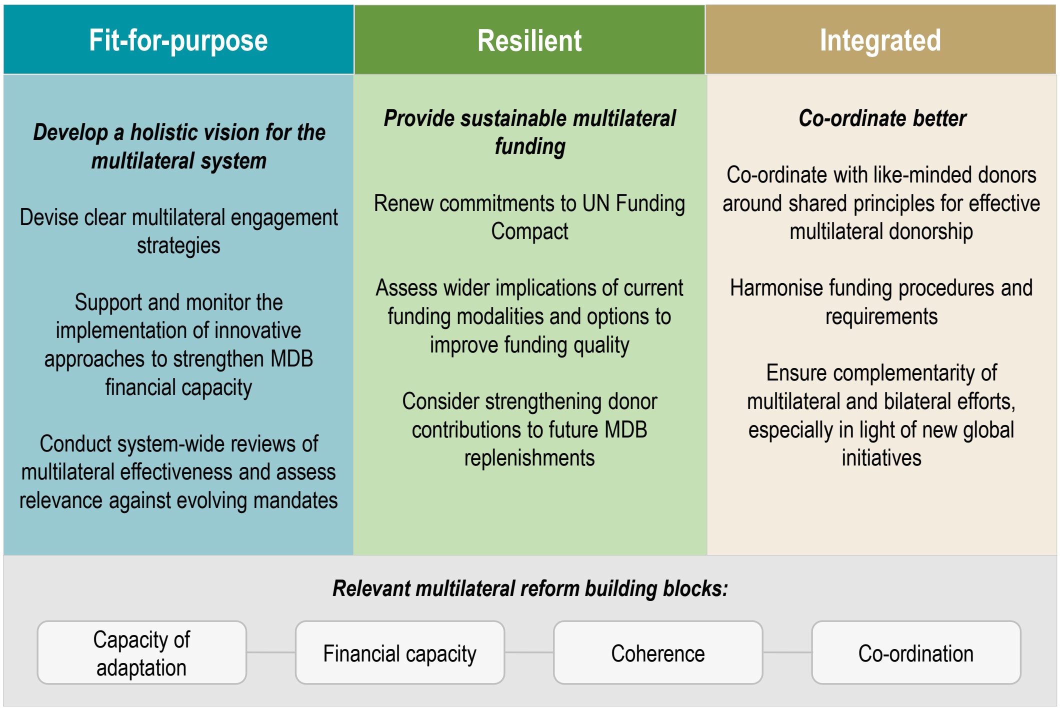
1.4. Policy recommendations

The 2020 edition of the *Multilateral Development Finance Report* proposed three key reform areas and six building blocks (transparency, system coherence, co-ordination, financial capacity, prioritisation and capacity of adaptation) to help multilateral development finance meet 21st century development challenges (OECD, 2020[9]). A review of progress reveals a mixed picture: while greater attention has been drawn to the need to scale up multilateral development finance, some parts of the reform agenda appear to have lost steam, and others have stalled. In particular, the focus on emergency response and increased financial capacity seems to be at the expense of other reforms to the multilateral architecture (coherence building block) and increasing investments in the core functions of the system to build resilience in the face of future crises (capacity of adaptation). The recommendations made in this report aim to maintain the focus on these building blocks, and are targeted at the main funders and shareholders of the multilateral development system (the DAC and its members), and the multilateral organisations in the system.

For the DAC and its members:

As the majority funders and shareholders of the multilateral development system, DAC members have a shared responsibility to ensure the system is adequately equipped and structured to support the global development agenda. Chapter 3 of this report makes key policy recommendations for how the DAC can help build a more fit-for-purpose, resilient and integrated multilateral development system (Figure 1.9):

Figure 1.9. How the DAC can contribute to a more fit-for-purpose, resilient and integrated system



Note: The building blocks refer to key areas of reform to strengthen the multilateral development system identified in the previous edition of the report (OECD, 2020[9]), and further discussed in Chapter 2 of this report.
Source: Authors' illustration.

For multilateral development organisations:

Greater effectiveness and prioritisation of multilateral development finance will be crucial to tackle the broad range of development challenges resulting from multiple concurrent global crises. Ensuring complementarity between multilateral and bilateral efforts, and addressing the lack of whole-of-system accountability, will be key for the greatest development impact. It will be equally important to ensure that multilateral development finance helps realise the promise of building back better in developing countries, by contributing to both pillars of the recovery – social inclusiveness and environmental sustainability. Chapter 4 concludes with detailed recommendations, summarised in Figure 1.10:

Figure 1.10. Multilateral actions for social inclusiveness and environmental sustainability

Social inclusiveness	Environmental sustainability
Maximise the contribution of multilateral finance to poverty reduction	***Speed up the mainstreaming of climate and biodiversity-related in multilateral activities***
Support the strengthening of country systems	Scale up MDB's investment and mobilisation efforts in sectors highly relevant for climate action
Carefully consider the causes and implications of multilateral finance's growing focus on MICs	Increase the share of multilateral development activities contributing to the protection of global biodiversity
Improve the reporting and measurement of multilateral finance's contribution to the fight against poverty and inequality	Carry out a comprehensive diagnostic of bottlenecks in multilateral climate finance, and increase technical support to vulnerable countries

Relevant multilateral reform building blocks:

Transparency	Prioritisation	Financial capacity	Co-ordination

Source: Authors' illustration.

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2 Multilateral development finance in context

The multilateral development system is under stress from the combined effect of successive crises, an increasingly polarised geopolitical landscape and growing challenges to the rules-based multilateral order. While multilateral development organisations channelled a large share of the international response to the COVID-19 pandemic, their ability to continue providing exceptional levels of financing is constrained by their current funding and operating models, as well as by the growing complexity and fragmentation of the multilateral architecture. Multilateral organisations are expected to help address a growing list of development challenges, including global and regional public goods, which often compete with their original mandates and stretch their capacities further. The urgent nature of these crises also risks diverting attention away from much-needed reform efforts to build a resilient multilateral development system that can support the recovery in developing countries effectively while addressing mounting global challenges.

2.1. The multilateral development system at a glance

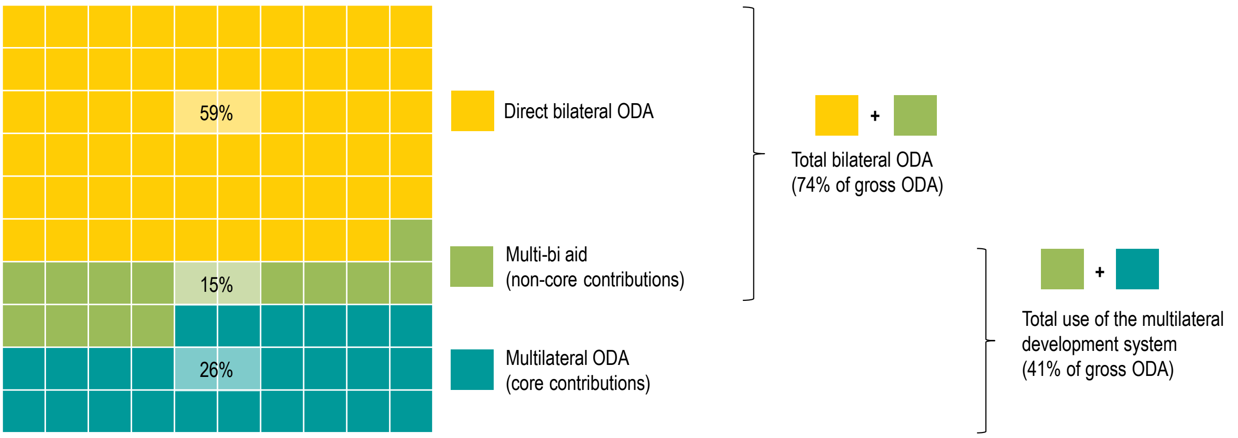
2.1.1. The multilateral development system is a major component of the development co-operation landscape

The multilateral development system is at the heart of development co-operation. Since its inception, the multilateral development system has not ceased to expand in scope, mandate and size. The previous edition of the *Multilateral Development Finance Report* (OECD, 2020[1]) outlined the creation, over a 75-year period, of a constellation of United Nations (UN) agencies, funds and programmes; multilateral development banks (MDBs); and vertical funds, in response to successive crises and development challenges. Today the system encompasses more than 200 multilateral entities conducting work of a development-related nature.

The multilateral development system channels a large and growing share of total official development assistance (ODA). The volume of unearmarked and earmarked ODA channelled through the system – i.e. the total use of the multilateral development system – amounted to USD 78.6 billion in 2020, or 41% of total ODA (Figure 2.1). This represents a three-percentage point increase since 2018 (38%). Official providers' contributions to the multilateral development system can be divided into two types. The first, multilateral ODA, consists of core contributions that multilateral organisations can incorporate into their financial assets and allocate as they see fit, within the limits prescribed by their mandates. The second, multi-bi aid (non-core, or earmarked, contributions), corresponds to bilateral funding earmarked through multilateral development organisations for specific purposes[1]. While smaller in volume and share, multi-bi aid has been rising steadily over the last two decades, while the share of core contributions has remained constant.

Figure 2.1. More than 40% of total ODA is channelled through the multilateral development system

DAC countries' and other official providers' bilateral and multilateral ODA in 2020



Note: Calculations based on gross disbursements, in 2020 constant prices.
Source: Authors' calculations based on the OECD Creditor Reporting System, (OECD, 2022[2]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

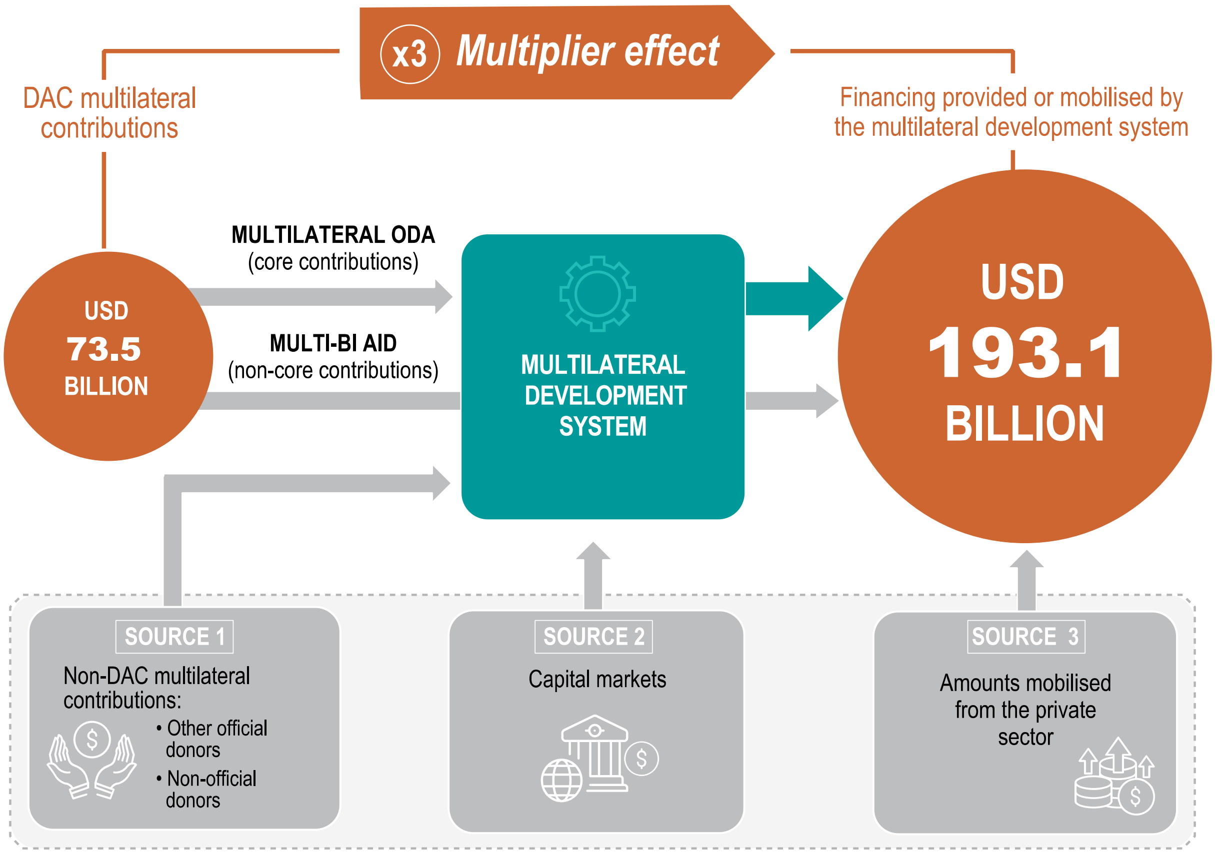
Multilateral ODA is fundamental to the proper functioning of the multilateral development system. These core, unearmarked contributions to multilateral development organisations are a key resource for the multilateral development system. Unlike multi-bi aid, which is earmarked by donors for specific purposes, multilateral ODA can be used to finance both the development activities and the core functions of multilateral development organisations. However, the share of multilateral ODA in multilateral development organisations' funding mix varies greatly across entities. In fact, Chapter 3 shows that some entities in the UN Development System (UNDS) receive most of their funding as non-core contributions.

The multilateral development system can have a significant multiplier effect on Development Assistance Committee (DAC) members' multilateral contributions. Thanks to their capacity to leverage and mobilise financing from multiple sources, multilateral development organisations play a major role in financing the Sustainable Development Goals (SDGs). For example, the volume of financing provided or mobilised by multilateral development organisation (USD 193.1 billion on average between 2019 and 2020) far exceeds the volume of multilateral contributions provided by DAC members (USD 73.5 billion over the same period) (Figure 2.2). This means that, for each dollar invested by DAC members through the multilateral development system, multilateral development organisations are able to provide almost 3 dollars for sustainable development.

This multiplier effect of multilateral ODA is made possible by three sources that complement DAC members' multilateral contributions: (i) the funding obtained from other official (non-DAC countries) and non-official (e.g. philanthropies) sources; (ii) the financing raised by multilateral development organisations from capital markets; and (iii) the amounts of private finance mobilised by the multilateral development system. The relative importance of each of these sources varies significantly across multilateral development organisations according to their business models. UNDS entities derive the majority of their funding from UN member states (although Chapter 3 shows this is gradually changing); multilateral development banks (MDBs) have the comparative advantage of being able to raise financing from capital markets and act as a catalyst for other private actors to finance development projects; and vertical funds (global financing mechanisms focusing on specific issues, such as the Global Fund to fight AIDS, Tuberculosis and Malaria) have traditionally been able to mobilise more funding from private sector sources.

Figure 2.2. The multilateral development system plays a significant multiplier role for DAC members' multilateral contributions

Amounts in USD billion, 2019-20 yearly average



Note: Calculations based on gross disbursements, in 2020 constant prices.
Source: Authors' illustration and calculations based on the OECD Creditor Reporting System, (OECD, 2022[2]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

In addition to their financing function, multilateral development organisations also play a key role in facilitating policy dialogue and aid co-ordination, and providing technical assistance. Thanks to their global or regional reach, wide-ranging expertise and convening power, multilateral development organisations are able to support the global development agenda in various ways beyond financing. International financial institutions (IFIs) such as the MDBs and the International Monetary Fund (IMF) engage in regular policy dialogue with developing countries and civil society, and support policy reform, including through development policy loans or conditional lending. The convening power of multilateral development organisations also allows them to support co-ordination efforts at the country level. One example is the UN Resident Co-ordinator (UNRC) system, which aims to lead and co-ordinate the operational efforts of all UN humanitarian and development actors to help countries implement the 2030 Agenda.

In addition, multilateral organisations provide governments with tools to enhance the mobilisation and co-ordination of multiple financing sources. The World Bank and several other MDBs, for example, promote the creation of country platforms to facilitate policy co-ordination among governments of developing countries and potential financiers, including official development partners, non-traditional donors and the private sector. The UN, on the other hand, assists governments to develop and implement country-led integrated national financing frameworks, or INFFs (Box 2.1). Finally, multilateral organisations are also increasingly recognised as a source of knowledge, solutions and best practices on development and financial innovation.

Box 2.1. The UN promotes integrated national financing frameworks (INFFs) as a framework for financing the SDGs at country level

Since 2015, the UN has played a leading role in implementing the holistic vision of SDG financing laid out in the Addis Ababa Action Agenda (AAAA). The AAAA called for the development of INFFs to bring together all financing sources – domestic and international, public and private – to support the SDGs. Eighty-six countries are currently in the process of developing their INFFs, and more than 20 UN agencies are engaged at the country level alongside IFIs and a growing range of bilateral partners. The Inter-Agency Task Force (IATF) on Financing for Development, led by the United Nations Department of Economic and Social Affairs, has developed and maintains INFF guidance materials. The United Nations Development Programme (UNDP) is supporting governments in more than 70 countries in the design and implementation of their INFFs. Following the endorsement of the G20 Framework of voluntary support to INFFs by G20 leaders in October 2021, UNDP, UN DESA, the OECD, the European Union (EU), Italy and Sweden launched the INFF Facility, which brokers support in response to country demand for technical assistance on INFFs.

Further dialogue is required to ensure greater co-ordination with the initiatives promoted by international financial institutions (IFIs). At present, IFIs participate in INFF processes in more than 50 countries, both as members of INFF oversight committees and through their engagement in financing dialogue. They feed in technical inputs to INFF processes through SDG costing assessments, public expenditure and financial accountability processes, and public expenditure reviews. The World Bank, for example, is currently engaged in INFF processes in more than 40 countries, while the IMF is engaged in INFFs in more than 25 countries and participates alongside the EU, UNDP and UN DESA in country-focused dialogues to co-ordinate technical assistance. Other MDBs, including the Asian Development Bank (ADB), Islamic Development Bank (IsDB) and African Development Bank (AfDB), are engaged in INFFs in more than 30 countries. However, there is scope to increase the depth and the systematic character of this co-ordination to ensure it goes beyond light touch involvement, such as data and knowledge sharing, and that countries receive coherent and complementary advice from the different multilateral partners.

Source: UNDP (2022[3]), *The State of INFF*.

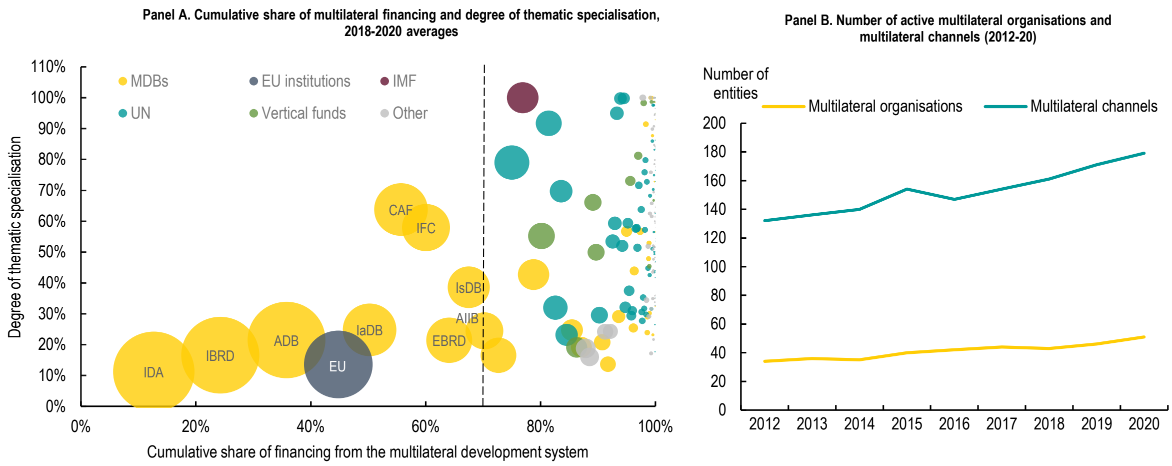
2.1.2. Multilateral development has become a complex and diverse ecosystem

The multilateral development system is in constant evolution, although changes to its architecture occur relatively slowly. Changes to the multilateral architecture tend to take place through incremental adjustments and additions to existing multilateral frameworks. Occasionally, however, significant changes are made to the multilateral architecture, often resulting in the creation of new multilateral entities. These can be formal institutions with their own bureaucracies and operational capacities, or financing mechanisms with no implementing capacity that rely on other multilateral development organisations to deliver their activities. The creation of the two new BRICS-led MDBs (the Asian Infrastructure Investment Bank, or AIIB, and the New Development Bank, or NDB) in the 2010s is an example of the former, while most vertical funds created in the 1990s and early 2000s are examples of financing mechanisms (OECD, 2020[1]).

The centre of gravity of the multilateral development system remains in a handful of multilateral organisations. Ten multilateral development organisations, out of more than 200, account for 70% of the outflows from the multilateral development system (Figure 2.3, Panel A). The main MDBs are overrepresented among these “vital few”, which also include the EU institutions. While the large volume of financing of the main MDBs denotes their influence in the multilateral development finance landscape, many multilateral development organisations also play important roles in other areas, such as norms-setting, policy analysis, or technical assistance, which are not adequately reflected by their financing volume.

The multilateral development system also includes a multitude of smaller and more specialised entities. UN funds and programmes, UN agencies and vertical funds account for a large share of the entities within the remaining 30% of multilateral outflows. This part of the system is characterised by greater fragmentation, featuring entities with smaller portfolios and greater thematic specialisation and which often channel funds earmarked by bilateral providers. The analysis shows that the number of active multilateral channels receiving earmarked funds from bilateral partners is growing steadily, and more quickly than the number of multilateral organisations providing multilateral outflows (Figure 2.3, Panel B). If this fragmentation continues, it risks undermining systemic coherence and accountability in the long run, especially if new ad hoc structures are created and superimposed on the pre-existing multilateral architecture.

Figure 2.3. Ten organisations still account for 70% of multilateral organisations’ total financing, but the system is increasingly crowded and fragmented



Note: Calculations are based on commitments, in 2020 constant prices. In Panel A, the horizontal axis shows cumulative multilateral financing (as % of total financing from the multilateral development system) and the vertical axis shows the degree of specialisation (calculated as the share of the largest sector in each multilateral organisations’ portfolio). Bubble size represents the volume of financing to the multilateral development system, which includes both multilateral outflows and non-core contributions channelled through multilateral organisations. The ten organisations are: International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), Asian Development Bank (ADB), European institutions (EU), Inter-American Development Bank (IDB), Development Bank of Latin America (CAF), International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), Islamic Development Bank (IsDB), and Asian Infrastructure Investment Bank (AIIB).
Source: Authors’ calculations based on OECD Creditor Reporting System, (OECD, 2022[2]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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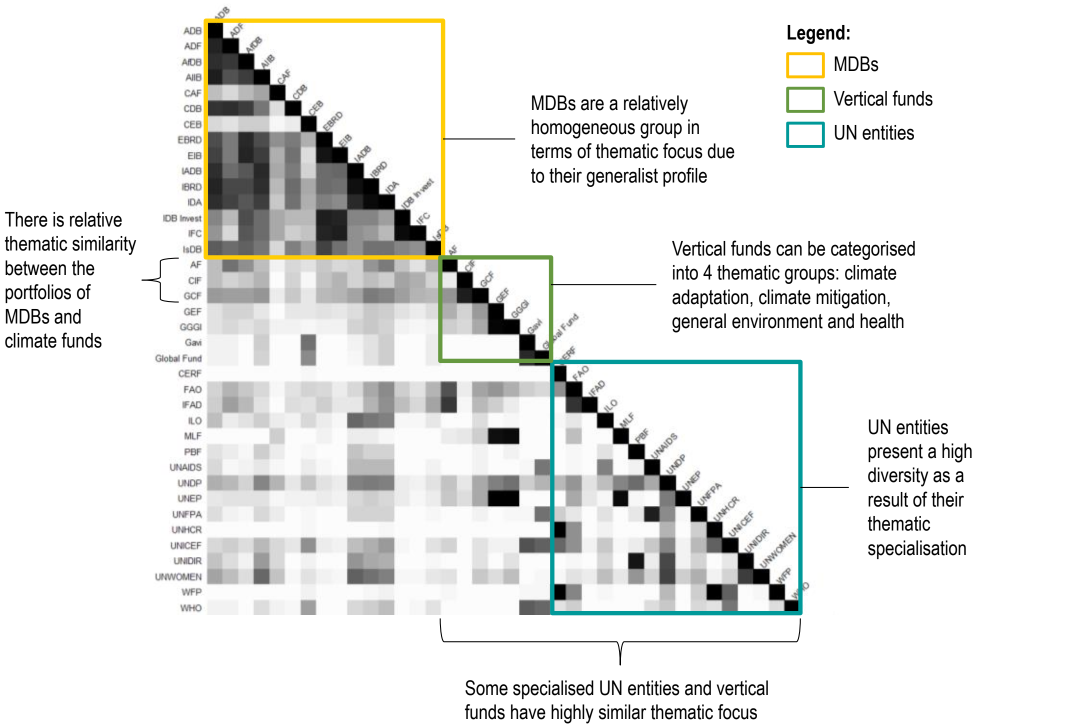
The large number of organisations that constitute the multilateral development system has resulted in a multifaceted and versatile architecture. Rather than a monolithic structure, the multilateral development system is an intricate institutional patchwork of entities with diverse constituencies (global, regional or South-South), geographic scope (regional or global), thematic focus (single-focus or wide-ranging), financing instruments (grants, concessional and non-concessional loans, equity, guarantees) and operational models (banks, funds, agencies). A closer look at the aid portfolios of the main multilateral development organisations reveals interesting patterns across the different types of multilateral institutions (Figure 2.4). The portfolios of the MDBs, although originally focused on infrastructure financing, now span multiple sectors. Due to this generalist profile, the portfolio of these institutions are quite similar thematically. Vertical funds, on the other hand, which were created to address specific development challenges, tend to have a very narrow thematic focus although some present high thematic similarity, like the Global Climate Fund (GCF) and Climate Investment Funds (CIF). UNDS entities are also highly specialised thematically, although their portfolios sometimes overlap with those of other UNDS entities or vertical funds (e.g. the United Nations Environment Programme, UNEP, and the Global Environment Facility, GEF; or the UN Food and Agriculture Organization, FAO, and the International Fund for Agricultural Development, IFAD).

Figure 2.4. Multilateral development organisations form a complex patchwork with diverse thematic focus

Matrix of portfolio similarity scores across multilateral development organisations (2012-20 average)



Note: Calculations are based on commitments, in 2020 constant prices. Darker shading reflects a high level of thematic similarity between two portfolios. The portfolio similarity scores of multilateral development organisations are calculated with cosine similarity, following the approach used in (OECD, 2022[4]), *Comparing Multilateral and Bilateral Aid: A portfolio similarity analysis*, https://www.oecd.org/dac/2022-mdf-comparing-multilateral-bilateral-aid.pdf.
Source: Authors' calculations based on OECD Creditor Reporting System, (OECD, 2022[2]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/z0m4a9

The complexity of the multilateral architecture obscures the division of labour across multilateral organisations, as well as between multilateral and bilateral aid. The institutional and operational diversity observed among multilateral organisations offers versatility and allows them to make meaningful contributions in multiple areas of the global development agenda. However, the fact that the multilateral architecture is becoming increasingly crowded also makes it difficult to obtain a clear understanding of the division of roles and potential overlaps across multilateral development organisations' portfolios. For example, a total of 18 entities from the UNDS are active in the health sector (Figure 2.5). In addition, 18 MDBs, 3 vertical funds and 6 other multilateral entities are also active in the health sector, making it one of the most crowded sectors in the multilateral development system. It should be noted that the number of active entities does not necessarily reflect the amount of funding available in each thematic area, meaning that some areas can have several entities competing for a small piece of the pie. As discussed in a recent analysis (OECD, 2022[4]), this complexity is even greater when taking into account both multilateral and bilateral aid portfolios, making it difficult to identify areas of complementarity or duplication.

Figure 2.5. Multilateral development organisations have closely intertwined and sometimes overlapping portfolios

Number of active multilateral entities by thematic sector (2015-20)

Sector	MDBs	Vertical funds	UN	Other	**Total**
Action Relating to Debt	7	0	1	4	12
Agriculture, Forestry, Fishing	19	5	13	5	42
Banking & Financial Services	20	5	10	6	41
Business & Other Services	15	2	11	5	33
Communications	17	2	9	5	33
Development Food Assistance	7	1	12	2	22
Disaster Prevention & Preparedness	14	5	13	3	35
Education	17	3	15	5	40
Emergency Response	13	1	15	4	33
Energy	19	6	12	6	43
General Budget Support	6	1	5	3	15
General Environment Protection	15	5	15	6	41
Government & Civil Society	17	5	17	8	47
Health	18	3	18	6	45
Industry, Mining, Construction	20	5	14	6	45
Other Social Infrastructure & Services	17	5	15	6	43
Population Policies/Programmes & Reproductive Health	11	3	15	3	32
Reconstruction Relief & Rehabilitation	13	2	12	2	29
Trade Policies & Regulations	15	1	8	4	28
Transport & Storage	19	4	7	5	35
Water Supply & Sanitation	17	5	14	5	41

Note: Table cells are coloured based on the number of entities in the category, from lowest (green) to highest (red).
Source: Authors' calculations based on OECD Creditor Reporting System, (OECD, 2022[2]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

The complex multilateral architecture contributes to the lack of collective governance and accountability of the multilateral development system. While multilateral organisations are called on to play an increasingly central role to help address development challenges requiring a coherent global response, there is currently no governance or accountability mechanism in place to monitor and assess the system's overall coherence or performance. Over time, the growing expansion and fragmentation in the multilateral system is likely to add to this challenge by further diluting responsibility across a constellation of entities with their own governance frameworks.

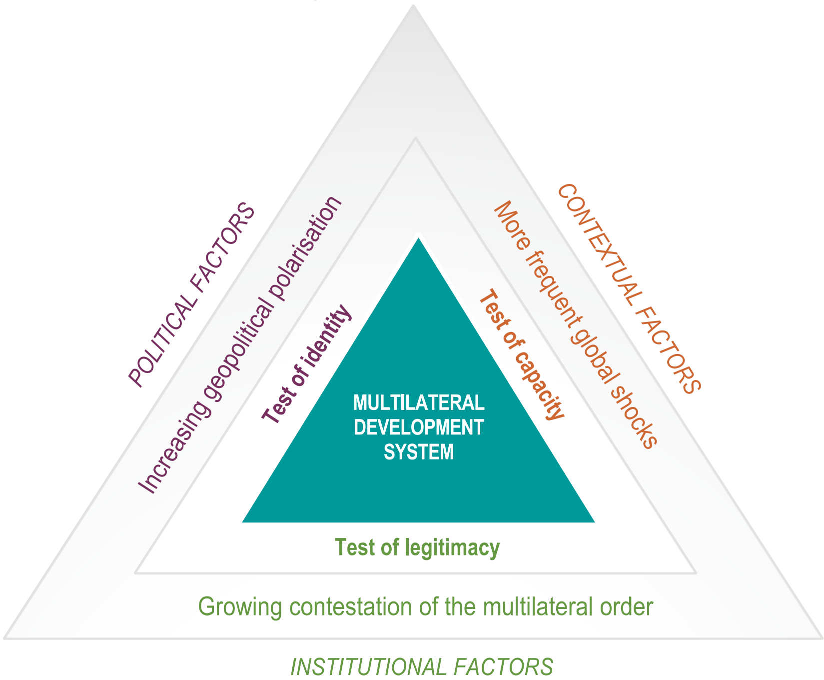
Safeguarding the coherence of the multilateral architecture is key to ensuring multilateral effectiveness. The previous edition of the *Multilateral Development Finance* report (OECD, 2020[1]) pointed out that successive crises could either lead to a consolidation of the system or exacerbate the trend towards increasing fragmentation. The recent creation of new multilateral channels, such as the Pandemic Preparedness and Response Fund (PPR) hosted by the World Bank and the UN-led COVID-19 Multi-Partner Trust Fund, suggests that the system continues to adapt to new challenges by superimposing new entities on top of the existing architecture, rather than prompting a profound reform of the system. From the perspective of developing countries, while a diverse offer could be useful to ensure healthy competition, raise multilateral standards and incentivise multilateral organisations to pay greater attention to the demands and needs of developing countries, it can also increase their transaction costs due to the need to engage with many stakeholders. For example, the previous edition of this report showed that there are on average 20 active multilateral entities in each ODA-eligible developing country.

Ultimately, the multilateral architecture evolves in reaction to the global context and through successive cycles of adaptation. The next two sections in this chapter examine how the challenging global context is influencing and reshaping the multilateral development system (Section 2.2.), and how the system is constantly attempting to adapt to shifting conditions and growing expectations through constant, but too often partial, reform efforts (Section 2.3.).

2.2. The unstable global context puts pressure on multilateral development finance

A combination of three forces (contextual, institutional and political) is putting the multilateral development system to the test (Figure 2.6). First, successive crises are stretching multilateral resources across an ever-increasing list of development priorities and testing its capacity to remain relevant in a more shock-prone world. Second, growing geopolitical polarisation is affecting the multilateral space, and may result in tensions between diverging and competing values and priorities. Third, the legitimacy of the rules-based multilateral order inherited from the period following the Second World War is increasingly challenged, facing mounting contestation and criticism. Failure to adjust to these forces could put the multilateral development system on the verge of a triple crisis of capacity, legitimacy and identity.

Figure 2.6. A triangle of contextual, institutional and political factors is putting pressure on, and reshaping, the multilateral development system



Source: Authors' illustration.

2.2.1. A more shock-prone world tests the relevance and capacity of multilateral models

Multilateral organisations are expected to help tackle an ever-increasing number of humanitarian and development challenges. The world is facing the most challenging confluence of crises in contemporary history, jeopardising decades of progress in the fight against poverty, gender equality, access to quality health and education and other global goals. As described in the *Global Outlook on Financing for Sustainable Development 2023* (OECD, 2022[5]), the COVID-19 pandemic has triggered a multidimensional crisis, taking the form of cascading and mutually reinforcing waves. The health emergency, which caused the loss of millions of lives globally, also spawned a major economic crisis, which in turn prompted a reversal of hard-won development gains, including in the fight against poverty. The social dimension of the crisis is now being compounded by the impact of Russia's invasion of Ukraine and the threat of new global shocks due to soaring energy and food prices.

The COVID-19 crisis stretched the capacity of the multilateral development system. The pandemic represented a challenge of unprecedented proportions since the creation of the multilateral development system in the aftermath of the Second World War. Thanks to their global reach, multilateral organisations played a key role in the initial response to the COVID-19 pandemic, channelling record-levels of resources to address the immediate impact of the crisis in developing countries (as discussed further in Chapters 3 and 4). However, the COVID-19 crisis also exposed the limitations of the multilateral development system. Two independent reviews of the international response to the COVID-19 crisis conducted in 2021 found that, at the onset of the crisis, the multilateral system was not adequately mandated, prepared or equipped to prevent or respond to the risk of pandemics (G20 HLIP, 2021[6]) (Independent Panel for Pandemic Preparedness and Response, 2021[7]). In order to respond to the increased financing needs of developing countries, some organisations had to repurpose and frontload their available financing, quickly exhausting their available resources. This was the case for the World Bank Group, for example, which had to bring forward by one year the replenishment date of its concessional window, the International Development Association (IDA). While the G20 has now launched a new vertical fund (PPR) with funding of USD 1.3 billion to help fill financing gaps in pandemic preparedness and response, this falls far short of the estimated funding gap of USD 10 billion. In addition, proposed reforms to enable surge capacity and improved co-ordination between key actors are yet to be implemented.

The knock-on effects of Russia's invasion of Ukraine are putting an additional strain on multilateral development finance. The war in Ukraine has ended all hope of a prompt recovery from the COVID-19 crisis in developing countries and is exacerbating its impact. The conflict, which produced 7.5 million refugees in its first six months and could push an additional 40 million people into extreme poverty globally (Center for Global Development, 2022[8]), is resulting in increased financing needs for humanitarian and development-related interventions (OECD, 2022[9]). Due to the weight of Russia and Ukraine as exporters of key commodities, the war has also aggravated global inflationary pressures. This puts official development finance under increased pressure by simultaneously increasing the needs of the most vulnerable while reducing the purchasing power of ODA. The World Food Programme (WFP), for example, estimates that the cost of its operations has increased by a staggering 44% since 2019 due to the combined impact of the successive crises and the rise of global inflation (WFP, 2022[10]). Several multilateral development organisations were also directly affected by the international sanctions imposed against Russia. The World Bank and the AIIB, for example, announced that they were putting on hold all activities related to Russia and Belarus (Subacchi, 2022[11]). The New Development Bank (NDB), however, arguably suffered the largest impact. In March 2022, Fitch downgraded its rating from stable to negative, citing both the bank's exposure to Russia (13% of its loans as of end 2021) and the risk inherent in having the country as a large shareholder (19% of NDB's capital) (Fitch Ratings, 2022[12]).

Multilateral development finance is called on to play an increasingly important role in the provision of global and regional public goods. The COVID-19 pandemic provided a stark reminder of the disastrous impact of global shocks, and the need for joint approaches to prevent and address them. Due to their intrinsic nature, based on overarching principles of collective action and cross-border collaboration, multilateral organisations are often presented as ideally positioned to support the provision of global and regional public goods in areas such as health, climate, biodiversity, financial stability, and peace. Yet, many of the legacy multilateral institutions, such as the Bretton Woods institutions (World Bank and International Monetary Fund), did not have the provision of global and regional public goods in their original mandates. Hence, while multilateral organisations may indeed have the potential to be an effective conduit to support the provision of public goods, these institutions are not necessary currently structured, tooled or financed in a way that allows them to deliver on this agenda while continuing to fulfil their original mission. In the absence of a global governance framework for the provision of global and regional public goods, the division of labour and the roles of different multilateral entities in this area also remain unclear and risk adding to the complexity of the multilateral architecture.

The prospect of new and recurrent global shocks will also require the multilateral development system to step up its contribution to the fight against poverty and inequality. The pandemic and the war in Ukraine have put an end to the two decades of decrease in extreme poverty and set back progress to end global poverty. Moreover, the successive crises have also increased cross-country and within-country inequalities, with developing countries often bearing the brunt of impacts. For example, recent analysis shows that low-income countries were among the hardest hit by the rise in extreme poverty (World Bank Group, 2021[13]). At the country level, the impacts of successive crises are disproportionately affecting the most vulnerable, and exacerbating inequalities – including gender based – in income, and in access to employment, health care, education and housing. As discussed in Chapter 4, sustained multilateral support to the fight against poverty and inequality will be key both to support the recovery from recent crises in developing countries and to ensure their resilience to future ones. This entails increasing multilateral organisations' focus on poverty and inequality within the scope of their existing mandates and areas of expertise. For MDBs, this could be achieved through increased investments in the development of social protection systems, for example.

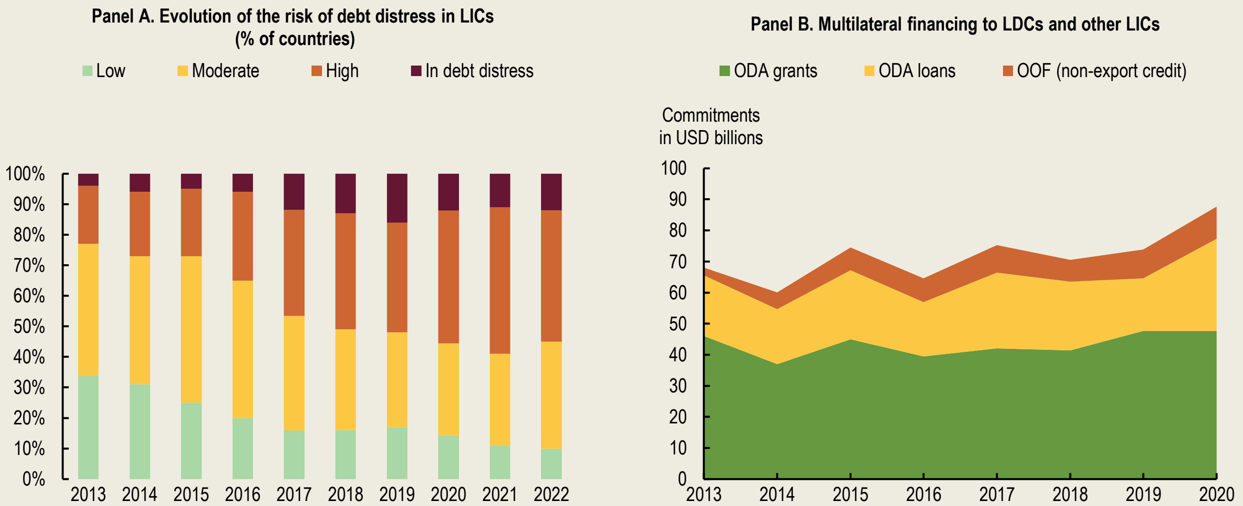
Maintaining the countercyclical role of multilateral development finance in an era of global shocks will require substantial improvements to current multilateral models. Historically, multilateral development organisations have always provided countercyclical support to help developing countries cope with the impact of crises (see Chapter 4). The entry into a more shock-prone world raises a serious challenge of ensuring that the multilateral development system retains sufficient surge capacity to respond to more frequent shocks. Recent efforts to increase the financial capacity of multilateral development organisations, further described in Chapter 3, are heading in this direction. Nevertheless, further reflection is needed on the role of multilateral development finance in a world increasingly prone to global adverse shocks (Box 2.2).

Box 2.2. Rethinking the role of multilateral development finance?

Multilateral organisations have been on the front line in the international response to major crises. The COVID-19 crisis has confirmed that MDBs are well positioned to support developing countries in troubled times thanks to their ability to tap into capital markets when many countries lose their access to finance, or experience rising borrowing costs. The demand for multilateral support is likely to remain elevated as the risk of adverse shocks increases due to a combination of new and emerging threats. These include the risk of new pandemic outbreaks, the rise of global poverty and inequality (including gender-based), the spike in food and energy prices, and the twin crises of climate change and biodiversity loss.

However, heightened uncertainty and financial instability resulting from a more shock-prone world pose new challenges to multilateral action. At the height of the COVID-19 crisis, the large and growing number of developing countries facing balance of payment issues raised questions about the role of multilateral development finance in times of crises. The main MDBs, for example, declined to participate in the Debt Service Suspension Initiative (DSSI) spearheaded by the G20, arguing the need to preserve their triple-A credit rating. Instead, MDBs chose to provide fresh financing to their client countries by frontloading resources and repurposing parts of their existing portfolios. More recently, the leaders of some developing countries have called on the G20 to agree on a more ambitious debt service suspension initiative including MDB loans to low-income countries (Government of Barbados, 2022[14]).

Figure 2.7. The growing number of LICs at risk of debt distress coincided with increased multilateral lending



Note: In Panel A, the evolution of the risk of debt distress is calculated as a percentage of low-income countries (LICs) with a debt sustainability analysis (DSA). LDCs refer to least developed countries. In Panel B, calculations are based on commitments, in 2020 constant prices.
Source: *Debt Sustainability Analysis Low-Income Countries,* (IMF, 2022[15]), https://www.imf.org/en/Publications/DSA; and OECD Creditor Reporting System, (OECD, 2022[2]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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Multilateral organisations have begun integrating developing countries' heightened financial risk into their operational policies. A significant share of multilateral development finance is provided to developing countries as loans, raising questions over its role to support countries facing financial liquidity or solvency issues. A key challenge is the need to reconcile the seemingly contradictory objectives of responding to countries financing needs generated by successive crises in the short term while ensuring countries' debt sustainability in the longer term. In 2017, the G20 devised a set of operational guidelines for sustainable borrowing (G20, 2017[16]), as well as a set of principles for co-ordination between the IMF and the MDBs for countries requesting financing while facing macroeconomic vulnerabilities (G20, 2017[17]). The World Bank and the African Development Bank have also developed new sustainable borrowing policies to ensure their lending activities take the debt profile of developing countries better into account (World Bank Group, 2020[18]) (African Development Bank, 2022[19]). While very timely, these new policies need good co-ordination to ensure, for example, that their compliance mechanisms are not impaired by a race to the bottom among multilateral and bilateral lenders.

2.2.2. Geopolitical polarisation could generate tensions in the multilateral development system between competing values and priorities

The shift towards a multipolar world marks the return of great power rivalry in international relations. The world has experienced a significant transformation in the last three decades, going from a geopolitical landscape dominated by a hegemonic power to a multipolar world characterised by growing technological, economic and political competition. In recent years, this rivalry has taken the form of trade disputes and antagonistic rhetoric on topics ranging from human rights to global governance. Russia's invasion of Ukraine has increased the impression of a growing divide between competing blocs. As a result of the conflict, the Geopolitical Risk Index (GRI) reached its highest level in almost two decades in the first semester of 2022 (Caldara, Dario and Matteo Iacoviello, 2022[20]).

The multilateral development system is not immune to the geopolitical turmoil. Tensions in the geopolitical space have been quick to transfer to the multilateral development system. At the onset of the COVID-19 pandemic, for example, the World Health Organisation (WHO) was at the centre of a controversy, with the government of the United States publicly criticising the organisation for being too slow to respond to the threat, and too trusting of The People's Republic of China. The previous edition of the *Multilateral Development Finance Report* (OECD, 2020[1]) discussed some of the immediate implications of this dispute, including the announcement by the United States – then the top funder of the WHO – of its decision to withdraw from, and cut all funding to, the organisation.

The emergence of competing global initiatives in the development co-operation landscape raises concerns about their impact on multilateral development finance (Table 2.1)**.** Launched in 2013, China's Belt and Road Initiative (BRI) was the first multinational infrastructure initiative since the 1948 Marshall Plan to draw global attention (E3G, 2022[21]). It was followed in 2016 by Japan's Expanded Partnership for Quality Infrastructure (EPQI), and in 2019 by the trilateral Blue Dot Network (BDN) founded by Australia, Japan, and the United States, initiatives that fit under the umbrella of the Free and Open Indo-Pacific. More recently, the COVID-19 crisis and COP26 have triggered new announcements of global initiatives, including the US and G7-led Build Back Better World (B3W), announced in 2021; the EU's Global Gateway (GG), launched in 2021; and the Global Development Initiative (GDI), unveiled by China in 2022. While mostly relying on bilateral engagement, these global initiatives interface and collaborate with multilateral development organisations, extending the growing geopolitical tensions and some of its associated risks to the multilateral development system (Box 2.3).

Table 2.1. Although based on bilateral engagement, global value-based initiatives interface with the multilateral development system

	Lead(s)	Multilateral partner(s)	Thematic priorities	Estimated financing
Belt and Road Initiative (BRI)	China	Co-operation agreements signed with 27 UN agencies and 6 major MDBs (World Bank, AIIB, NDB, ADB, EIB, EBRD)	Transport, energy and digital infrastructure	Up to USD 1 trillion (2017-2027) according to an estimate from (PwC, 2016[22])

	Lead(s)	Multilateral partner(s)	Thematic priorities	Estimated financing
Expanded Partnership for Quality Infrastructure (EPQI)	Japan	ADB	Infrastructure	USD 110 billion (2016-2026)
Blue Dot Network (BDN)	Australia, Japan and US	OECD	Infrastructure	No financing (BDN is a certification framework)
Build Back Better World (B3W)	United States and G7	IFIs (official documents do not mention specific institutions)	Climate, health and health security, digital technology, and gender equity and equality	Unknown
Global Gateway (GG)	European Commission and EU member states	EIB, EBRD	Digital sector, climate and energy, transport, health, education and research	Up to EUR 300 billion (2021-2027)
Clean Green Initiative (CGI)	United Kingdom	AfDB, World Bank	Sustainable infrastructure and green technology	Over GBP 3 billion (2022-2027)
Global Development Initiative (GDI)	China	UN	SDGs	Unknown

Note: Unless specified otherwise, financing amounts are taken from the initiatives' official documents.
Source: (US State Department, 2021[23]), (FCDO, 2021[24]), (European Commission, 2021[25]), (China's Ministry of Foreign Affairs, 2019[26]), (OECD, 2018[27]), (Japan's Ministry of Foreign Affairs, 2017[28]).

Box 2.3. Global infrastructure initiatives reflect and may channel the growing competition of norms and values to the multilateral development system

Recent years have seen a proliferation of global values-based initiatives in the development co-operation landscape. These initiatives come in a variety of formats, but share a strong focus on infrastructure, as well as mandates that crossover between development, economic diplomacy and geostrategic influence.

Global infrastructure initiatives offer a unique opportunity to fill the unmet infrastructure financing needs of developing countries but present some risks for the multilateral development system. With the global infrastructure financing gap estimated at USD 15 trillion to 2040 (G20, 2022[29]), new donor commitments in this area are welcome, especially at a time of heavy budget constraints in both donor and recipient countries. In theory, the potential for collaboration among these global infrastructure initiatives and multilateral organisations is promising. It could: (i) help leverage greater synergies and complementarities between bilateral and multilateral programmes; (ii) allow sound multilateral lending policies and practices to influence bilateral ones; and (iii) raise standards through healthy competition. Yet, the proliferation of competing initiatives also poses three key challenges to the multilateral development system:

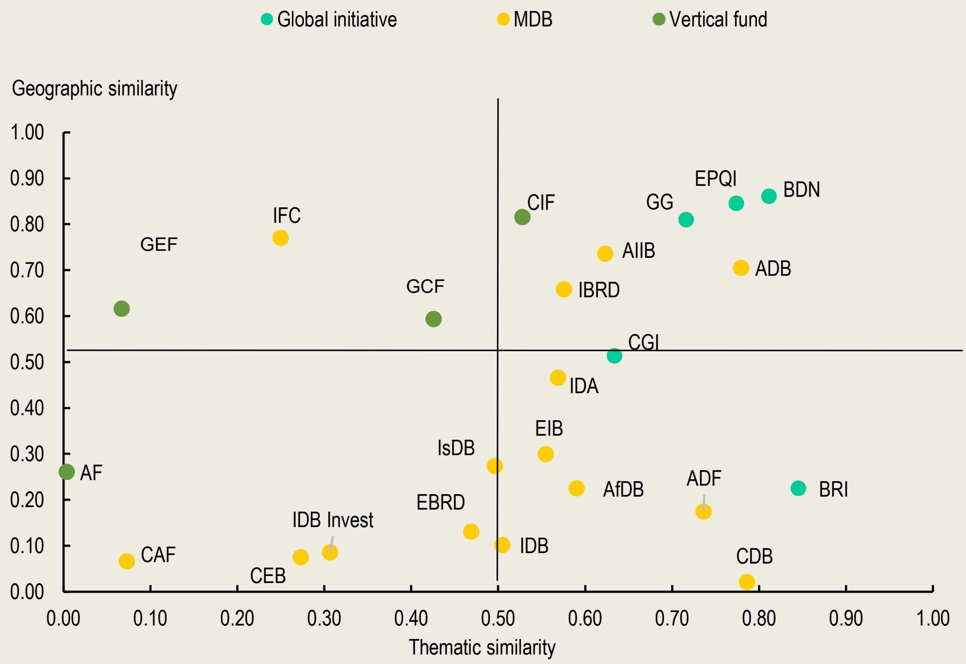
1. **Fragmentation:** the divergence of values promoted by these initiatives risks pulling the multilateral development system in different directions. While the BRI model favours low-cost, turn-key, infrastructure projects and claims non-interference in the internal affairs of partner countries, the B3W, EPQI, and BDN share a commitment to principles of transparency, good governance, economic viability, and alignment with international standards (OECD, 2022[30]). Implementing modalities are another source of divergence: in contrast to BRI's strong reliance on China's state-owned enterprises (SOEs), B3W promotes a model based on the use of official finance to mobilise private capital. Ultimately, there is a risk that competing donor values and priorities – rather than actual development needs – will increasingly determine the investment decisions and modalities of individual multilateral organisations.
2. **Duplication and gaps:** due to their strong focus on infrastructure, the global initiatives compete in a field traditionally dominated by the MDBs. In fact, a portfolio similarity analysis of the major

global initiatives points to high levels of thematic and geographic similarity between their portfolios and those of the main MDBs (Figure 2.8). If MDBs and global initiatives focus on the same areas that generate higher investment and political returns (e.g. economic infrastructure in middle-income countries), this could ultimately result in duplications and financing gaps, and other less profitable geographic and thematic areas could be left behind. In the long term, the proliferation of global initiatives could also require costly and lengthy co-ordination among a multitude of government agencies and multilateral organisations (European Parliament, 2021[31]).

3. **Funding:** the funding modalities of the main global initiatives remain unclear. Since its inception, the BRI has drawn criticism for its opaque project-financing model, but more recent initiatives such as B3W are also ambiguous about the source of their funding, and whether it is additional or repurposed from existing aid portfolios. One potential threat to the existing system is that these global initiatives could end up diverting resources from the multilateral development system if they encourage bilateral providers to deliver infrastructure financing through bilateral channels rather than through contributions to the MDBs, which have traditionally been the main source of official development finance in this area (Kenny and Morris, 2022[32]).

Figure 2.8. Most global infrastructure initiatives present high levels of portfolio similarity with the main MDBs

Thematic and geographic similarity of multilateral development organisations' outflows relative to G7's Build Back Better World initiative (B3W)



Note: Portfolio similarity scores quantify the similarity between two or more portfolios. Their values range from 0 (completely dissimilar) to 1 (completely similar). Scores are computed based on USD commitments (2018-20 average) using the approach from (OECD, 2022[4]). Aid flows from G7 countries are used as a proxy for the B3W portfolio, after filtering for B3W-relevant sectors. The same approach is used for other global infrastructure initiatives.

Source: Authors' calculations based on OECD Creditor Reporting System, (OECD, 2022[2]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1 and AidData's Global Chinese Development Finance Dataset, Version 2.0 (AidData, 2022[33]), https://china.aiddata.org/.

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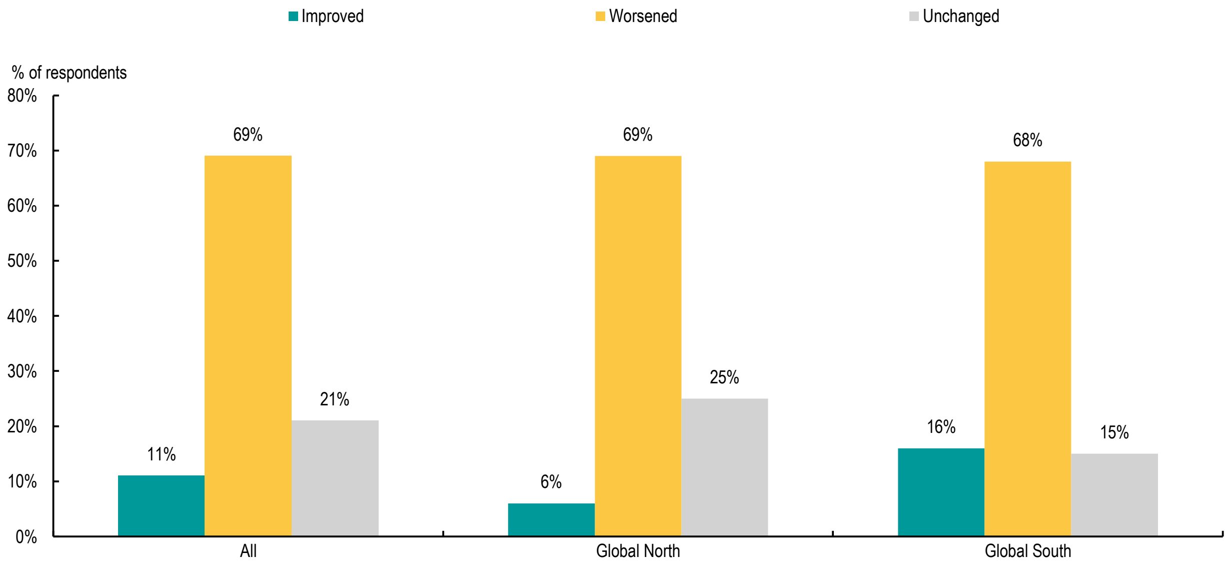
2.2.3. Multilateral approaches and institutions are increasingly contested

In the years before the COVID-19 pandemic, multilateralism had become the object of mounting criticism. The decade of the 2010s saw growing disparagement against the rules-based multilateral order, in what has often been depicted as a 'crisis of multilateralism'. This situation, stemming in part from a certain disillusionment with globalisation – and its political exploitation by some governments – was perhaps best illustrated by the return of unilateralism and protectionism in international affairs. As geopolitical tensions transferred to the global governance and trading systems, supranational institutions were often used as scapegoats for failing to deliver inclusive economic prosperity. In reaction to increasingly vocal criticism of the rules-based multilateral order, in 2017 several middle powers, led by France and Germany, launched an Alliance for Multilateralism with the aim of defending the importance of multilateral solutions to confront global challenges.

Despite growing recognition of the need for effective multilateralism, public perception of the multilateral system has worsened globally. In a recent survey involving 250 participants from academia, government, multilateral organisations and the private sector, the overwhelming majority of respondents (81%) stated that the need for effective multilateralism has increased over the last two decades (Brookings, 2021[34]). However, respondents perceived the current multilateral system to be relatively ineffective (4.7/10) and a large majority (69%) believed its effectiveness had worsened over the last two decades – a perception shared by respondents from both developed and developing countries (Figure 2.9). These results should however not be interpreted as implying lesser effectiveness from multilateral aid channels compared to bilateral ones. In fact, several studies suggest that multilateral organisations tend to perform well in comparison with bilateral development partners (Custer et al., 2021[35]) (Global Partnership for Effective Development Co-operation, 2018[36]).

Figure 2.9. Public perception suggests that multilateral effectiveness has declined



Note: The survey involved 250 participants from academia, government, multilateral organisations and the private sector, coming from both developed and developing countries. The graph shows the results to the following question: Over approximately the last two decades, has the effectiveness of the multilateral system generally improved or worsened?
Source: (Brookings, 2021[34]), https://www.brookings.edu/wp-content/uploads/2021/08/Global-Governance-after-COVID-19.pdf.

StatLink https://stat.link/8o9pg4

Perceptions of multilateral effectiveness vary across the different areas of the global development agenda. According to the above-mentioned survey, gender equality is one of the areas in which multilateral effectiveness was deemed to be the lowest, followed by climate and environment. On the other hand, perceptions of multilateral effectiveness seemed to be more positive on topics such as global poverty and development, even though there was no domain in which a majority of respondents believed the multilateral system was working even somewhat effectively.

During the COVID-19 crisis, the multilateral system came under heavy fire for its incapacity to help avert the pandemic. Multilateral institutions attracted significant criticism for failing to muster the broad-based co-ordination required to contain the spread of COVID-19 and its evolution into a pandemic. As explained above, the WHO was criticised by some of its member states for its poor handling of the crisis. The episodes of vaccine nationalism observed in subsequent years further eroded the trust in multilateral approaches. For example, many high-income countries (and some upper-middle income countries, like Russia) opted out of the COVID-19 Vaccines Global Access (COVAX) equitable distribution scheme and instead engaged in bilateral agreements or implemented export bans. This allowed them to hoard enough vaccine doses to vaccinate their population several times over while poorer countries were unable to vaccinate the most vulnerable among their citizens. It is now widely acknowledged that the largely uncoordinated purchase of vaccine doses hindered international efforts to support developing countries' access to vaccines through the COVAX facility (WHO, 2021[37]).

Concerns about multilateral organisations' lack of representativeness and efficiency are feeding the mistrust in the multilateral system. A common criticism of the current multilateral order is that the governance of legacy multilateral institutions is outdated, not sufficiently inclusive, and reflects the power balance that prevailed in the aftermath of the Second World War. This has led to the creation of new multilateral institutions, such as the AIIB and the NDB, founded and led by emerging countries. In recent years, however, some legacy multilateral organisations have also attracted criticism from former champions of the multilateral system for failing to demonstrate value for money. In rarer cases, some institutions have been exposed for failures in their financial practices and management, which often end up tarnishing the reputation of the multilateral system as a whole. The most recent example is the financial scandal involving an alleged misuse of funds by the United Nations Office for Project Services (UNOPS), which led to the resignation of its Executive Director in May 2022 (UNOPS, 2022[38]) and prompted some donors to freeze their contributions to the United Nations.

Without a course correction, growing scepticism over multilateral approaches risks undermining the willingness of national governments to continue supporting multilateral solutions and institutions. Failure to acknowledge and confront the system's shortcomings and excesses could trigger a crisis of legitimacy of the multilateral system, putting at risk its resilience and capacity to contribute to the global development agenda. Even in normal times, multilateral approaches involve difficult trade-offs for national governments, such as partial renouncement of their sovereignty, as well as costly and time-consuming co-ordination with other stakeholders. The current economic situation, which adds pressure on donors' ODA budgets, will likely translate into greater donor scrutiny and demands for accountability and clarity on the results and returns of their multilateral contributions. In this context, the capacity of multilateral organisations to demonstrate how they add value to bilateral aid will be critical to ensure strong and durable support from donors.

2.3. Recent crises are a double-edged sword for multilateral reform

The new global context calls for reassessing the adequacy of the current multilateral architecture and governance. Multilateral reform refers to the introduction of formal changes in the architecture, mandate, funding modalities, operational model, financial capacity and ways of working of multilateral organisations with a view to improving their effectiveness or efficiency. Since its inception in 1945, the multilateral development system has mostly adapted to the shifting environment by adding new entities to the existing multilateral architecture inherited from the Second World War. Examples include the creation of vertical funds in the 1990s and early 2000s, driven by increased attention paid to global challenges; and the establishment of the AIIB and NDB in the 2010s, reflecting the increasing weight of emerging countries in the global economy. In contrast, there have been rarer attempts at deepening multilateral co-operation or at consolidating and rationalising the multilateral aid architecture.

2.3.1. Recent crises have drawn attention on the need to adequately resource the multilateral development system, but other aspects of multilateral reform have lagged behind

Recent crises have revealed the importance of a well-resourced multilateral system to address global challenges. The triple crisis of the COVID-19 pandemic, Russia’s invasion of Ukraine and the threat of climate change has exposed some key shortcomings of the multilateral development system, and underlined the need to better equip its organisations. For example, despite the significant contribution they made to the COVID-19 crisis response in developing countries, the volumes extended by multilateral organisations at the height of the crisis were often deemed insufficient to meet the magnitude of the challenge faced by developing countries, leading to renewed calls for scaling up multilateral development finance. Chapter 3 describes the ongoing efforts to do so by multilateral stakeholders, such as the creation of new multilateral financing mechanisms, the launch of new funding appeals, and calls for replenishment of concessional windows. It also examines initiatives such as the recent discussions on the optimisation of MDBs’ balance sheets and the commitment by the G20 to re-channel USD 100 billion in IMF Special Drawing Rights (SDRs) to developing countries through multilateral channels.

While efforts to scale up multilateral development finance are laudable, the focus on emergency response during crises may be at the expense of broader multilateral reform. Faced with the need to frontload resources to address multidimensional crises, multilateral stakeholders have focused a great deal of their efforts since 2020 on maximising the contribution of the multilateral development system to the COVID-19 crisis response in developing countries. As described in Chapter 4, this resulted in a record volume of financing extended by the multilateral development system in 2020. However, the emergency generated by the successive crises also diverted attention away from other key parts of the multilateral reform agenda.

Progress has been uneven across the six building blocks of multilateral reform. The previous edition of this report proposed three key reform areas and six building blocks to adapt multilateral development finance to 21st century development challenges (OECD, 2020[1]). A review of progress on ongoing reform efforts reveals a mixed picture (Figure 2.10). While greater attention has been drawn to the need to scale up multilateral development finance, some parts of the reform agenda appear to have lost steam, and others have been set back. In particular, the focus on emergency response seems to be at the expense of reforms to clarify the multilateral architecture (coherence building block) or increasing investments in the core functions of the system to build resilience in the face of future crises (capacity of adaptation).

Figure 2.10. Progress has been uneven across the six building blocks of multilateral reform

	Transparency	Systemic coherence	Co-ordination	Financial capacity	Prioritisation	Capacity of adaptation
Overall	➡	⬇	⬆	⬆	➡	⬇
Progress	Multilateral organisations deployed significant efforts to increase transparency on their activities and results (both on their COVID-19 response and as part of broader commitments to the UN Funding Compact). *See: Chapter 3 & UN (2022)* [39]		The COVID-19 crisis led to increased co-ordination among multilateral entities. Multilateral organisations also support the development of country co-ordination frameworks (e.g. INFFs). *See: Chapter 2 & MOPAN (2022)* [40]	Significant efforts are being undertaken to scale up multilateral development finance in response to recent crises (e.g. replenishments, SDR rechannelling to LICs, MDB balance sheet optimisation). *See: Chapter 3*	Many multilateral development organisations repurposed their existing portfolios to frontload resources for the crisis response. *See: Chapter 4*	
Regress	Many blindspots remain across the multilateral development finance process (e.g. on multilateral contributions of non-DAC members, poor use of policy markers on multilateral outflows). *See: Chapters 3 & 4*	The creation of new multilateral entities and the proliferation of global development initiatives are resulting in growing complexity and opacity of the multilateral architecture. *See: Chapters 2 & 3*		The financial capacity of the multilateral development system still falls short due to increasing financing needs in developing countries. *See: Chapter 4*	Multilateral development organisations are asked to help tackle an ever-growing number of development challenges. *See: Chapter 2*	The focus on emergency response in recent crises has led to an increase in the volume and share of non-core (i.e. earmarked and less flexible) contributions to multilateral development organisations. *See: Chapter 3*

Note: The arrows indicate progress achieved towards each building block: green =significant progress; yellow=mixed progress; red=no progress or regress.
Source: Authors' design based on (UN, 2022[39]).

Learning the lessons from the multilateral response to recent crises is necessary to ensure a strong contribution of the multilateral development system to the challenges of the recovery. Important lessons can be drawn from the success achieved in some key areas of multilateral reform, such as the scaling up of the financial capacity of multilateral organisations (further examined in Chapter 3) or the improvements observed in the co-ordination among multilateral stakeholders during the COVID-19 crisis, which have been analysed in a recent MOPAN study (Box 2.4). Equally important will be to look at those areas of multilateral reform in which progress has been slow to materialise, but which hold significant potential to increase multilateral effectiveness. This is the case for reform efforts to bring greater transparency to multilateral development finance, and to clarify the mandates of, and division of labour among, multilateral development organisations.

Box 2.4. The multilateral response to COVID-19 built upon existing co-ordination and new partnerships but highlighted the challenges of coherent global action

COVID-19 has highlighted the importance of co-ordination among multilateral organisations as they seek to address the multidimensional impacts of global challenges. Co-ordination entailed both scaling-up existing co-ordination activities and convening new fora and partnerships to address the diverse challenges and impacts of the pandemic. In general, these activities promoted greater policy and operational coherence as well as joint programming from multilateral organisations in responding to COVID-19.

UNDS entities scaled up existing co-ordination mechanisms through three global frameworks addressing the health, socioeconomic and humanitarian impacts of the pandemic: the WHO's Strategic Preparedness and Response Plan (SPRP), the UN Framework for the Socioeconomic Response to COVID-19 and the Global Humanitarian Response Plan (GHRP). These frameworks leveraged existing global policy platforms, such as the Inter-Agency Standing Committee (IASC) and the UNSDG, and they were implemented in countries by the Resident Coordinator System, humanitarian teams and WHO country representatives. The MDBs co-ordinated themselves alongside the WHO and IMF to ensure that the support provided aligned with the WHO's SPRP. Partnerships with regional organisations such as the Pan American Health Organization (PAHO) and Africa CDC, and UN agencies such as WHO and UNICEF, played an important role in MDBs' capacity to reach beneficiaries and address health impacts.

New partnerships and co-ordination fora were convened to address the diverse challenges posed by COVID-19. The Access to COVID-19 Tools Accelerator (ACT-A), for example, brought diverse multilateral organisations together to promote the accelerated development, scaled-up production and equitable delivery of counter measures, including vaccines, diagnostics and therapeutics. As a platform for technical and strategic dialogue, ACT-A enabled organisations to align their operations around a limited number of common objectives without having to create a formal co-ordination body, which was not feasible during an emergency.

Although co-ordination among UN entities, MDBs and the IMF was scaled-up to respond to the pandemic, important barriers limit joint planning and programming. Despite the increase in coordination, UN, MDB and IMF operations still tend to be planned and implemented in parallel. For example, UN Socioeconomic Response Plans (SERPs) made an important contribution to promoting inter-agency co-ordination; however, evidence of operational coherence and joint programming with MDB partners was more limited. Similarly, the UN tends not to be involved directly in MDB-IMF co-ordination for development policy operations. Barriers to deeper co-ordination stem partly from differences in business models, fiduciary policies and financial instruments. Furthermore, UN entities, MDBs and the IMF each tend to work with different partners and have different entry points in working with national governments.

Fragmentation in resource mobilisation contributed to competition among multilateral organisations, worked against joint programming, and undermined the achievement of collective outcomes. Given the limited flexible funds available to support an emergency response, new resource mobilisation mechanisms were designed, including the Solidarity Response Fund (SRF) and the Response and Recovery MPTF. These funds competed against multiple individual agency appeals. For example, the GHRP and ACT-A helped promote policy and planning coherence, but did not consolidate resource mobilisation, with partners launching their own appeals. Furthermore, there has been limited progress in diversifying resource mobilisation away from a small group of traditional donors who themselves faced socioeconomic impacts from the crisis. As a result, many pooled funds and appeals remained considerably underfunded, including those meant to help scale joint programming.

Source: (MOPAN, 2022[40]).

2.3.2. There are tensions and trade-offs between the various objectives of multilateral reform

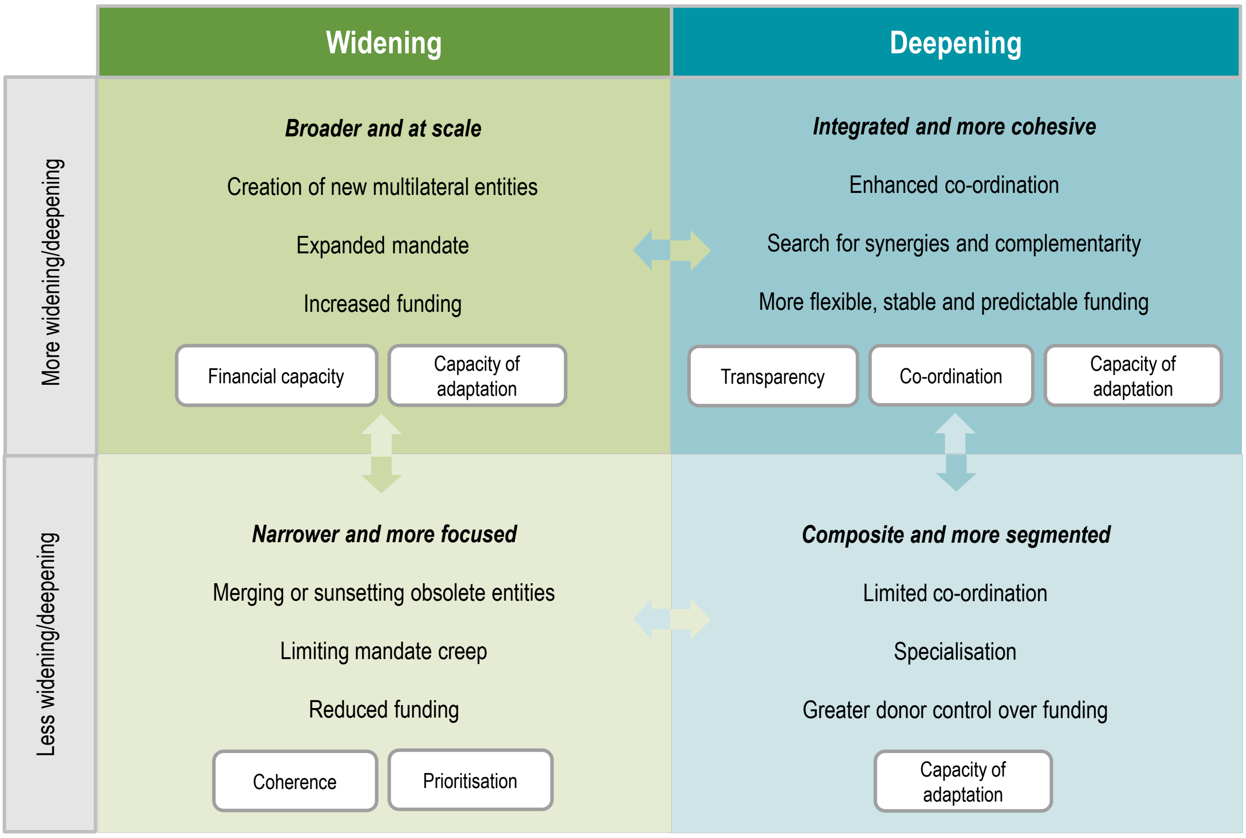
In the years prior to the COVID-19 pandemic, concerns over the adequacy of current multilateral frameworks had already spurred several reform drives, with the most recent being the UN Funding Compact and the World Bank Trust Fund reform (OECD, 2020[1]). The UN Funding Compact, launched by the UN Secretary-General in 2019, aims to address the deteriorating quality of funding received by UN entities, as well as the growing fragmentation of the UNDS. In return, the UN committed to increasing transparency and accountability over their expenditure and results. The World Bank, on the other hand, has been engaged in a series of reforms to enhance the management of its trust funds since 2001. The latest phase of this reform, which started in 2017, aims to reduce the fragmentation of its portfolio of trust funds and financial intermediary funds (FIFs), and align them with the organisation's priorities.

Due to the complexity of undertaking multilateral reforms, the evolution of the system to date has been characterised by continuous expansion and fragmentation rather than integration and consolidation. While system-wide reforms, such as the UN Funding Compact, are necessary, they are extremely difficult to carry out in practice due to pervasive political, economic and bureaucratic rigidities. To get round this, multilateral stakeholders tend to use their influence, leverage and agency to advance smaller ad hoc solutions, often leading to a piecemeal reform approach and resulting in a further expansion and fragmentation of the multilateral development system (Figure 2.11). Meanwhile, efforts to deepen the integration and co-operation among multilateral stakeholders have largely lagged behind. The slow pace of reform observed to date contrasts with growing calls to retool the multilateral development system. For example, during the 2022 UN General Assembly, global climate leaders called for an overhaul of the multilateral financial architecture, pushing in for a rethink of the roles of international financial institutions (IFIs) established as part of the Bretton Woods agreement to ensure their fitness for purpose in the 21st century (Financial Times, 2022[41]).

There are constant tensions and trade-offs between the short and long-term objectives of multilateral reform. The stalemate often observed in multilateral reform stems partly from the fact that, far from being a straightforward path, reforms often involve prioritising between multiple contradictory priorities and interests, including between short and long-term objectives. For example, the COVID-19 crisis showed that efforts to rapidly scale up multilateral development finance (financial capacity building block in Figure 2.11) in response to new emergencies often conflict with efforts to consolidate and rationalise the multilateral development system (systemic coherence). Similarly, the creation of new multilateral entities, which may help the system adapt to face new challenges, appears at odds with calls to limit the ever-expanding mandates of the multilateral development system (prioritisation) and can make co-ordination more difficult by increasing the fragmentation of the system.

In some cases, consensus on the objective of multilateral reform may hide discrepancies in the best approach to achieve it. For instance, while all multilateral stakeholders may agree on the need to make the system more resilient to future crises (capacity of adaptation), this objective can be pursued through multiple – and sometimes contradictory – approaches, such as: (i) expanding the mandate, funding and architecture of the system (widening); (ii) providing flexible (e.g. core) funding to multilateral development organisations to enable them to repurpose their existing portfolios in case of emergency (deepening); or (iii) opting for funding modalities that allow for greater donor control (e.g. non-core or earmarked contributions) to ensure alignment of multilateral portfolios with donors' shifting priorities.

Figure 2.11. Multilateral reform implies prioritising among competing and sometimes contradictory objectives



Note: Arrows indicate trade-offs between the objectives and approaches of reform. Building blocks correspond to key reform objectives and are distributed based on relevance with the different reform approaches, although some reform objectives can be pursued through different approaches (e.g. capacity of adaptation).
Source: Authors' illustration.

Looking forward, the three forces in the global context described earlier in the chapter may further complicate the pursuit of multilateral reform. First, as already observed during the COVID-19 pandemic, more frequent crises are likely to increase the short-term focus of policymakers on emergency response at the expense of longer-term investments to strengthen the system, and the increased financing needs from successive shocks risk translating into further expansion of the multilateral system, resulting in a more complex architecture. Second, the shift to a more polarised geopolitical order makes it ever more difficult to achieve the level of consensus required to undertake fundamental reforms. Finally, growing contestation of multilateral institutions and reduced trust in multilateral approaches could end up reducing the willingness of member states to invest in strengthening and integrating the existing system. Addressing these potential obstacles to multilateral reform requires a clear understanding of the recent evolution of the system and key trends in multilateral development finance.

The next two chapters illustrate how recent evolutions of the system and reform efforts are materialising across the two key phases of the multilateral development finance process: (i) inflows to, and (ii) outflows from, the system. Chapter 3 focuses on key trends in multilateral organisations' funding (multilateral inflows), especially in light of recent efforts to diversify their funding sources and optimise their funding structures. Chapter 4 analyses key trends in the development activities financed by multilateral organisations (multilateral outflows), highlighting their collective contribution to recent crises and exploring how to position them to help address emerging challenges.

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Note

[1] Non-core, or earmarked, contributions to multilateral organisations are resources channelled through multilateral organisations over which the donor retains some degree of control in decisions regarding disposal of the funds. Such flows can be earmarked for a specific country, project, region, sector or theme, and they technically qualify as bilateral ODA.

3 Funding to the multilateral development system

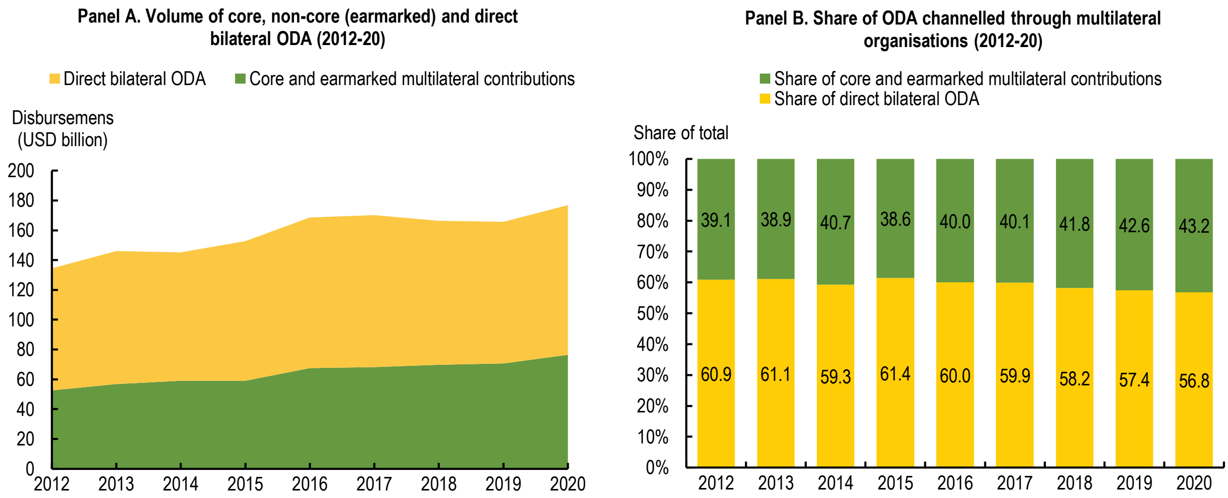
Contributions to multilateral organisations continued to increase throughout 2019 and 2020. However, this increase has not benefitted all parts of the multilateral system equally, and multilateral development organisations continue to experience significant funding gaps. The current global context also calls for strategically rethinking DAC members' support to multilateral organisations. This involves reconsidering and resetting their funding approach in light of the organisations' evolving mandates, new demands on the system, and the strategic implications of the rise of emerging donors, such as China and the private sector. However, efforts to diversify and optimise multilateral funding sources need to be accompanied by discussions about the governance and accountability mechanisms of new funding arrangements. This is particularly important to ensure that multilateral organisations continue to anchor their operations in their development mandates and the commitment to serve the countries and sectors with the greatest needs.

3.1. The multilateral development system continues to grow in importance as an ODA channel

3.1.1. DAC members' multilateral contributions reached an all-time high in 2020

Despite the tightening budget constraints for DAC member countries during the pandemic, their inflows to the multilateral system continued to rise in 2020. Over the past decade, the multilateral development system has channelled growing volumes of ODA. Between 2012 and 2019, annual core[1] and non-core[2] contributions to multilateral development organisations increased from USD 56.8 billion to USD 70.6 billion (+24%). The outbreak of the COVID-19 pandemic in 2020 seems to have accelerated this trend, with DAC members' multilateral contributions reaching an all-time high of USD 76.4 billion in 2020 (Figure 3.1). This represented an 8% increase from 2019, compared to the 1% and 2% increases registered respectively between 2018-19 and 2017-18.

Figure 3.1. Multilateral inflows from DAC members reached an all-time high in 2020



Note: Calculations are based on gross disbursements, in 2020 constant prices. Direct bilateral ODA refers to DAC members' bilateral ODA excluding multi-bi aid (non-core contributions to multilateral organisations).

Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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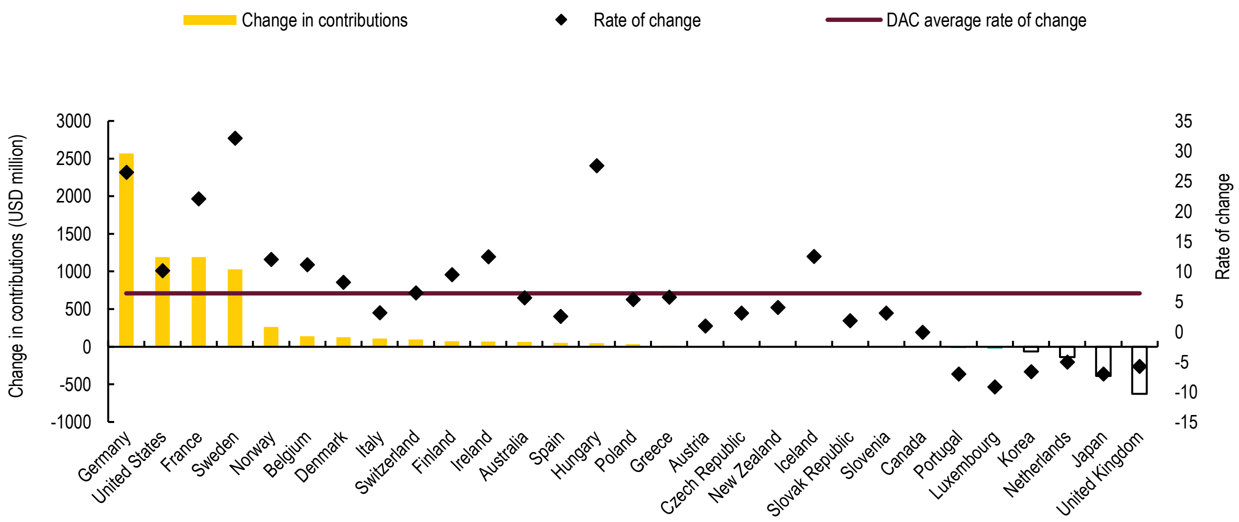
The pandemic did not immediately lead to an abrupt change in the allocation of DAC members' ODA between multilateral and bilateral channels. The 8% increase observed in ODA channelled to and through multilateral organisations in 2020 was slightly larger than the increase in direct bilateral ODA (6%). As a result, the allocation patterns between multilateral and bilateral aid remained consistent with the long-term trend of a steady but slow increase in the use of multilateral channels. Between 2019 and 2020, the share of DAC members' ODA channelled to or through multilateral development organisations increased by around 1%, in line with the average increase observed over the four previous years (2015-2019). The fact that the exceptional circumstances faced in 2020 did not result in a larger digression from previous trends suggests the possible existence of rigidities and path-dependencies constraining the ability of DAC members to swiftly adjust and balance their multilateral and bilateral allocations.

The overall increase in multilateral contributions hides significant disparities across DAC members. Most DAC members have increased their funding to multilateral organisations in recent years.

Between 2019 and 2020, for example, 22 out of 29 DAC countries increased their multilateral contributions (Figure 3.2). Germany and the United States increased their multilateral contributions by the largest amounts, by USD 2.6 billion and USD 1.1 billion, respectively. In relative terms, Sweden (32%) and Hungary (28%) registered the largest increases. On the other hand, six DAC members, including some of the largest multilateral donors such as the United Kingdom and Japan, decreased their funding to the multilateral development system over the same period.

Figure 3.2. Most DAC members have increased their multilateral development funding

Change in contributions in USD million and rate of change in DAC members' core and non-core multilateral contributions between 2019 and 2020



Note: Calculations are based on gross disbursement, in 2020 constant prices.
Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Report System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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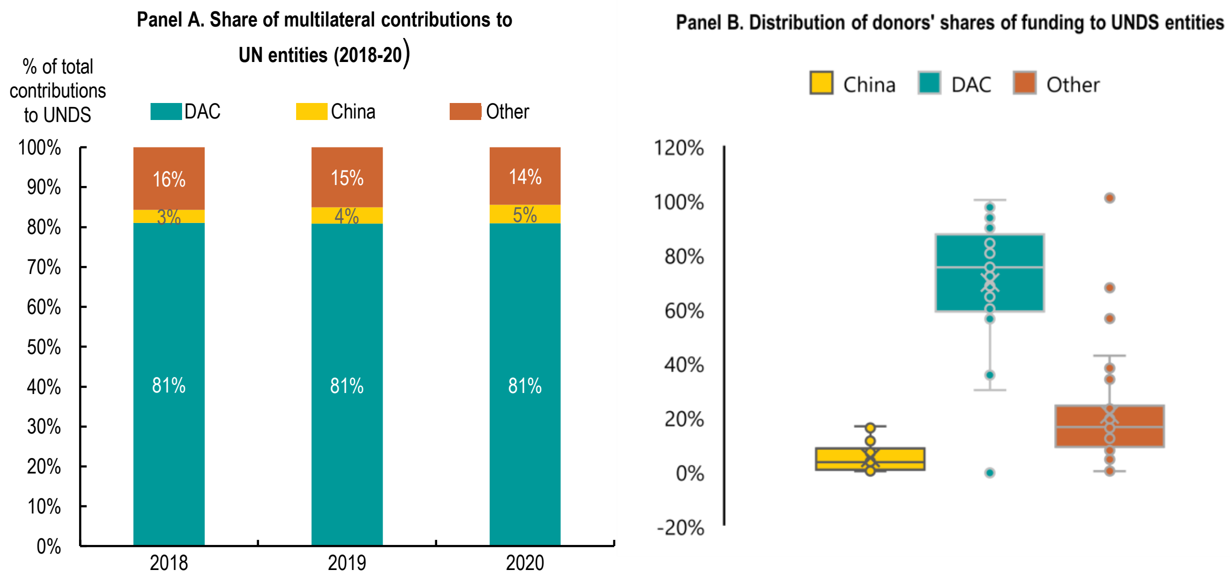
3.1.2. DAC members continue to supply most of the multilateral development system's funding

The sustained increase in DAC members' multilateral contributions has allowed their share of donor funding to the UNDS to remain stable in recent years, while China's share has increased. DAC members account for more than 80% of total contributions to the UNDS, and their collective share has remained stable since 2018 (Figure 3.3, Panel A). On the other hand, China's share has increased slowly but steadily over the last three years, from 3% in 2018 to 4% in 2019 and 5% in 2020. Analysis based on the United Nations System Chief Executives Board for Coordination (CEB) Financial Statistics database reveals that the growth of China's share of total UNDS contributions has been at the expense of the share of contributions of other non-DAC donors, which decreased from 16% in 2018 to 15% in 2019 and 14% in 2020 (UNCEB, 2022[2]). These changes in the funding patterns of the UNDS result from diverging trends in the multilateral contributions of these different donor groupings. Between 2018 and 2020, for example, DAC countries' collective contributions to the UNDS increased by USD 1.7 billion, from USD 32.5 billion to USD 34.2 billion (+5%). Over the same period, China's contributions to the UNDS also grew. They reached USD 1.9 billion in 2020, up by almost 50%, or USD 650 million, compared to 2018 (USD 1.3 billion). In contrast, UNDS contributions from other non-DAC donor governments decreased over these three years, from USD 6.3 billion to USD 6.1 billion (-3%, or USD 194 million).

DAC members contribute the majority of the funding for most UN entities. Figure 3.3, Panel B shows that the collective share of DAC donors in the UN Development System exceeds 50% for most UN entities. However, there are some rare cases, such as the International Maritime Organisation (IMO) and the World Tourism Organisation (UNWTO), where DAC members are minority funders, with collective shares of 36% and 30%, respectively. The figure also shows that China's multilateral contributions represent less than 5% of most UN entities' funding. Here again, there are some notable exceptions. For example, China provides a relatively high share of some organisations' funding, such as the United Nations Industrial Development Organisation (UNIDO, 16%) and the UN Department of Peace Operations (UNDPO, 14%). UNDPO is primarily funded by assessed contributions,[3] and therefore the funding composition better reflects the economic power of members. China's relatively high share of funding to UNIDO, which receives almost half (47%) of its funds in the form of voluntary contributions, sheds light on the priority areas for China's development co-operation efforts.

Figure 3.3. DAC countries account for most UN entities' total funding from donor governments



Note: Multilateral contributions include both core and non-core contributions to UNDS entities.
Source: Authors' calculations based on (UNCEB, 2022[2]) "Financial Statistics", https://unsceb.org/financial-statistics and (IDA, 2022[3]) "Replenishments", https://ida.worldbank.org/en/replenishments.

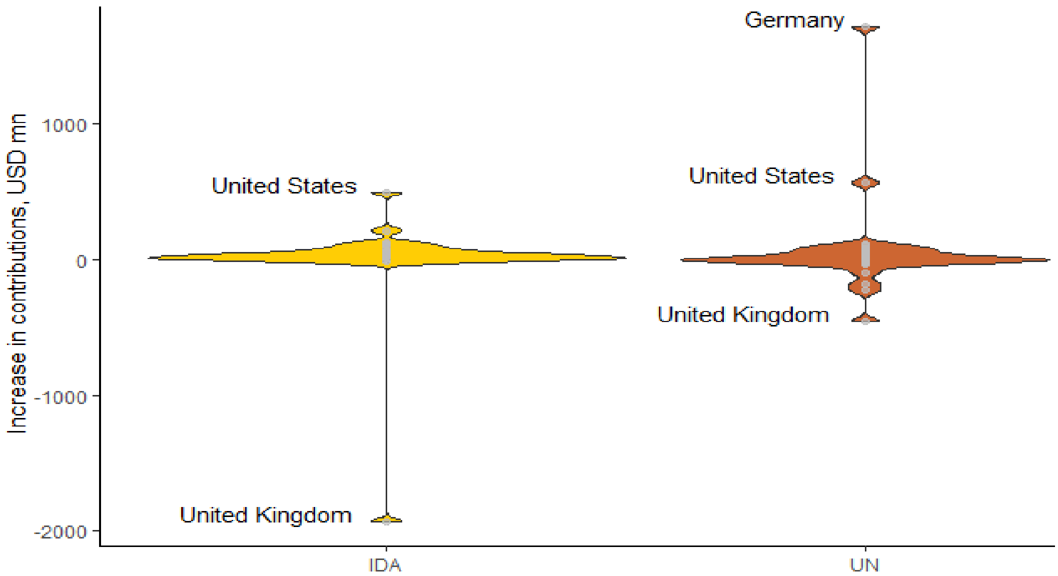
StatLink https://stat.link/jtwxvb

In 2020, DAC members stepped up their contributions to the UNDS, while non-DAC countries' funding decreased. DAC members' contributions to UNDS entities rose by 6% in 2020, from USD 31.6 billion to USD 33.4 billion. Over the same period, non-DAC countries slightly decreased their contributions to the UNDS (from USD 9.4 billion USD to USD 8.9 billion), possibly as a consequence of tightening fiscal conditions during the crisis. Figure 3.4 shows that a majority of DAC members increased their contributions to UN entities between 2019 and 2020, albeit by incremental amounts except for Germany and the United States, which both provided steep increases.

In contrast, non-DAC donors increased their contributions to IDA replenishments – both in absolute terms and as a relative share of the total. This change in the proportion of DAC and non-DAC donors was mostly driven by two factors. First, the distribution on the left-hand side of Figure 3.4 is widest at and slightly above zero, reflecting that most DAC members only slightly increased their IDA contributions between replenishments in 2019 (IDA19) and 2021 (IDA20). The United States increased its contributions the most, while the UK significantly decreased its funding, from USD 3.9 billion to USD 2.0 billion (-49%). Second, BRICS and other non-DAC donors increased their contributions: Saudi Arabia significantly increased its contributions, from USD 300 million in IDA19 to USD 700 million in IDA20 (+75%). China and Russia both increased their contributions: China from USD 1.2 billion to USD 1.32 billion (+10%) and Russia from no contributions to USD 50 million.

Figure 3.4. Bar a few notable exceptions, most DAC members slightly increased contributions to the UNDS and IDA

Changes in DAC members' contributions to IDA (IDA-19 vs IDA-20) and UNDS (2019 vs 2020)



Note: Multilateral contributions include both core and non-core contributions to UNDS entities.
Source: Authors' calculations based on (UNCEB, 2022[2]) "Financial Statistics", https://unsceb.org/financial-statistics and (IDA, 2022[3]) "Replenishments", https://ida.worldbank.org/en/replenishments.

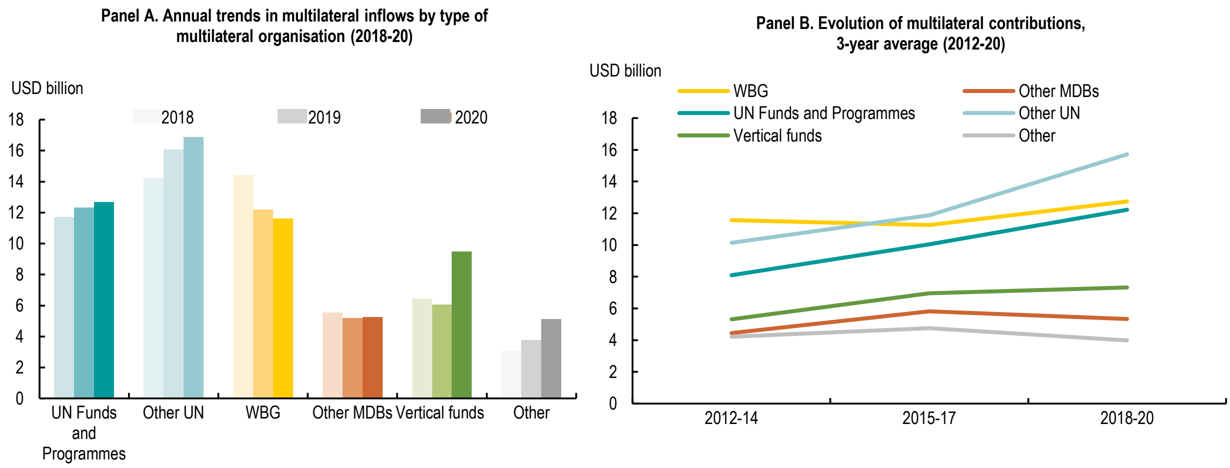
StatLink https://stat.link/5stkc6

3.1.3. Recent increases in multilateral contributions are not evenly distributed across the system

Despite the pandemic-induced global crisis, some multilateral organisations raised significant resources through successful replenishments. For example, the International Fund for Agricultural Development (IFAD) mobilised a record amount of USD 3.8 billion in its 12th replenishment in 2020. In the following year, IDA set another record by raising USD 93 billion[4] in its 20th replenishment. Moreover, the advancement of IDA20 by one year, which resulted in a shortening of IDA19 to two years, constitutes in and of itself an increase in donor contributions. The Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), which received an unprecedented amount (USD 14 billion) in donor commitments for its sixth replenishment in 2019, now aims to achieve USD 18 billion for its seventh replenishment in 2022. As of end September 2022, it has already raised USD 14.25 billion in pledges.

Overall, contributions to the UNDS and vertical funds increased sharply in 2020, while those to MDBs presented a mixed picture. Contributions to UN Funds and Programmes rose by 2.7%, from USD 12.3 billion in 2019 to USD 12.7 billion in 2020 (Figure 3.5, Panel A). In comparison, other UNDS entities saw an increase in contributions of about 4.9% over the same period. The largest increase was experienced by the vertical funds, whose contributions collectively rose by 56.9%, from USD 6 billion to USD 9.5 billion. Funding to the World Bank Group, on the other hand, decreased by 4.7%.

Figure 3.5. The UN and vertical funds gained most from the increase in multilateral inflows in 2020



Note: Calculations are based on gross disbursement, in 2020 constant prices.
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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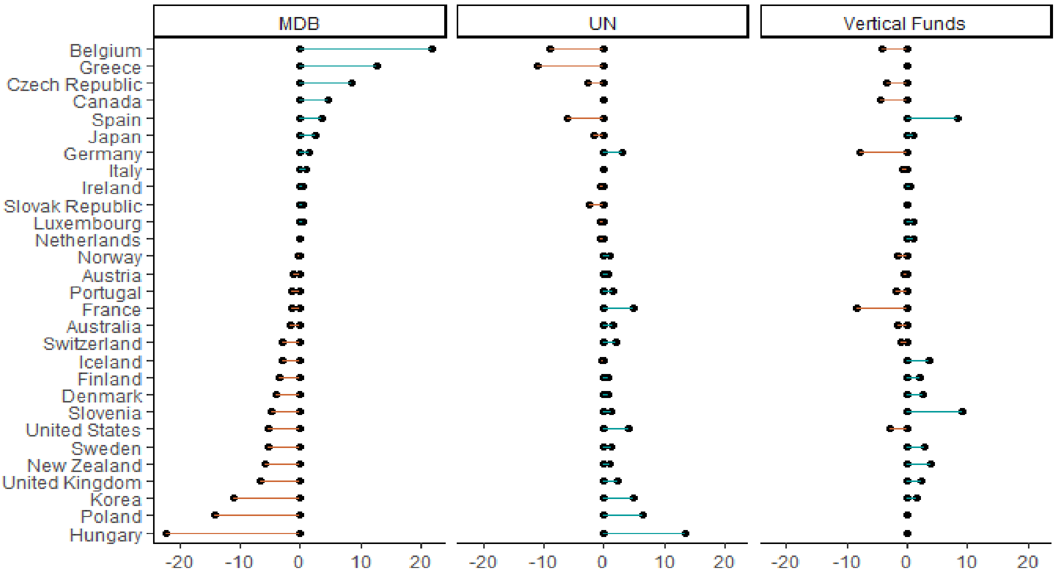
The different modalities for resource mobilisation across multilateral organisations only explain part of the divergence in funding trends. The divergence can be partially explained by the nature and cycle of MDB and vertical fund replenishments, which occur over a multi-year period. Yet, even when averaging out annual contributions over multiple years, the divergence between the funding trends of various types of multilateral organisations remains visible (Figure 3.5, Panel B). The analysis shows that over the past decade, contributions to both UN Funds and Programmes and other UN agencies experienced a steep increase (+28%), while vertical funds and the World Bank Group have registered more moderate increases. Conversely, contributions to other MDBs have decreased.

This suggests that DAC providers may increasingly recognise the ability of MDBs to raise financing from capital markets and therefore prioritise funding to the UN. More than half of DAC members (17 out of 30) decreased the share of contributions to MDBs in their overall multilateral funding between the 2015-17 and 2018-20 periods. In contrast, only about one third of DAC members decreased the share of their contributions to the UN Development System or vertical funds (Figure 3.6). One additional explanation for this trend is that donors favour the UN system, with its strong track record on humanitarian assistance, for channelling resources for emergency relief, as was required during the pandemic. Until now, MDBs have been able to compensate for the downturn in some members' multilateral contributions by mobilising additional financing using callable capital from member governments. However, as explored in detail in Section 3.2, there may be a need to review to what extent capital market financing can and should be expanded to substitute for official providers' contributions.

Figure 3.6. Most DAC members' funding allocation changes are incremental

Change in the share of DAC members' multilateral contributions, 2015-17 vs 2018-20



Note: Calculations are based on gross disbursement, in 2020 constant prices.
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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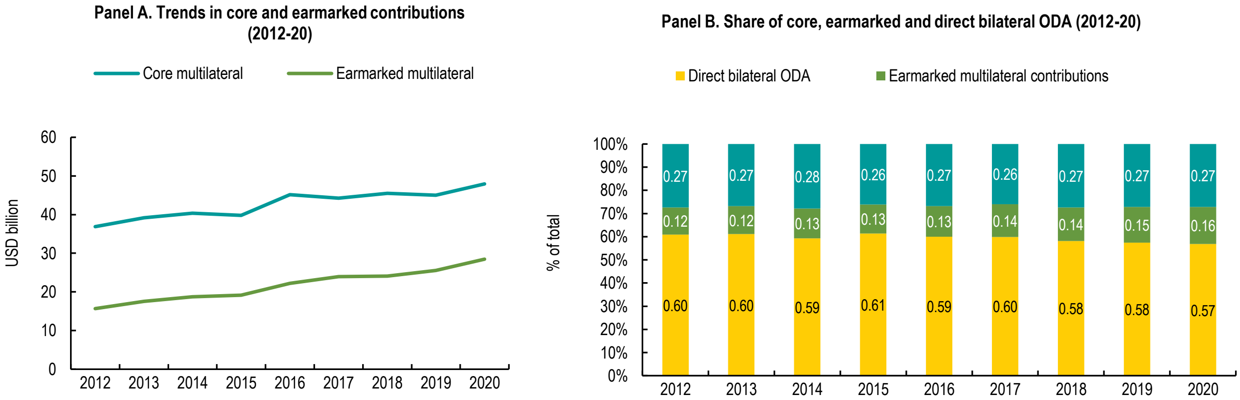
3.1.4. Official providers' continued tendency to earmark their contributions constrains the flexibility of multilateral development organisations and their ability to reform

Funds earmarked through the multilateral development system represent a growing share of DAC members' ODA. In their efforts to scale up multilateral development finance, DAC members have been increasing both their core and non-core (earmarked) contributions. Between 2019 and 2020, DAC members' core contributions to the multilateral development system increased by 6.5%, from USD 45 billion to USD 48 billion (Figure 3.7, Panel A). Over the same period, their non-core contributions rose by roughly the same amount (USD 3 billion, representing a 11.3% increase). In terms of proportion, however, the share of earmarked funding continued to grow, in line with the trend observed over the past decade.

DAC members' increase in earmarked funding has come at the expense of direct bilateral spending. As pointed out in the previous edition of this report (OECD, 2020[4]), earmarked contributions have grown at the cost of purely bilateral rather than core multilateral ODA. For example, while the share of DAC members' non-core (earmarked) contributions in their total ODA grew from 13% to 16% between 2015 and 2020, the share of their direct bilateral ODA declined from 61% to 57%, and the share of their core contributions increased only slightly, from 26% to 27% (Figure 3.7, Panel B).

Donors' earmarking tendencies suggest a continued shift towards an "à la carte" multilateralism, as pointed out in the previous edition of this report. Earmarking can be a way for donors to shift multilateral organisations' activities towards evolving development challenges that current allocation patterns and core priorities do not sufficiently address. An increasing tendency to earmark funds, therefore, may reflect a real or perceived failure of multilateral organisations to reflect the evolving priorities of the majority funders. In the long term, however, the rise of earmarked funding could result in a multilateral development system in which funding allocations are driven and shaped by the priorities of a narrower set of multilateral donors, rather than backed by broad-based consensus across the membership.

Figure 3.7. Earmarked funding represents a growing portion of DAC members' ODA



Note: Calculations are based on gross disbursement, in 2020 constant prices. Direct bilateral ODA refers to DAC members' bilateral ODA excluding multi-bi aid (non-core contributions to multilateral organisations).
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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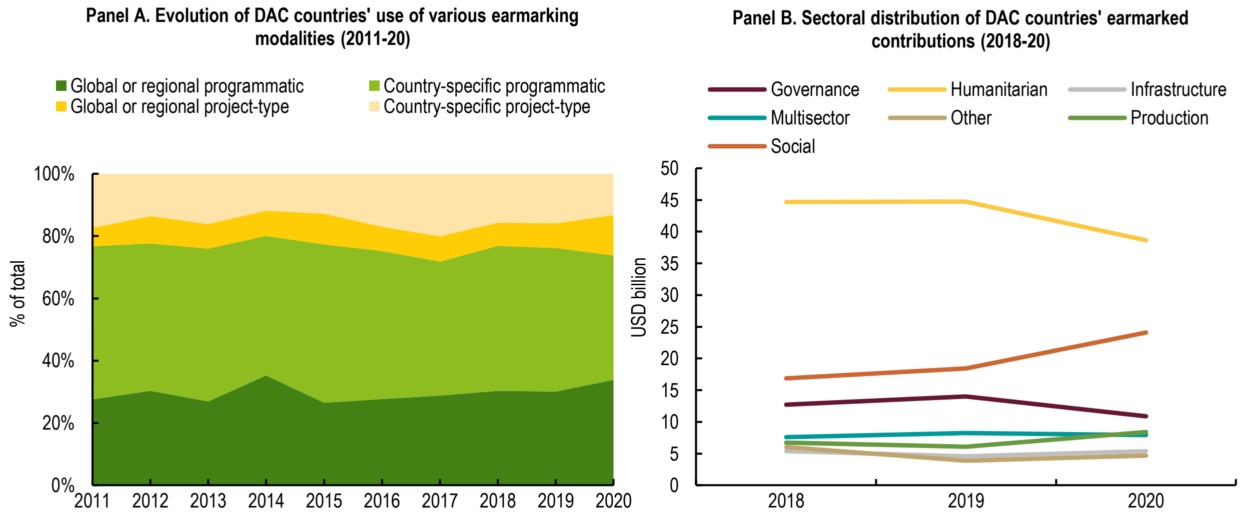
If sustained, the growing share of earmarked funds could also affect the system's ability to respond to global emergencies and slow down efforts to make it fit to tackle global challenges. A recent study from the Multilateral Organisation Performance Assessment Network (MOPAN) on the reform initiatives of the United Nations Development System found that the lack of sustainable and predictable funding poses one of the greatest risks to the success of multilateral reform (MOPAN, 2021[5]). As an increasing portion of development finance channelled through the multilateral development system is earmarked for specific objectives, core functions receive a smaller share of funding. In the long run, this could lead to a gradual erosion of the core functions of the multilateral system critical to providing strategic and long-term oversight, implementing key reforms, and adapting to the evolving and expanding nature of global development challenges.

Earmarking patterns changed slightly in 2020, as DAC members' contributions became less tightly earmarked geographically, but more earmarked thematically. Contributions earmarked for country-specific programmes and projects made up 53% of all earmarked funds in 2020, down from 62% in 2019 (Figure 3.8, Panel A). At the same time, the share of contributions earmarked for specific projects rose from 37% and 38% in 2018 and 2019 respectively, to 47% in 2020. The increase in the share of multilateral contributions earmarked at the global or regional level (i.e. not for a specific country) reflects in part the global nature of the COVID-19 crisis, which has led to the establishment of global financing mechanisms, such as the COVID-19 Response and Recovery Trust Fund. This also explains why global or regional project-type contributions, which account for a small share of DAC countries' earmarked funding, registered the highest increase among the different earmarking modalities (from 8% in 2019 to 13% in 2020). In fact, a 2020 policy brief on DAC countries' earmarking highlighted that this specific earmarking modality had already been used in response to previous pandemics, for example to channel funding to the Ebola Response Fund (OECD, 2020[6]).

Figure 3.8. The pandemic response drove DAC members' earmarking patterns in 2020



Note: Calculations are based on gross disbursements, in 2020 constant prices. In Panel A, earmarked contributions are presented according to the breakdown proposed in (OECD, 2020[6]), *Earmarked Funding to Multilateral Organisations: How is it used and what constitutes good practice?*, https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/Multilateral-development-finance-brief-2020.pdf. Sector classification follows the methodology detailed in the statistical annex.
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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In terms of sectoral allocation, the need to cope with the public health crisis and its social consequences drove greater earmarking in the social sector (Figure 3.8, Panel B). The social sector, which comprises health and social protection measures, registered the largest increase in earmarked contributions from DAC members between 2018 and 2020 (+7%, from 17% to 24%). This increase was largely driven by a rise in contributions earmarked for health (+USD 2.1 billion) and other social infrastructure and services (+USD 455 million). The share of contributions earmarked for humanitarian purposes, on the other hand, registered the largest decrease between 2018 and 2020, from 45% to 39%, although this trend is likely to be reversed again in 2021 and 2022.

DAC members' earmarking modalities and allocations provided them with some flexibility to respond to the COVID-19 pandemic. While DAC members did not abruptly increase their multilateral contributions in 2020 (as noted earlier in this chapter), their earmarked funding allowed them to channel resources to new priorities and objectives. This highlights a key rationale for DAC members to earmark their contributions to the multilateral development system, since it provides them with the agility to quickly react and adapt to crises and unexpected challenges in a way not possible with their core contributions. Given the prospect of more frequent global shocks, discussed in Chapter 2, this rationale implies increased upwards pressure on DAC members' earmarked contributions in the coming years.

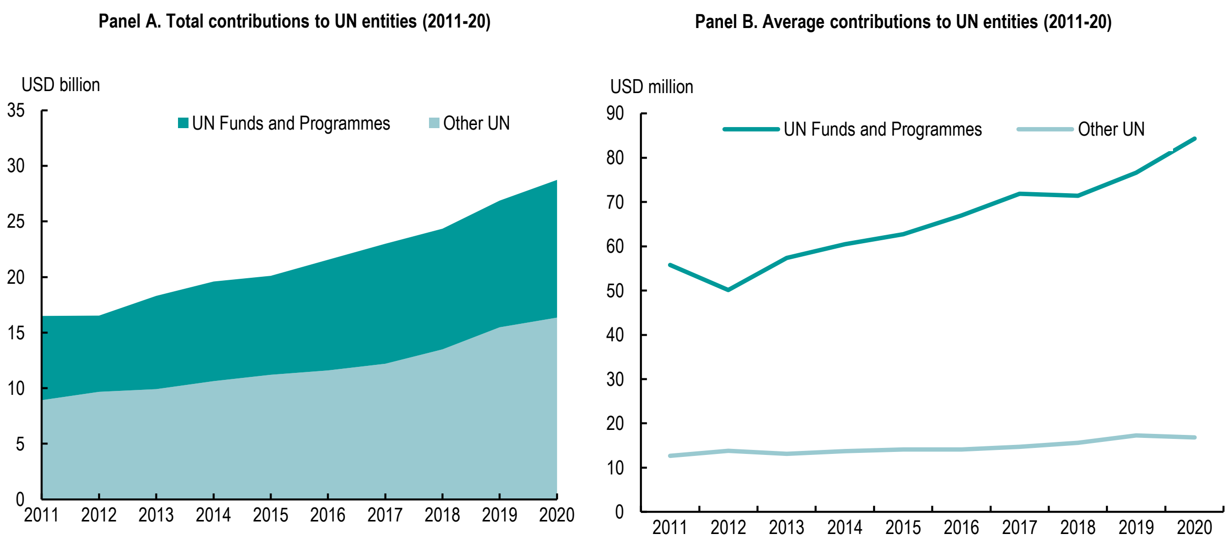
3.2. Multilateral organisations are under pressure to diversify and optimise their funding structures

3.2.1. The UN Development System seeks to overcome funding vulnerabilities through system-wide reforms and greater engagement of private actors

Funding vulnerabilities continue to challenge the UN Development System

The overall increase in inflows to the UN system masks a set of intensifying funding vulnerabilities. While inflows to both UN Funds and Programmes and other UN agencies have increased steadily since 2011, Figure 3.9 illustrates that this does not always translate into an increase in the volume of funding received by individual organisations. Despite the increase in total contributions to other UN entities, average contributions remain flat. For UN Funds and Programmes, steep increases in funding to the World Food Programme (WFP) and the United Nations' Children's Fund (UNICEF) accounted for most of the overall increase in average inflows. On the other hand, funding remained flat for the other UN Funds and Programmes, including the United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), United Nations Human Settlement Programme (UN-Habitat), and the United Nations Population Fund (UNFPA). In the case of other UN agencies, the average contributions to each organisation have remained virtually the same over the years, suggesting that the significant increase in overall inflows has not flowed proportionately across agencies.

Figure 3.9. The increase in member states' contributions has not benefitted all UN entities equally



Note: Calculations based on gross disbursements, in 2020 constant prices.
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[39]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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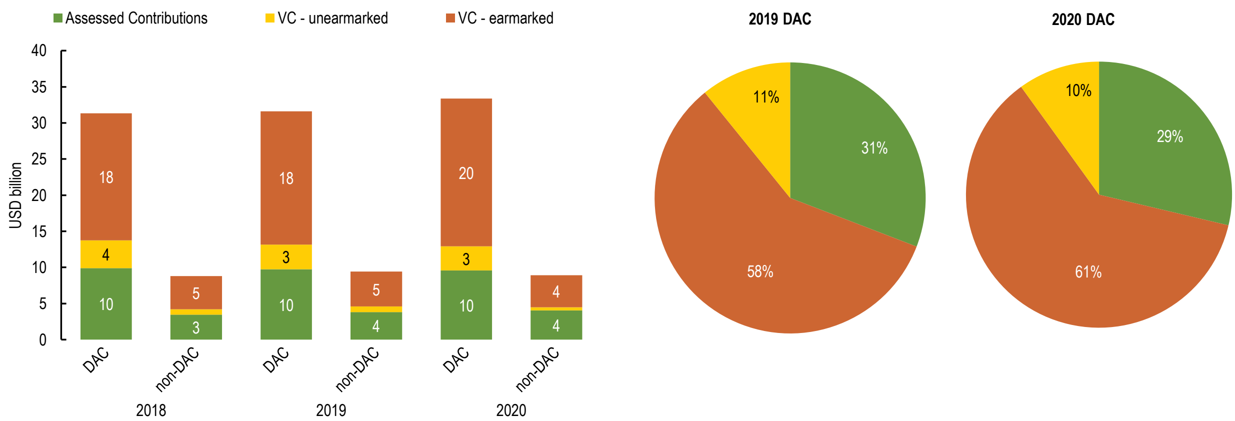
The UN system is particularly vulnerable due to its large reliance on voluntary, and increasingly earmarked, contributions. The share of earmarked funds in total contributions to the UNDS stood at 57% in 2019, and continued to increase to reach 59% in 2020. Between 2019 and 2020, earmarked contributions from DAC members to UN entities grew at an especially rapid pace, from USD 18 billion to USD 20 billion, which represented an 11% increase. Due to this increase, the share of earmarked contributions in DAC members' total contributions to the UNDS entities rose from 58% to 61% between 2019 and 2020 (Figure 3.10). Recent MOPAN assessments have highlighted that the large share of non-core, earmarked funds received by some UNDS entities constrains their ability to reallocate resources in an agile way in response to crises (MOPAN, 2021[5]). In some cases, such as UNICEF and UNEP, the high reliance on earmarked contributions has also led to challenges for resource mobilisation due to the fiscal constraints experienced by member states.

Member states' preference for earmarked funding also undermines the UN's ability to act as a convenor. Recent research suggests that an overreliance on non-core (earmarked) contributions can compromise UN entities' ability to co-ordinate across the UN system and with other development actors (Dag Hammarskjöld Foundation, 2021[7]). According to the same study, a key reason for member states' reluctance to increase the share of core contributions to UN entities is the perceived lack of transparency and visibility over how core contributions to the UN Development System are being used in countries to support national development priorities. In particular, there are concerns that large proportions of overhead costs are allocated to UN entities at headquarters rather than to support activities in countries. This suggests that improved information and transparency about the use of members' core funding could increase incentives for member states to raise the proportion of these contributions.

Figure 3.10. Earmarking to the UNDS increased further in 2020 to finance the pandemic response

DAC and non-DAC contributions to the UNDS, by type of contribution, 2018-20



Note: VC refers to voluntary contributions. The countries included in the non-DAC grouping are all UN member states that are not DAC members.
Source: Authors' calculations based on (UNCEB, 2022[2]). "Financial Statistics", https://unsceb.org/financial-statistics

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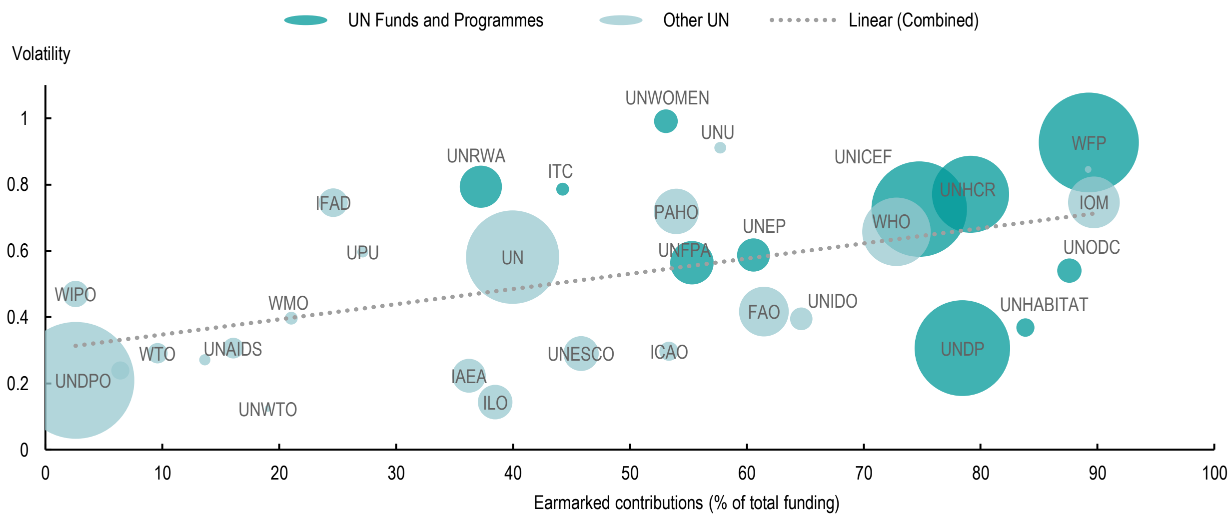
Funding vulnerability varies widely across the different UN entities, largely driven by their high reliance on non-core, earmarked contributions. Generally, UN Funds and Programmes such as WFP, UNICEF, and UNDP are more reliant on non-core (earmarked) funding than other UN agencies (Figure 3.11). High reliance on earmarked contributions also seems to be a common feature for UN entities which focus on humanitarian aid, such as the UNHCR, WFP, UNICEF and IOM. It is noteworthy that the WFP and UNICEF are also two of the organisations that have registered the most rapid increase in donor contributions between 2011 and 2020, driven by a rise in earmarked funding for humanitarian purposes. This implies that rapid growth in donor contributions may come at the expense of sustainability and predictability of funding.

The funding volatility experienced by some UN entities is largely driven by their high reliance on non-core, earmarked contributions. The lack of predictable funding is a key ingredient of multilateral organisations' funding vulnerability and can impair their capacity to deliver on their mandates. While the high funding volatility experienced by some UN entities has multiple causes, the analysis reveals that the level of earmarked contributions received by these entities is a better predictor of their funding volatility than other variables, such as their sectoral focus, governance model, or funding volume. For example, while it seems logical for entities with a focus on humanitarian assistance to experience funding volatility since their operations and funding needs are tied to specific crisis outbreaks, this does not explain why other entities, such as the WHO and UNEP, also have high levels of funding volatility. In some cases, such as UNDPO, the low share of earmarked funding is in turn explained by high reliance on assessed contributions, which may be the main reason for low funding volatility. Other variables, such as the funding volume or the type of UN entity (e.g. UN Funds and Programmes, or other UN entities), do not offer a better explanation of UN entities' funding volatility. UNWOMEN stands out as the entity with the highest funding volatility, despite a relatively moderate share of earmarked funds. This can be explained by the fact that UNWOMEN was established in 2010 and has experienced steep increases in funding in its relatively short history.

Figure 3.11. The share of earmarked contributions received by UN entities explains much of their funding volatility

UN entities' total funding and share of earmarked funding (2010-20 average)



Note: Calculations based on gross disbursements, in 2020 constant prices. The vertical axis corresponds to a measure of volatility, calculated as the relative standard deviation (also known as coefficient of variation). The horizontal axis shows earmarked contributions as a share of total funding (core and non-core, earmarked, contributions) received by UN entities. The size of the bubbles corresponds to the average annual funding volume of the different UN entities.
Source: Authors' calculations based on (UNCEB, 2022[2]). "Financial Statistics", https://unsceb.org/financial-statistics

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The pandemic has highlighted the funding problems of the WHO. The analysis confirms that, even among UN entities, the WHO receives a high share of non-core (earmarked) funding (Figure 3.11) and is also among the entities with the highest funding volatility. The Contingency Fund for Emergencies, which provides the WHO with the resources to respond rapidly to disease outbreaks and health emergencies, had been undercapitalised for years and depleted by the Ebola Crisis in 2018. At the outbreak of the pandemic its available funds amounted to only USD 12.9 million. In fact, the recent initiative of the World

Health Assembly (WHA) to reform the WHO's financing model, described in Box 3.1, aims to lessen its funding vulnerability by significantly reducing its dependence on members' voluntary contributions.

Box 3.1. Member states recently agreed to reform the WHO's financing model to enhance the organisation's independence and flexibility

At the 75th session of the WHA, held in May 2022, member states adopted a landmark decision to improve the WHO's financing model. The agreement called for the implementation of the recommendations of the Sustainable Financing Working Group, set up in January 2021, which included gradually increasing the WHO member states' assessed contributions (membership dues) to 50% of its core budget by the 2030–2031 budget cycle (WHO, 2022[8]). By way of comparison, assessed contributions represented only 16% of the organisation's approved programme budget in the 2020–2021 budget biennium.

This decision aims to reform WHO's current financing model, which has been shown to pose a risk to the integrity and independence of its work. Assessed contributions have been frozen since the 1980s, when the WHA introduced a "zero-real growth policy" for the regular budget. As a result, the organisation's over-reliance on voluntary contributions, with a large proportion of funding earmarked for specific areas of work, affected its ability to fulfil its essential global health functions. This includes the creation of norms and standards based on the best technical knowledge and evidence, as well as the prevention, detection and response to disease outbreaks such as the COVID-19 pandemic (Gulrajani, Haug and Weinlich, 2022[9]).

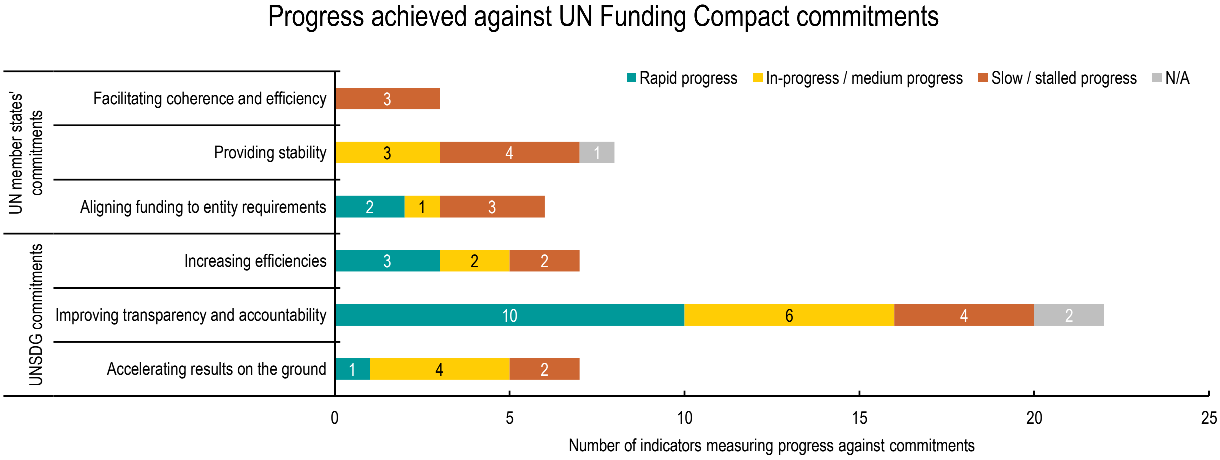
During the COVID-19 crisis, the WHO used multi-pronged resource mobilisation strategies to mitigate its funding vulnerability. The WHO, jointly with the UN Foundation and Swiss Philanthropy Foundation (SPF), launched the Solidarity Response Fund (SRF) in March 2020 to mobilise direct financial contributions – from companies, organisations and individuals – to the COVID-19 response efforts of WHO and its partners. Between March 2020 and November 2021, the SRF successfully raised a total of USD 257 million. An external evaluation of the SRF noted that it had yielded significant, un-earmarked funding for the WHO and partners (IOD PARC, 2021[10]). In the second year of the pandemic, the WHO also appealed for USD 2 billion to fund the operationalisation of the COVID-19 Strategic Preparedness and Response Plan (SPRP) published in February 2020 through the so-called COVID-19 Member-State Pooled Fund. This pooled fund enabled member states to pool their contributions into a single, unearmarked and revolving fund that could be used immediately to support countries. In 2020, the COVID-19 Member-State Pooled Fund raised a total of USD 1.5 billion, and enabled the WHO to take rapid action through increased funding flexibility and reduced administrative processes. The fund played a role in mitigating vaccine and other supply shortages early in the pandemic. In the first few months of the pandemic, LICs and MICs obtained 50% of the personal protective equipment (PPE) and essential medical supplies through the Supply Chain System, for which the SRF was a key source of funds.

The UN Funding Compact shows mixed progress in the effort to secure stable and sustainable funding

UN member states adopted the Funding Compact in 2019 as a means of aligning their financial support to the UNDS with the 2030 Agenda for Sustainable Development. The Funding Compact represents a holistic system-wide framework for change and accountability, aimed at strengthening trust among the various stakeholders of the UN system. It contains a set of commitments, measured by indicators, for member states and UN entities. The commitments of UN entities are grouped into three categories: (i) accelerating results on the ground by working jointly towards common objectives; (ii) improving transparency and accountability through reporting on needs, resources, results and impact; and (iii) increasing efficiencies. At the same time, the Compact encourages member states to (i) align funding to UN entities' requirements; (ii) provide funding stability by committing more to core UN resources as opposed to earmarked funding; and (iii) facilitate coherence and efficiency. In concrete terms, member states commit to increasing core resources to a level of at least 30% by 2023; enhancing multi-year and flexible contributions; and doubling resources channelled through development-related inter-agency pooled funds and single-agency thematic funds.

So far, the Compact has seen mixed results, with member states lagging behind UN entities in their implementation of the commitments. The overall results of the most recent Quadrennial Comprehensive Policy Review (QCPR) reporting process, which undertakes the global monitoring of the Funding Compact indicators, are summarised in Figure 3.12. While UN entities have made advances on some of their commitments, member states have largely failed to realise theirs. Of 36 indicators measuring progress against commitments by UN entities, rapid progress was reported for 14, medium progress for 12, and stalled or slow progress for 8, while results could not be measured for two indicators. Most progress was made in increasing transparency and accountability, while least progress was made in achieving results on the ground. In comparison, for 10 of the 17 indicators related to commitments made by member states, progress was either stalled or slow. Rapid progress was reported for only two indicators, and medium progress for four indicators. Whereas some progress was made towards better aligning funding with UN entities' mandates, least progress was reported on facilitating coherence and efficiency (e.g. through harmonised reporting and visibility requirements for earmarked contributions at the country level).

Figure 3.12. The monitoring of the UN Funding Compact implementation shows mixed results



Source: Authors' calculations based on (UN, 2022[11]), "Funding Compact Indicator Table", United Nations, Geneva,, https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/qcpr/2022/Annex-FundingCompact-IndicatorsTable-Ver2b-25Apr2022.pdf.

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Despite the progress in some areas, implementation of the Compact remains hampered by the lack of individual commitment from member states and low awareness at the country level. While UN member states committed collectively to improve their support to the UN system as part of the Funding Compact, the monitoring exercise shows that these collective commitments have rarely translated into positive change. One of the reasons for this lack of progress lies in the lack of commitment by individual member states, which prevents proper accountability. In addition, a recent study which explored the level of implementation of the Funding Compact in partner countries through in-depth country studies, found that most UN entities interviewed had not received clear guidance on the Funding Compact, or directives on how it should be operationalised at the country level (Dag Hammarskjöld Foundation, 2021[7]). Among member states, embassies or their development co-operation sections had rarely received information on the Funding Compact from capitals, ministries of foreign affairs or development agency headquarters.

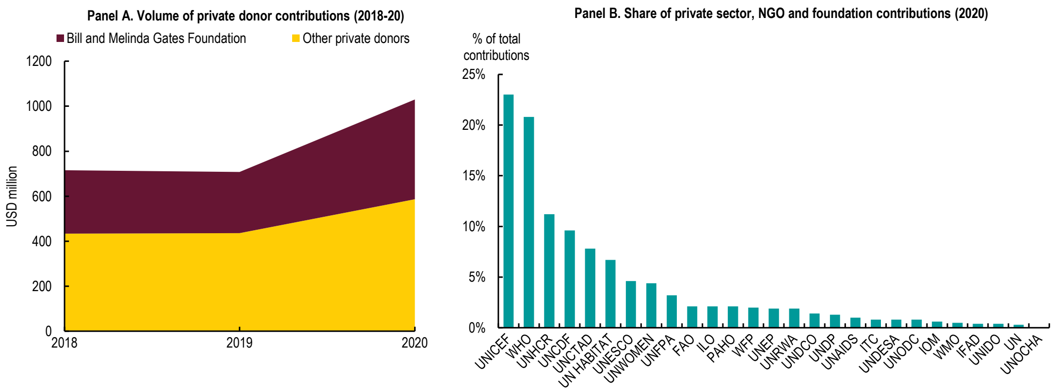
Partnerships with the private sector offer both opportunities and risks

As part of wider efforts to diversify their funding base, UN entities are increasingly seeking contributions from the private sector, notably philanthropic foundations. In 2020, private contributions to the UNDS nearly doubled as donors provided a total of just over USD 1 billion, up from USD 708 million in 2019 (+45%). This shows that partnerships with the private sector are increasingly looked upon as a way to mobilise additional resources. However, they also offer opportunities to pursue pragmatic, flexible and solution-oriented approaches to achieving the complex and interlinked development challenges that the 2030 Agenda sets out to tackle.

Although private contributions constitute only a fraction of total funding to the UNDS, some individual UN entities have a relatively high reliance on private donors. Despite the significant increase observed in 2020, private contributions still constitute a minority of overall contributions to the UN Development System. Between 2019 and 2020, for example, the collective share of private contributions to the UNDS increased from 1.5% to just 2%. Yet, the share of private contributions varies across UN entities. For example, the share of private contributions (including private sector, foundations and NGOs) is especially high for UNICEF (23%), WHO (21%), UNHCR (11%) and UNCDF (10%) (Figure 3.13, Panel B).

The Bill and Melinda Gates Foundation (BMGF) is the most prominent private donor to the UNDS. With its endowment of USD 50 billion, the BMGF is by far the largest private sector funder to the UNDS. Most of its spending is dedicated to global health and global agriculture. Between 2018 and 2020, for example, the BMGF provided more than USD 850 million in direct contributions to the WHO. In fact, the *Multilateral Development Finance 2020* report highlighted that the foundation was the WHO's second largest funder in 2018 (OECD, 2020[4]). Moreover, the BMGF also contributes indirectly to the UN through its support to various vertical funds, such as the Global Fund to fight AIDS, Tuberculosis and Malaria (Global Fund) and Gavi, the Vaccine Alliance, which channel some of their funds through the UNDS.

Figure 3.13. Private contributions to the UNDS increased sharply in 2020, but their share of total funding varies considerably across UN entities



Note: In Panel B, private sector, foundation and NGO contributions are calculated as a share of each UN entity's total funding (excluding local resources).
Source: Authors' calculations based on (UNCEB, 2022[2]). "Financial Statistics", https://unsceb.org/financial-statistics

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While UN entities' efforts to diversify their funding sources make sense for reducing their funding vulnerability, the implications need to be considered carefully. The previous edition of the *Multilateral Development Finance* report highlighted that changes in funding practices can have implications for the governance and effectiveness of the multilateral development system, potentially undermining the consensus-based decision-making process (OECD, 2020[4]). Over time, an overreliance on partnerships with private foundations or companies can have adverse effects that are similar to a dependence on earmarked funding from official providers. For example, the proliferation of partnerships between corporations, philanthropic foundations and the UN provides private actors with growing influence over policy priorities and strategic direction in the allocation of multilateral development resources, despite lacking a constituency that they represent and to which they are accountable. Potential risks include a shift away from policy and programme priorities defined by intergovernmental bodies, high transaction costs, reduced coherence of the system, and difficulties related to planning and co-ordination. Since many private foundations and corporations promote market-based approaches to development, with a strong emphasis on short-term results and impact, their increased involvement in strategic decisions on multilateral development finance allocations can also lead to under-investments in systemic and country-owned approaches where impact only becomes evident in the long term.

3.2.2. Multilateral development banks are increasingly capitalising on their unique ability to access global financial markets

The MDBs' unique financial model provides flexibility in times of crisis

The MDBs' funding model, which allows them to raise funds from international capital markets and earn resources on their lending operations, has enabled a prompt and flexible response to the COVID-19 crisis. MDBs' access to capital markets is backed by the capital contributions from their member governments. MDBs typically have very high, often "AAA" credit ratings, which reflects two factors: (i) the MDBs' multilateral shareholding structure and preferred creditor status;[5] and (ii) their strong levels of capitalisation, which are generally much higher than for commercial lenders. The capital from member governments usually comes in two forms: "paid-in capital," which generally requires the payment of cash to the MDB; and "callable capital," which member governments agree to provide in the case of an imminent default on a borrowing or guarantee payment. Paid-in capital constitutes only a small portion (typically less than 5%) of MDBs' total capital, while the bulk is in the form of callable capital. MDBs' creditworthiness underlies the financial model and viability of their operations. Based on their high credit ratings, MDBs can raise financing at competitive rates and fund their operations from the spread between the interest rates they pay to investors and the rates client countries pay on the loans MDBs provide to them. For this reason, MDBs have set up capital adequacy frameworks that impose limits on their annual lending.

MDBs have taken steps to ramp up their counter-cyclical lending to developing countries. Since the beginning of the pandemic, many MDBs have announced the acceleration of disbursements, set up additional credit facilities and repurposed existing financing for COVID-19-related projects. The increase in outflows from MDBs, which is further highlighted in Chapter 4, stands in stark contrast to the stagnating levels of multilateral inflows provided to MDBs by their member states.

Initiatives are under way to ease the constraints on MDBs by enhancing the efficiency of their capital use. In 2021, the G20 commissioned an independent review of MDBs' capital adequacy frameworks (CAFs). The main objective of the review was to enable shareholders to consider adaptations to the current frameworks in order to maximise MDBs' financing capacity, potentially unlocking hundreds of billions of dollars in additional lending. Recognising that MDBs' highly conservative approaches to capital adequacy may clash with the need to provide counter-cyclical and large-scale financing, the independent review encouraged shareholders to (i) revisit their risk management approaches and align MDB risk appetites with operational priorities and strategies; (ii) recognise the benefits of callable capital; (iii) expand the use of financial innovations, (iv) enhance dialogue with credit rating agencies, and (v) promote greater transparency regarding MDB credit performance. With regard to the need for more transparency, the review especially called for an improvement of capital adequacy governance by enhancing shareholders' information and understanding of the capital adequacy management approaches of different MDBs. If implemented, such measures could collectively help to free up capital in the range of USD 500 billion to USD 1 trillion. (G20, 2022[12]).

MDBs' financing headroom is reduced by limited potential for new capital increases

Successive bond issuances, backed by recent capital increases, have allowed MDBs to scale up their lending in recent years. Following the financial crisis, all major MDBs received capital increases although their level varied widely across institutions (Table 3.1). In addition, several organisations were also recapitalised more recently, including the IBRD in 2018, and the AfDB and IFC in 2019. The recapitalisation of the main MDBs allowed them to provide massive support for the immediate response to the COVID-19 crisis, mainly financed through bond issuances on global capital markets. In the case of the IBRD, paid-in capital from the 2018 general capital increase strengthened its equity base, allowing it to issue bonds at record levels during fiscal years 2020 (FY2020) and 2021 (FY2021). In FY2020 and FY2021, the IBRD raised respectively USD 75 billion and USD 68 billion, up from USD 54 billion in FY2019. The Asian Development Bank (ADB) issued a record 160 bonds in 2021 (compared to 120 in 2019), representing a 33% increase. In both 2020 and 2021, the financing raised by ADB through its bond issuances amounted to USD 36 billion a year, compared to only USD 25 billion in 2019 (+40%).

Table 3.1. The main MDBs have seen large capital increases recently

MDB	Year of first capital increase after global financial crisis	Percentage change of capital increase	Year of more recent capital increase (if any)	Percentage change of capital increase
AfDB	2010	200%	2019	125%
ADB	2009	200%	-	-
EBRD	2010	50%	-	-
IBRD	2010	31%	2018	22%
IDB	2012	70%	In progress	
IFC	2010	8%	2018	220%

Source: Authors' compilation based on (Moss, Staats and Barmeier, 2011[13]), (World Bank Group, 2018[14]), (African Development Bank, 2019[15]).

However, the potential for further capital increases appears limited. Despite the massive scaling up of disbursements by MDBs and the acknowledgement of persisting financing needs in developing countries, there are hardly any calls to boost the capital base of the main MDBs further. A notable exception is the Inter-American Development Bank (IDB), whose Board of Governors mandated in March 2022 a proposal for a capital increase of IDB Invest, its private-sector arm. The strain of successive crises on member governments' budgets may partly explain the lack of support for further MDB capital increases (even though the bulk of capital increases would be in the form of callable capital, which does not directly impact governments' budgets). The other factor that comes into play is the tense geopolitical dynamics among shareholders; in the case of new capital increases these would likely lead to discussions around shareholder reform and the adjustment of voting rights in the main MDBs.

MDBs are under increasing pressure to do more with less and optimise their balance sheets

While the MDB model gives them financial autonomy from donors, it also exposes them to the influence of capital markets. The ability to borrow from capital markets gives MDBs financial autonomy from donors beyond that available to a standard, budget-funded multilateral organisation. It also provides them with the flexibility to respond counter-cyclically to crises, as explored in greater detail in Chapter 3. However, MDBs' financial autonomy from official donors hinges on their ability to maintain triple A ratings, and ensure the attractiveness of their bonds vis-à-vis capital market investors (Humphrey, 2017[16]).

MDBs' accountability to non-government stakeholders, especially credit rating agencies (CRA) and capital market investors, could clash with their development mandate. As explained in Box 3.2, there is a risk that pressures to maintain triple A ratings in light of the stringent requirements of CRAs can lead to a highly conservative approach in terms of MDBs' capital adequacy. Ultimately, this could cause MDBs to: (i) restrict their overall capacity to make use of their balance sheet for development projects; and (ii) limit lending to some countries facing economic difficulties. Until now, MDBs have been able to successfully maintain concessionality and provide counter-cyclical financing. However, should donor contributions continue to stagnate over the long-term, MDBs could experience mounting difficulties in maintaining the balance between the need to meet capital market requirements to maintain triple A ratings, and the ability to supply low-cost financing at scale to countries most in need. This trade-off could also intensify in coming years because of the evolution of the global economic and financial context. For example, the quantitative tightening put in place by the central banks of the world's major economies in 2022 in reaction to global inflationary pressures prompted interest rates to rise at levels not seen since before the global financial crisis. If sustained, the resulting contraction of bond markets could directly impact MDBs' ability to raise resources.

Box 3.2. The methodologies of the main credit rating agencies lead to a conservative approach towards MDBs' capital adequacy

The MDBs' operational model puts them at a disadvantage in terms of credit ratings compared to other actors. This can encourage them to be highly conservative in managing credit risk and capital adequacy to preserve their triple A ratings. Credit rating agencies (CRAs) assess the creditworthiness of MDBs by evaluating the risk of default on their loan portfolios and the adequacy of their capital. In practice, MDBs are often subject to the same models and methodologies used to rate commercial banks. However, this puts them at a disadvantage due to their specific features. For example, credit rating methodologies tend to penalise MDBs for the high concentration risk in their portfolios. This is particularly the case for the regional and sub-regional MDBs, which are focused on a specific geographic area and typically have a narrow loan portfolio. By way of comparison, the non-concessional lending windows of the major regional MDBs have between 15 (AfDB) and 32 (ADB) country exposures, compared to thousands of individual exposures for most large commercial banks. In addition, the bulk of loans in this narrow portfolio go to a small number of large middle-income countries, due mainly to their absorptive capacity (Humphrey, 2017[16]). Lastly, many MDBs' borrowers have relatively low credit ratings, which adds to the penalty for the high concentration risk.

In contrast, the features that constitute the strength of the MDB model are often given lower weight by the different credit rating methodologies. For example, MDBs enjoy preferred creditor treatment (PCT), which means that borrower governments will continue to repay MDBs even if they default on or delay repayment to other creditors. Due to the PCT, MDBs generally have lower non-performing loan (NPL) records than commercial banks. However, depending on the rating methodology, the weight given to PCT can be low relative to the concentration risk penalty. In determining the financial strength of MDBs, the extent to which callable capital is recognised is also crucial, because the bulk of MDBs' capital base is in the form of callable capital. In the case of Standard and Poor's (S&P) rating methodology, only callable capital from governments that are rated higher than the MDBs (i.e. higher than AAA for the main MDBs) counts towards their capital strength assessment. This effectively ignores huge sums of capital commitments, including from shareholders such as the United States, which is currently rated at AA+ by S&P (Settimo, 2019[17]).

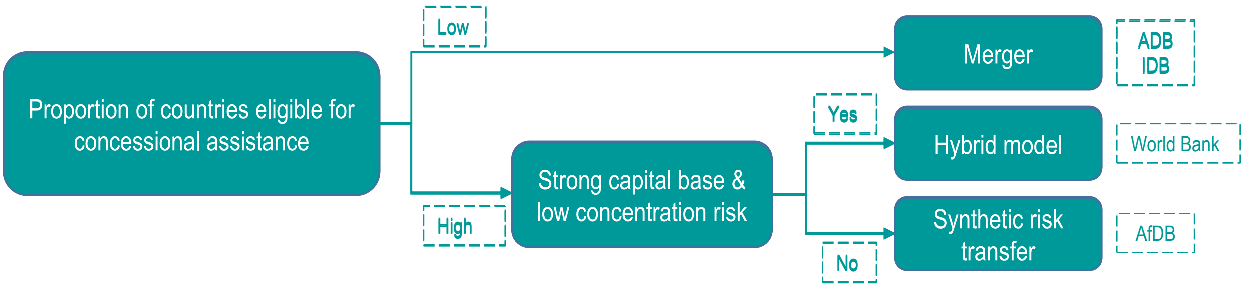
Reliance on CRAs can lead to MDBs taking a highly conservative approach to their capital adequacy. The G20-commissioned Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks, published in July 2022, points out that uncertainty and widely divergent criteria in the methodologies of the three major rating agencies induces MDBs to apply the most stringent components of each. This ultimately leads them to build excessive buffers and to lower their risk appetite to below what one would expect for a triple A rating (G20, 2022[12]). The review recommends strengthening communication between MDBs as a collective group (supported by their shareholders) and CRAs, to encourage the latter to adapt their methodologies to better take into consideration the peculiarities of MDBs' operational models.

Source: (Humphrey, 2017[16]), *He who Pays the Piper Calls the Tune: Credit rating agencies and multilateral development banks* https://ideas.repec.org/a/spr/revint/v12y2017i2d10.1007_s11558-017-9271-6.html.

Current initiatives to enhance the efficiency of MDBs' capital use builds on a track record of innovative solutions to unleash MDB resources to scale up lending. The G20 began pushing for efficiency increases in the use of MDBs' capital resources over the past decade, including through the MDB Action Plan on Balance Sheet Optimisation, which was approved in 2015. The action plan called on MDBs to work with their respective shareholders on measures to increase their lending through balance sheet optimisation. The Action Plan cautioned that the optimisation should not jeopardise the MDBs' AAA credit ratings, nor adversely impact MDBs' ability to provide counter-cyclical lending (G20, 2015[18]).

Over the past decade, some of the major MDBs have restructured their balance sheets to increase their financial capacity. As illustrated in Figure 3.14, the various approaches chosen by the major MDBs reflect in part the unique institutional set-up and portfolio characteristics of each organisation.

Figure 3.14. Institutional and economic considerations have shaped MDBs' initiatives to optimise their balance sheets



Note: Synthetic risk transfer refers to transactions in which MDBs transfer the credit risk of loans and portfolios through financial derivatives or guarantees but continue to hold the underlying exposures on their balance sheets.
Source: Authors' illustration.

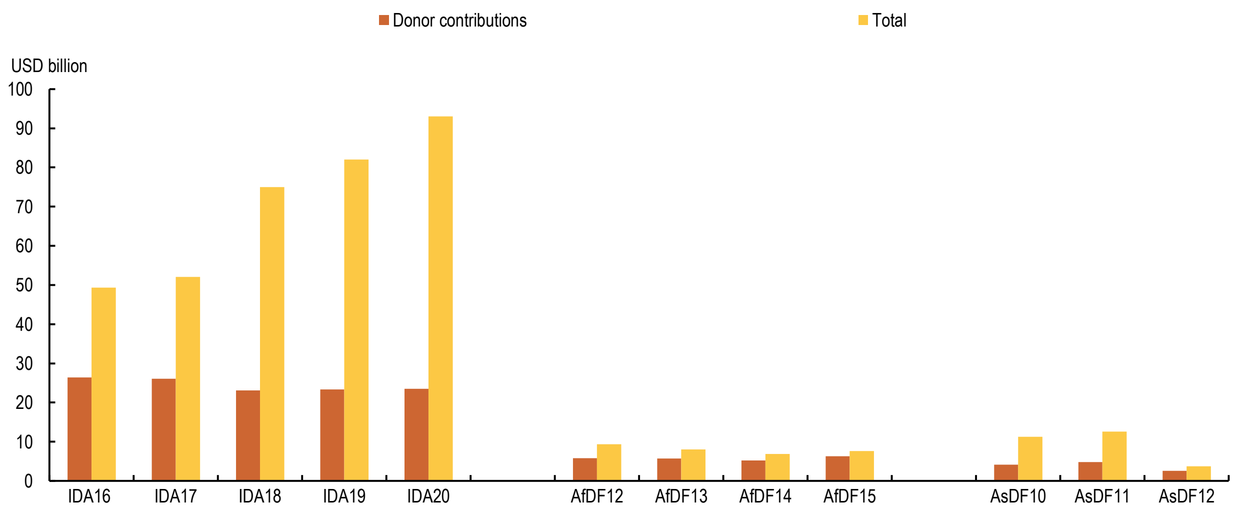
The Asian Development Bank merged its ordinary capital resources (OCR) with the lending operations of its concessional window, the Asian Development Fund, in 2017. By combining the equity of the two windows, the merger almost tripled the equity base of the OCR from about USD 18 billion to USD 53 billion, which allowed the ADB to expand its lending room vis-à-vis both concessional and non-concessional borrowing countries. Since the merger, the Asian Development Fund (AsDF) functions as a grant-only donor fund, and requires a significantly lower volume of donor contributions through replenishments. The 12th replenishment of the AsDF, for example, was significantly smaller in volume than in previous cycles (Figure 3.15).

Similarly, the IDB transferred the assets and liabilities of its concessional window, the Fund of Special Operations (FSO), to its ordinary capital (OC) in 2019. This led to a roughly 20% increase in the OC's equity and the benefit of additional diversification of the sovereign-guaranteed loan portfolio. For both organisations, the merging of the concessional and non-concessional windows was further justified by the fact that many borrowing members in Asia and Latin America had already graduated from concessional assistance.

The World Bank, on the other hand, opted for a hybrid financial model for its concessional window, IDA. A merger of the World Bank's concessional and non-concessional windows was less desirable for two reasons. First, IDA is a separate legal entity from IBRD, with its own international treaty agreement and a different ownership structure. Donor countries have a much higher ownership stake in IDA equity than at IBRD, due to their replenishment contributions over the years. A merger of IDA and IBRD would thus necessitate either increasing the voting share of donor countries relative to borrower shareholders, or asking donor countries to give up their ownership stake in IDA – which are two politically difficult options. Second, a merged IDA-IBRD loan portfolio would provide fewer financial benefits, and would have a substantially higher risk profile than for the ADB and IDB since IDA supports many large low-income countries. In fact, recent research states that the market rates at which a merged IDA–IBRD could borrow would be above the highly concessional rates of IDA loans (Morris, Lu and Fisher-Post, 2018[19]). Instead, IDA introduced a hybrid financing model in 2017 by issuing debt in commercial bond markets against its equity base, which is the largest of any supranational issuer.[6] This allowed the organisation to leverage donors' capital contributions and scale up its replenishment envelopes. IDA's 20th replenishment (IDA20), for example, made headlines by raising a record amount of USD 93 billion in financing, despite stagnant donor contributions (Figure 3.15). Donor contributions to IDA20 amounted to USD 23.5 billion, meaning that every dollar contributed by donors is now leveraged into almost four dollars of financial support to the poorest countries.

Figure 3.15. Donor contributions to the replenishments of MDBs' concessional windows have remained flat in recent years

Donor contributions and total envelope of MDB concessional windows' replenishments



Source: Authors' analysis based on replenishment reports of the IDA (International Development Association), AfDF (African Development Fund) and, AsDF (Asian Development Fund).

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The AfDB has less room for manoeuvre in financing concessional operations apart from through donor contributions. Similar to the IDA, the African Development Fund (AfDF) is a separate legal entity to the African Development Bank (AfDB), with a distinct ownership structure, which makes it more challenging to merge the two balance sheets. Unlike the IDA, the AfDF would gain less from tapping capital markets on a standalone basis, although there are views that with suitable risk mitigation measures, AfDF could nonetheless obtain high ratings and leverage significant funds relative to its size. The higher concentration risk in the AfDF's portfolio, in large part due to its regional focus and lower capital base, would make its bonds less attractive to investors than IDA bonds (Prizzon, 2021[20]). The AfDf therefore relies more on a continuous and stable supply of contributions from donors. Paradoxically, there is a risk that the AfDF will have to increasingly compete for donor contributions with the IDA, whose larger size and financial efficiency may be more appealing to donors (Lee, Landers and Aboneaaj, 2022[21]). The latest replenishment of the AfDF reversed a trend of declining donor contributions (Figure 3.15). In 2021, AfDB shareholders demonstrated exceptional support by introducing a temporary callable capital increase. This would come into play in the case of a credit rating downgrade of the United States, which would adversely affect AfDB's ratings. Like the other MDBs, the AfDB is also actively pursuing a series of innovative financial techniques which would allow the organisation to transfer credit risk and free up capital.

Innovative risk transfer techniques offer an alternative to strengthening the capital adequacy of MDBs without requiring changes to the composition of their lending portfolios. For example, exposure exchange agreements (EEAs) allow MDBs to swap portions of their outstanding loan portfolio with one another, which provides them with capital relief by reducing the high concentration of their loans in some countries. This is particularly effective for regional development banks, whose lending is often restricted to a limited number of borrowing countries. In December 2015, the AfDB, IDB, and the World Bank concluded an arrangement to exchange loan exposure. This reduced the country concentration at the AfDB and the IDB, and boosted S&P's evaluation of capital adequacy for both banks, freeing up several billion dollars in additional loan portfolio space (Humphrey, 2017[22]). More recently, the Board of Governors of the ADB approved a policy framework governing ADB's participation in EEA agreements in 2020, allowing the bank to pilot an EEA transaction of USD 1 billion with the IDB (Asian Development Bank, 2020[23]).

Balance sheet optimisation initiatives also open up new entry points for DAC members and other official donors as investors or guarantee providers to MDBs. The Swedish International Development Cooperation Agency's (Sida) guarantees to IDB and ADB are an example of how DAC members can help to provide capital relief. In 2016, the ADB entered into a risk transfer agreement with Sida, which provided a guarantee on the principal repayments of up to USD 155 million of the ADB's sovereign loans to a single Asian country. The ADB estimated that the risk transfer would increase its lending capacity by about USD 50 million per year from 2016 to 2026, generating a total of USD 500 million additional financing over ten years. In 2020, Sida also issued a synthetic guarantee to backstop a concentrated portfolio exposure for the IDB. This guarantee covered up to USD 100 million on a large concentrated sovereign exposure in the IDB's portfolio, allowing the bank to expand lending by up to three times the amount of the guarantee (USD 300 million) in other less concentrated countries (Galizia et al., 2021[24]).

Donors can also provide first-loss guarantees and other forms of credit enhancement to capital market investors in securitisations that are similarly structured. In 2018, the AfDB entered into a transaction under which it securitised USD 1 billion in existing non-sovereign loans. Referred to as the Room2Run transaction, it involved the shifting of credit risk to capital market investors. The AfDB's counterparties in this initiative are the International Infrastructure Finance Company Fund II (IIFC), a private credit investment vehicle managed by Mariner Investment Group; Africa50, a multilateral regional investment fund; and the European Commission. The AfDB retained the most senior and the most junior tranches, IIFC and Africa50 invested in a junior mezzanine tranche, while the European Commission held a senior mezzanine tranche. The Room2Run transaction was a synthetic securitisation, meaning that the loans remained on AfDB's balance sheet and that the MDB continued to act as servicer and lender of record. This ensured that AfDB had the incentive to engage in strong oversight and monitoring of the loans (Risk Control, 2019[25]).

While some of these initiatives have received much attention from other MDBs and their shareholders, such transactions can be challenging to replicate on a wider scale. In the Room2Run transaction, for example, the underlying portfolio consisted of loans to private sector borrowers. However, the majority of MDB loans are sovereign loans priced at a subsidised rate, which makes them less attractive to capital market investors – unless there is a facilitator willing to cover the margin of the MDB and market-based pricing by issuing a guarantee or investing in the junior tranches of a securitisation.

If transactions of this kind were to expand in the future, they could change the dynamic between donor governments, partner countries and multilateral development organisations. The G20 Independent Review of MDBs' Capital Adequacy Frameworks encourages the implementation of innovative risk transfers, including shareholder guarantees (G20, 2015[18]), opening up room for more and similar transactions to take place in the future. Yet, this also raises questions that merit further research and discussion. For example, what kind of influence do donors have in their capacities as investors and guarantors in such transactions? How can these roles be used to reflect policy priorities of donors? And how do these new donor roles complement and fit into existing governance and accountability frameworks?

Special drawing rights rechannelling offers another option to boost MDBs' lending capacity

In August 2021, the International Monetary Fund (IMF) issued a USD 650 billion allocation of special drawing rights (SDRs). This SDR allocation, the largest in the IMF's history, aimed to "boost global liquidity" and help all members "address the long-term global need for reserves" in the context of the COVID-19 crisis (IMF, 2022[26]). SDRs are a "reserve asset", originally created to strengthen the foreign exchange reserves of countries vulnerable to a balance-of-payments crisis. They can be exchanged for hard currencies among the IMF member countries and their value is determined by a basket of the five freely and most traded currencies – the US dollar, Euro, Japanese yen, pound sterling and the Chinese renminbi. Since SDR allocations are made in proportion to the IMF quotas of the individual member countries, they disproportionally benefit developed countries. In fact, about two-thirds (USD 420 billion) of the recent SDR allocation were directed to developed economies whose external reserve positions were not constrained and who already had the fiscal and monetary tools to react to the economic downturn. By contrast, only about USD 275 billion went to emerging and developing countries, and low-income countries (LICs) received around USD 21 billion (Mariotti, 2022[27]).

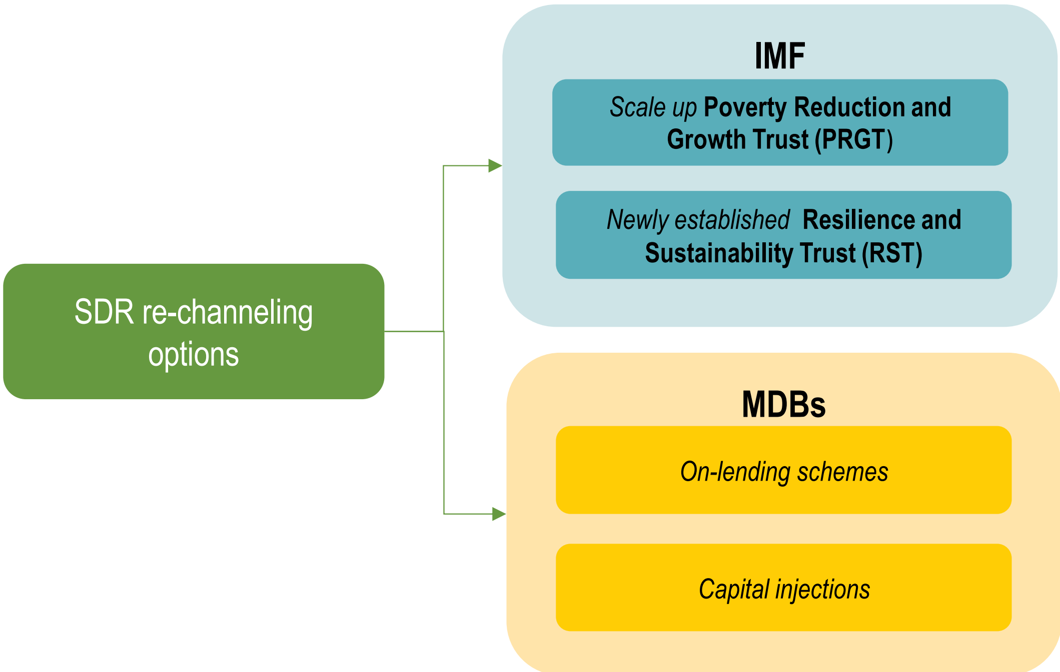
In October 2021, the G20 agreed to re-channel USD 100 billion of SDRs to the benefit of LICs, small states and vulnerable middle-income countries (MICs). As of September 2022, this has not yet materialised. One reason for this delay is the difficulty of setting up appropriate mechanisms to serve as conduits for the re-channelling. Although various channels are being considered, one key condition for developed countries to agree to the reallocation is that SDRs are used in a way that preserves their reserve asset nature, which requires that the SDR-denominated claim has limited credit and liquidity risk.[7]

The first and most obvious channel for the SDR reallocation is the IMF itself. Since 2010, several countries have voluntarily lent SDRs to the Poverty Reduction and Growth Trust (PRGT), the IMF's concessional facility for low-income countries. This option has the merit of preserving the reserve asset nature of SDR claims, thanks to the IMF's status as a preferred creditor, and to the prudential provisions that require the PRGT to maintain a minimum level of liquidity. In addition to the PRGT, the Executive Board of the IMF approved in April 2022 the establishment of the Resilience and Sustainability Trust (RST), which will complement the existing IMF toolkit. The RST, which aims to help countries build resilience to external shocks and ensure sustainable growth, will also be used as a channel to re-allocate SDRs to low-income and vulnerable middle-income countries. The RST is specifically targeted to address systemic challenges such as climate change and pandemic preparedness through its conditionalities.

MDBs present another potential channel for reallocating SDRs to support developing countries, provided some measures are taken to preserve their reserve asset nature. Most of the main MDBs[8] are already prescribed holders of SDRs and can therefore use them as part of their financial operations. Recent analyses point out that a re-channelling of SDRs through MDBs could take two forms (Figure 3.16):

- **On-lending schemes**: Developed countries could lend SDRs to the MDBs to increase their available loan funds. The features of the on-lending schemes would have to be designed in a way that preserves the reserve asset nature of SDRs by limiting credit and liquidity risks. MDBs and SDR lenders would need to examine whether credit risks would be adequately mitigated, particularly if the MDBs sought to lend SDRs at maturities longer than the 10-year-maximum in the IMF's PRGT. Establishing a reserve account (similar to the one in the PRGT) that could repay creditors in the event of delayed repayments by borrowers could be part of the risk mitigation strategy (Plant, 2021[28]). It would also be important for the MDB's preferred creditor status to extend to SDR on-lending. Lastly, if MDBs wanted to reduce rates on all, or some of, their SDR financed lending below the SDR rate, they would need to establish a subsidy account, funded with hard currency resources.
- **Capital injections:** SDRs could also be lent or pledged[9] as capital contributions to MDBs, which would allow MDBs to raise more debt from capital markets. MDBs' ability to leverage their equity can multiply the impact of one SDR invested by a factor of 3 or 4, which would provide an efficient SDR rerouting mechanism with a significant multiplier effect. However, leveraging SDRs to raise debt would mean taking on credit risk for the lent or pledged SDRs, thereby compromising their reserve asset status. Currently, MDBs are exploring a range of solutions to circumvent this dilemma, including investing SDRs as subordinated debt[10] instead of equity (Lazard, 2022[29]).

Figure 3.16. MDBs can be another effective channel to re-distribute special drawing rights



Source: Authors' illustration.

3.2.3. Increased funding to vertical funds helps scale up multilateral development finance but risks exacerbating pressures on the system

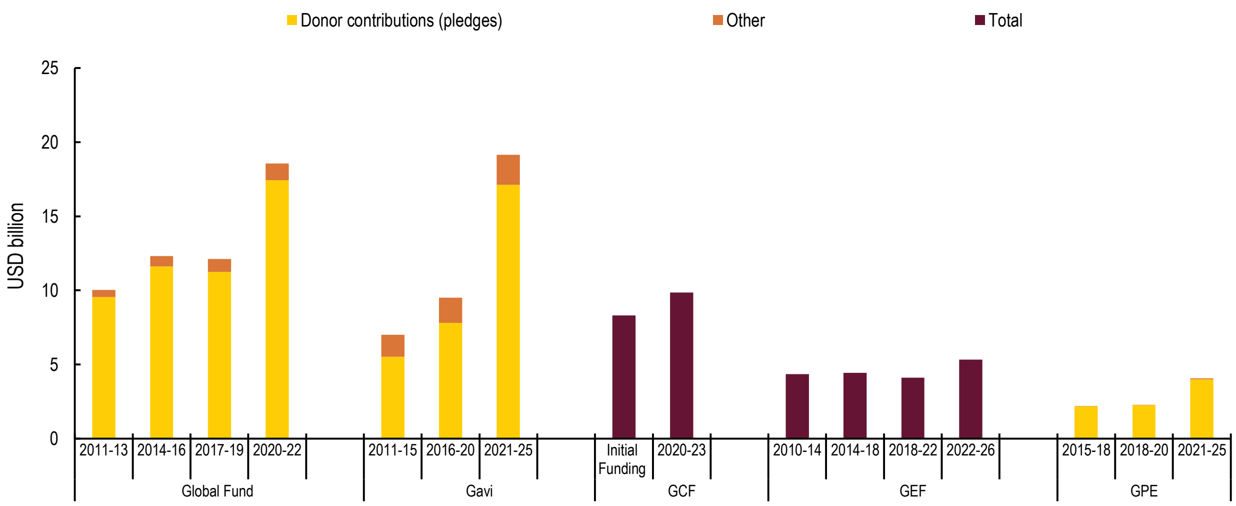
Donor governments seek recourse to vertical funds in the face of emerging global challenges

While donor contributions to the replenishments of MDB concessional windows have remained flat in recent years, vertical funds have experienced a clear upward trend. With the pandemic raising the profile of global health issues, the two major health funds – the Global Fund and Gavi – have benefited from steep increases in funding from donor countries. Donor contributions to the sixth replenishment of the Global Fund (covering the period 2020 to 2022) increased by 55% from the previous round. Similarly, the most recent Gavi replenishment for the 2021-25 period raised a record amount of USD 20 billion, up from USD 9.5 billion in the previous cycle (+110%). This exceptional increase was in large part due to the establishment of the COVID-19 Vaccines Global Access Advance Market Commitment (the COVAX AMC), which accounted for USD 9 billion of the total pledges.

Non-health vertical funds also registered a significant growth in their most recent replenishments, albeit to a lesser extent. The Global Partnership for Education (GPE), for example, raised USD 4 billion for the 2021-2025 period, up from USD 2.3 billion in the previous cycle (+74%), although the latter covered a three-year period (2018-2020). In the environment sector, the latest replenishment envelope for the Global Environmental Facility (GEF-8) was up by 30% on the previous cycle, and the Green Climate Fund carried out its first replenishment (GCF-1) in 2020, with cumulative pledges amounting to approximately USD 10 billion – presenting a 19% increase compared to its initial funding (Figure 3.17).

Figure 3.17. Donors have stepped up their contributions to vertical funds in recent years

Vertical funds' replenishment envelopes



Note: Global Fund=Global Fund to Fight AIDS, Tuberculosis and Malaria; Gavi=Vaccine Alliance (Global Alliance for Vaccines and Immunisation); GCF=Green Climate Fund; GEF=Global Environment Facility; GPE= Global Partnership for Education

Source: Authors' illustration based on replenishment data of vertical funds' replenishment data: Global Fund (2022[30]), https://data.theglobalfund.org/viz/pledges-contributions/treemap; Gavi (2022[31]), https://www.gavi.org/investing-gavi/funding/overview-2000-2037; GCF (2022[32]), https://www.greenclimate.fund/about/resource-mobilisation; GEF (2022[33]), https://www.thegef.org/who-we-are/funding; GPE (2022[34]), https://www.globalpartnership.org/funding/replenishment

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The establishment of a new fund for pandemic prevention and response (PPR) confirms donors' tendency to respond to high-visibility global crises by creating new multilateral channels. Following a recommendation from the G20 High Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response (2021[35]), the G20 requested the World Bank to set up a new financial intermediary fund (FIF) to finance critical investments in PPR capacities at national, regional, and global levels, with a focus on low and middle-income countries. The fund will complement the financing and technical support provided by the World Bank, leverage the technical expertise of the WHO, and engage other key organisations. Of the USD 1 billion in pledges made so far, the United States accounts for USD 450 million (45%), an amount matched by the European Commission. Additional donors include Germany, Singapore, and Indonesia, as well as private philanthropies such as Wellcome and the Bill and Melinda Gates Foundation. The new PPR fund will be the first new FIF set up and hosted by the World Bank since FY2018 due to the Bank's strict policy of upstream selectivity to avoid the proliferation of FIFs and the resulting fragmentation of its trust fund and FIF portfolio (World Bank Group, 2021[36]).

The move to create new vertical funds instead of building on existing organisations reflects in part a perception that the design and capacities of existing institutions do not sufficiently address global challenges. Recent crises have highlighted the shortcomings of the current multilateral development system, and the G20's decision to create a new FIF responds in part to an assessment that existing multilateral institutions are not adequately equipped to cope effectively with emerging global risks and challenges. It is also justified by the consideration that wholesale reform of the multilateral development system, even if desirable, is unlikely to be politically and administratively feasible, and could even be counter-productive in the near term (Butler and Ross, 2022[37]).

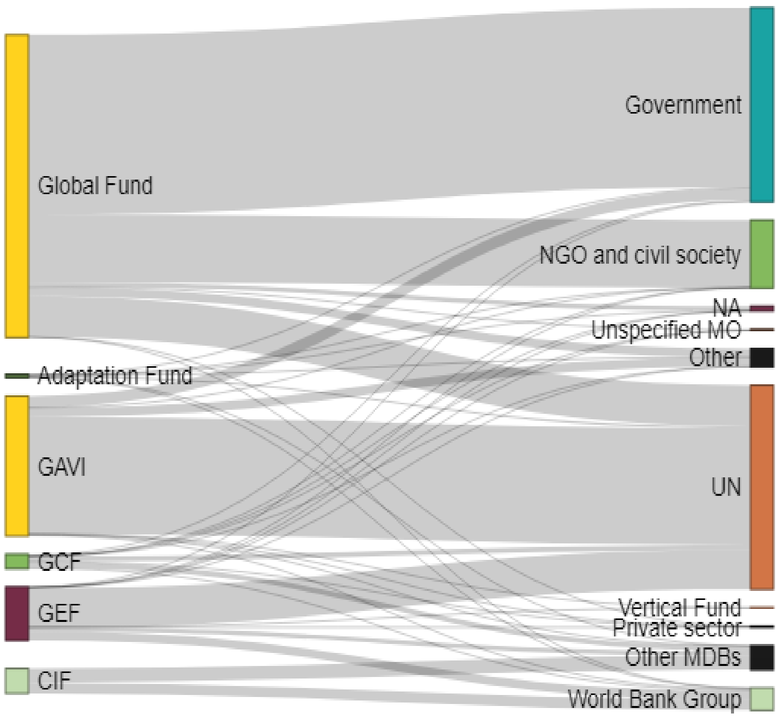
Vertical funds allow donors to advance policy priorities that are not, or are insufficiently, addressed by traditional multilateral organisations, **while building on their country presence, delivery channels and technical expertise.** For example, Akmal et al. (2021[38]) argue that a larger share of GPE funds tend to be allocated to low-income and fragile countries compared to outflows from the World Bank. These policy priorities can also stem from differences in the governance and decision-making structures between other multilateral organisations and vertical funds, which often include private sector partners and civil society organisations (CSOs) on their governing boards, and can have a larger developing country representation than other funders.

The narrower funding base characteristic of vertical funds gives them more flexibility but can also be a source of financial vulnerability and increased fragmentation of the multilateral system. One feature that allows vertical funds to act relatively quickly is the fact that their donor base is often narrower than in traditional multilateral organisations. Vertical funds can be set up on the initiative of a few champions, who provide the bulk of the funding and shape the agenda and priorities of the organisation. However, this can come at the risk of compromising broad-based multilateral consensus and accountability. The narrow funding base can also cause financial vulnerability, for example by making vertical funds overly reliant on the continuous supply of resources from a handful of donor countries. The degree of concentration in the funding of some vertical funds has intensified throughout the pandemic. For example, the five largest donors to the sixth replenishment of the Global Fund accounted for 76% of total contributions, up from 72% in the previous cycle. Similarly, in the GCF's first replenishment, the five largest donors accounted for 77% of total contributions, up from 75% in the fund's initial resource mobilisation. The fact that the United States only delivered USD 1 billion of a USD 3 billion pledge to the GCF made in 2014 illustrates how dependence on large single donors can make multilateral organisations vulnerable. This is especially the case for organisations with relatively specialised mandates that may not always align with the political priorities of successive governments. In the case of GCF, the fallout from the United States, which had the largest stake in the initial funding commitments to the organisation, was in large part compensated for by European donors.

Most vertical funds ultimately rely on the implementing capacity of existing multilateral organisations

Vertical funds channel the vast majority of their financing through existing multilateral organisations, notably the UN Development System and the major MDBs. Vertical funds use these multilateral organisations as a conduit to provide funding to partner governments. For example, based on data reported to the OECD's Creditor Reporting System (CRS) for 2018-2020, 83% of Gavi and 73% of GEF disbursements pass through the UN system, while all of the CIF funds are channelled through the World Bank Group and other MDBs (Figure 3.18). Similarly, the GPE relies largely on the World Bank, which, as the largest grant implementing agent of the vertical fund, accounted for 75% of GPE's spending between 2016 and 2018 (Akmal et al., 2021[38]).

Figure 3.18. Funding to vertical funds ultimately passes through the traditional multilateral system



Note: Calculations based on gross disbursements, in 2020 constant prices.
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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Establishing new vertical funds will, in the long-term, increase – rather than diminish – the need for multilateral reform. Vertical funds can be an effective means to mobilise and scale up funds for specific purposes in the short term, delaying the need to clarify the division of roles and mandates of existing organisations and the discussions and negotiations necessary to build consensus on a reform of the multilateral architecture. However, by adding layers of delegation, the vertical fund model also adds complexity to the multilateral system and can increase transaction costs. Every time funds pass through delivery channels, for example, overhead costs are charged in the form of agency and supervision fees (Akmal et al., 2021[38]). Moreover, as long as vertical funds channel their resources through legacy multilateral development organisations such as UN entities or MDBs, their operations will remain affected by the potential inefficiencies that donors are attempting to bypass in creating new facilities.

3.3. Outlook and policy recommendations

3.3.1. The pandemic has highlighted and amplified the strengths and weaknesses of the multilateral system

The multilateral development system has demonstrated considerable resilience in the face of recent multidimensional crises. This partly owes to the fact that DAC members, despite the growing constraints on their public budgets, have stepped up their multilateral contributions. In parallel, multilateral organisations, notably MDBs, have deftly leveraged their abilities to tap into alternative sources of finance, including from capital markets, to raise exceptional amounts of finance.

However, the need to respond to the pandemic has exacerbated existing funding vulnerabilities. The crisis reversed the reform momentum and some early signs of progress, such as on the UN Funding Compact, which had been promoting greater flexibility, predictability and sustainability of donor contributions to UN entities. The share of earmarked funding to the UN Development System, for example, increased from 55% in 2018 to 59% in 2020, reversing the slight progress achieved in previous years. Although data on donor contributions are not yet available for 2021 and 2022, experience from previous crises suggests that the rise in non-core (earmarked) contributions is unlikely to recede once the emergency is over.

The exceptional crisis generated by the COVID-19 pandemic has exacerbated pre-existing trends; it has not led to a drastic overhaul of DAC members' support to the multilateral development system. For most DAC members, contributions to multilateral organisations have continued to evolve in an incremental fashion. This suggests the existence of path-dependencies in DAC members' multilateral funding decisions, which often seem driven by previous funding patterns rather than by a longer-term vision of the contribution to the global development agenda expected of multilateral development organisations.

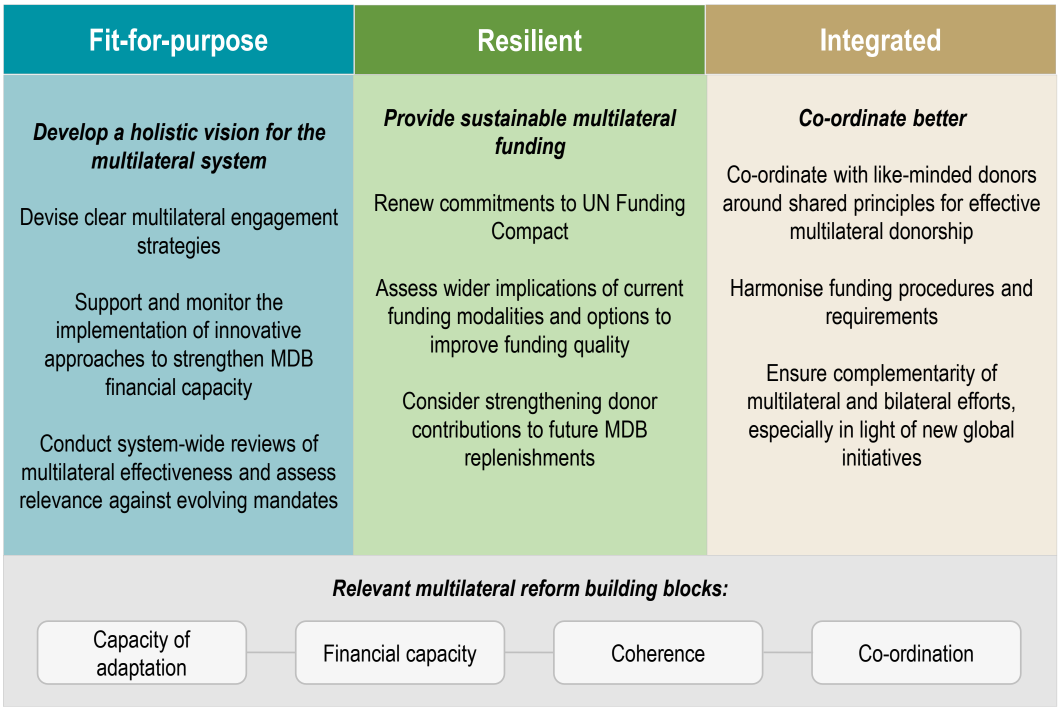
Looking forward, the growing importance of private sector contributions for multilateral organisations could have long-term implications for their ability to deliver their development mandate. While MDBs have hitherto maintained a strong capital base, allowing them to extend financing at concessional terms, market pressures coupled with donors' stagnating levels of replenishment efforts could eventually limit MDBs' ability to continue servicing countries most in need, as well as their flexibly to immediately scale up financing in a future crisis. In a similar vein, greater private sector engagement in the UN Development System could aggravate the concerns raised by some entities' already high reliance on non-core, earmarked funds, which include a focus on short-term results, fragmentation of the multilateral architecture, and a dilution of consensus-based governance models.

The successive and mutually reinforcing crises the world has experienced in recent years mean that the demands on and expectations of the multilateral development system are growing. The list of priorities to be tackled by the multilateral development system is ever increasing. In an attempt to bypass the need for deep and politically challenging reforms of traditional organisations, donor governments tend to be tempted to opt for quicker, ad hoc solutions, such as creating new entities with narrow mandates. However, without system-wide efforts to clarify and agree on the division of roles among multilateral organisations, there is a risk that ad hoc solutions will lead to further fragmentation and overlap of mandates, as well as intensified competition for limited resources by a growing number of multilateral entities.

3.3.2. DAC members have a shared responsibility to safeguard the effectiveness of the multilateral development system

As the majority funders and shareholders of the multilateral development system, DAC members have a shared responsibility to ensure the system is equipped to address emerging development challenges. Figure 3.19 summarises the key policy recommendations for the DAC that follow from the analysis in this chapter to help build a more fit-for-purpose, resilient and integrated multilateral development system.

Figure 3.19. How the DAC can contribute to a more fit-for-purpose, resilient and integrated system



Note: The building blocks refer to key areas of reform to strengthen the multilateral development system identified in the last edition of the report (OECD, 2020[4]), and further discussed in Chapter 2 of this report.
Source: Authors' illustration.

Develop a holistic vision for the multilateral system to ensure its fitness to meet new global development challenges

- **Consider developing a multilateral co-operation strategy to ensure alignment of multilateral contributions with the growing requirements of the global development agenda**. The design of a multilateral strategy can help clarify the objectives and modalities of each member's support to the multilateral development organisations. By reconciling members' expectations of, and support to, the multilateral development system, multilateral strategies can ensure that multilateral development organisations are provided with sufficient financial capacity and flexible resources to adapt to new development challenges. Close to half (13) of DAC members currently have a multilateral development strategy that clarifies the priorities of their multilateral engagement and how it fits within their broader development co-operation efforts. Recent examples include those published by Finland (Ministry for Foreign Affairs of Finland, 2021[39]), Norway (Norway's Ministry of Foreign Affairs, 2019[40]), and Germany (BMZ, 2019[41]), as well as Denmark's guidelines on its core and earmarked support to multilateral organisations (Ministry of Foreign Affairs of Denmark, 2020[42]).

- **Support the design and implementation of innovative approaches to adapt MDBs' financial capacity to new and emerging global development challenges.** This includes steering MDBs towards redefining their risk appetite and adjusting their internal capital adequacy frameworks for greater alignment with the pressing development needs they have to cater to (building, for example, on the recent recommendations of the G20 Independent Review of MDBs' Capital Adequacy Frameworks). DAC members should especially explore how their own actions as MDBs' shareholders, funders and beyond (for example, as providers of guarantees) affect the MDBs' operations and development impact. Lessons learned from early movers, such as Sida and the European Commission, could be shared within the DAC community through peer-learning exchanges in order to identify successful approaches and explore possibilities for replication or scaling up.
- **Identify gaps and redundancies in the multilateral system's contribution to key areas of the global development agenda.** This could help DAC members better target support, see where change is needed to the system's architecture, and develop a holistic view of the strengths and weaknesses of the current system. In view of donors' tendency to create new multilateral channels in response to new development challenges, the review could focus on specific areas where a large number of multilateral entities already coexist (such as health and climate finance), or on sectors that are foreseen to play an important role in supporting developing countries' recovery and resilience to future shocks (such as social protection, gender equality and food security). This could inform future decisions on creating and funding new entities and facilities (or sunsetting and defunding obsolete or redundant ones). These system-wide assessments would complement other performance assessments of individual multilateral organisations, which often underpin members' decisions to support and engage with specific organisations. These include assessments carried out by MOPAN, and through the Global Partnership for Effective Development Co-operation (GPEDC) monitoring, which looks at how multilateral organisations are performing at country level on meeting effective development co-operation commitments (Box 4.4 in Chapter 4).

Provide sustainable and predictable funding for a more resilient system

- **Renew DAC members' commitment to the UN Funding Compact and make use of existing tools to monitor their individual progress.** The need to dedicate development resources to pandemic relief and other crises has indirectly slowed the momentum towards institutional or system-wide reform, such as the UN Funding Compact. The UNDS embarked on far-reaching reforms in 2019, and several studies observe that some of the institutional changes undertaken as part of these reforms allowed for increased cross-organisational and cross-sectoral co-ordination during the pandemic response (Weinlich et al., 2022[43]) (MOPAN, 2022[44]). Recent monitoring of the Funding Compact shows little progress on member states' commitment to strengthen the core financing of the UN system. It also reveals insufficient efforts to make use of soft earmarking modalities, such as multi-agency pooled funds, which can promote greater co-ordination among implementing agencies. While the QCPR Monitoring only provides an aggregate view of member states' progress against their commitments, existing tools such as DAC Peer Reviews can be used to assess the progress made by individual DAC members to support UN member states' Funding Compact commitments.
- **Conduct a comparative review of funding options available to multilateral organisations.** This could help to better assess the risks and opportunities associated with different diversification strategies. The analysis in this chapter has shown large variations across multilateral development organisations in terms of funding vulnerability. It has also revealed that multilateral organisations are under increasing pressure to diversify their funding sources. A comparative review of new funding options available to multilateral organisations would help assess the benefits and costs of each modality, such as earmarked funding and private sector partnerships. It could also help

assess their potential to raise additional resources, as well as their implications for the governance and ability of multilateral development organisations to deliver on their development mandate. The review could also provide recommendations on how DAC members can best support multilateral organisations' efforts to diversify and optimise their funding.

- **Reinforce donor contributions to future MDB replenishments to ensure the resilience of the multilateral development system**. In recent years, donor contributions to MDB replenishments have been stagnating. While MDBs have achieved successful replenishments by increasingly tapping into capital markets, this trend could be problematic in the long run, especially for regional players with a strong focus on low-income countries, such as the AfDB. Even for other MDBs with stronger capital positions, such as IDA, continued donor commitments to supply capital are necessary to effectively and continuously raise additional resources from capital markets. Renewed commitments to strengthen donor contributions to future replenishments of MDB concessional windows could ensure that MDBs can continue servicing the poorest countries and providing them with counter-cyclical support in the face of more frequent global shocks.

Improve co-ordination across the system to increase the coherence and complementarity of multilateral efforts

- **Design and adopt a set of broad principles for effective multilateral engagement and donorship to ensure a more coherent and co-ordinated approach across DAC members.** These principles could allow the DAC to outline a common vision for multilateral development co-operation. They could also form the basis of strategic dialogue within the DAC on how their decisions vis-à-vis multilateral development organisations affect the system as a whole. For example, the UK's recent decision to reduce its aid budget had profound implications for the funding of multilateral entities such as IDA, and other donors had to step up their efforts to fill the gap. Donor platforms such as the DAC can be used to co-ordinate joint action across donors, which could help send even stronger signals to multilateral organisations or mitigate any potential negative consequences of any one-sided donor action.
- **Harmonise funding procedures among donors, especially earmarked contributions, as noted by the UN Funding Compact.** Donors need to streamline and harmonise their reporting and visibility requirements as part of their efforts to ensure the effectiveness of the ODA that they channel to and through the multilateral development system. This is especially important in partner countries in order to reduce transaction costs, both for the multilateral entity that channels the funds and for partner countries themselves (IISD SDG Knowledge Hub, 2019[45]).
- **Improve the complementarity of multilateral and bilateral approaches to ensure greater coherence among multiple initiatives contributing to the global development agenda.** The fact that the multilateral development system is an increasingly complex and crowded space makes it difficult to get a clear understanding of the division of labour and complementarity of efforts deployed by multiple stakeholders. The proliferation of global values-based initiatives observed in recent years adds to this complexity. Their heavy focus on infrastructure financing – an area that has traditionally been dominated by the MDBs – could make some multilateral and bilateral aid portfolios redundant, or crowd out multilateral contributions. Further research to map the areas of complementarity between the aid portfolios of multilateral and bilateral actors could be useful to ensure greater coherence and co-ordination among these efforts.

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Notes

[1] Core contributions to multilateral organisations are resources to which the governing boards of these organisations have the unqualified right to allocate as they see fit within the limits prescribed by the organisation’s mandate.

[2] Non-core, or earmarked, contributions to multilateral organisations are resources channelled through multilateral organisations over which the donor retains some degree of control in decisions regarding disposal of the funds. Such flows can be earmarked for a specific country, project, region, sector or theme, and they technically qualify as bilateral ODA.

[3] Assessed contributions are the dues countries pay in order to be a member of a UN entity. The amount each member state must pay is calculated based on the country's wealth and population. Members can also make voluntary contributions (both earmarked and unearmarked) in addition to assessed contributions.

[4] IDA20’s USD 93 billion package consisted of USD 23.5 billion in donor contributions as well as additional financing from capital markets, repayments and IBRD transfers.

[5] Preferred creditor status (PCS) is a widely accepted principle under which MDBs are given priority for repayment of debt in the event of a borrower experiencing financial stress.

[6] Apart from market borrowing and donor contributions, IDA resources also come from internal reflows on loan repayments and transfers.

[7] IMF member countries commit to relinquishing SDRs to the fund if member countries decide to cancel them. Therefore, SDRs represent an asset and a liability on the central bank’s or the Treasury fund’s books. Giving SDRs away would create a hole in their balance sheets that could necessitate direct monetary financing of the state.

[8] This includes the African Development Bank, African Development Fund, Asian Development Bank, International Bank for Reconstruction and Development, the International Development Association, and the Islamic Development Bank.

[9] SDRs could in principle be donated as a capital contribution, but in practice the donated SDRs would lose their reserve asset status from the perspective of the donor.

[10] In the case of bankruptcy of the issuing organisation, subordinated debt would only be paid after the other debt obligations are paid in full, but before any payment to equity-holders.

4 Financing from the multilateral system

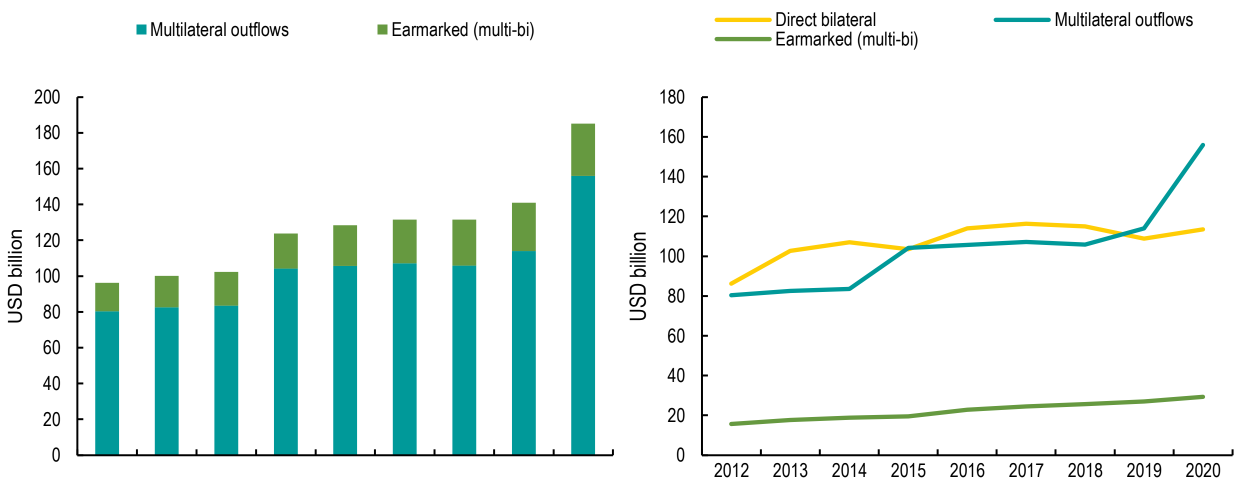
The multilateral development system has channelled record volumes of financing to support developing countries in recent years. Even so, it is still not enough to meet the magnitude of challenges they face. Multilateral organisations' ability to adapt to shifting priorities during the COVID-19 pandemic was key for avoiding further economic and social damage to developing countries. Looking forward, similar agility will be required of multilateral development finance to accompany developing countries as they transition from short-term crisis response to longer-term investment in a sustainable recovery. A key challenge will be to ensure that multilateral development finance helps materialise the promise of building back better, by contributing to both pillars of the recovery – inclusiveness and sustainability.

4.1. The multilateral development system played a crucial role in the COVID-19 crisis response

4.1.1. Multilateral outflows reached record volumes in 2020, with similar figures expected for 2021

The financing provided by multilateral development organisations reached a record high in 2020, with multilateral disbursements amounting to USD 185.1 billion in 2020, up by 31% on 2019. By contrast, direct bilateral aid increased by only 4% between 2019 and 2020, from USD 108.8 billion to USD 113.6 billion (Figure 4.1). The surge in financing from the multilateral development system was mostly driven by the increase in multilateral outflows (activities financed from multilateral organisations' core budgets). Multilateral outflows amounted to USD 155.9 billion in 2020, representing 84% of the financing from the multilateral development system, up from 81% in 2019. Non-core contributions earmarked through multilateral development organisations amounted to USD 29.2 billion.

Figure 4.1. The rise in multilateral development financing was largely driven by multilateral outflows

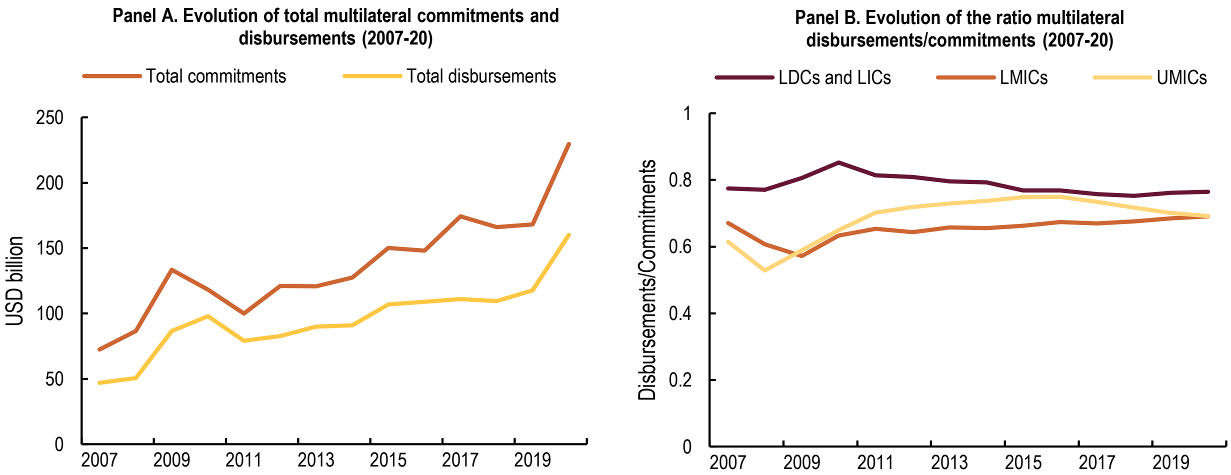


Note: Calculations are based on gross disbursements, in 2020 constant prices.
Source: Authors' calculations based on the Creditor Reporting System, (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/9xea4u

Multilateral organisations successfully delivered on their commitments during the initial crisis response. While there is typically a difference between commitments and disbursements, the gap did not grow despite the large-scale and rapid expansion of commitments. Figure 4.2 shows that the ratio of disbursements over commitments even increased, though slightly, for LDCs and LICs as well as for LMICs. Only in the case of upper middle-income countries (UMICs) did commitments increase faster than disbursements.

Figure 4.2. Multilateral disbursements kept up with commitments during the initial crisis response in 2020



Note: Calculations are based on gross disbursements and commitments, in 2020 constant prices.
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

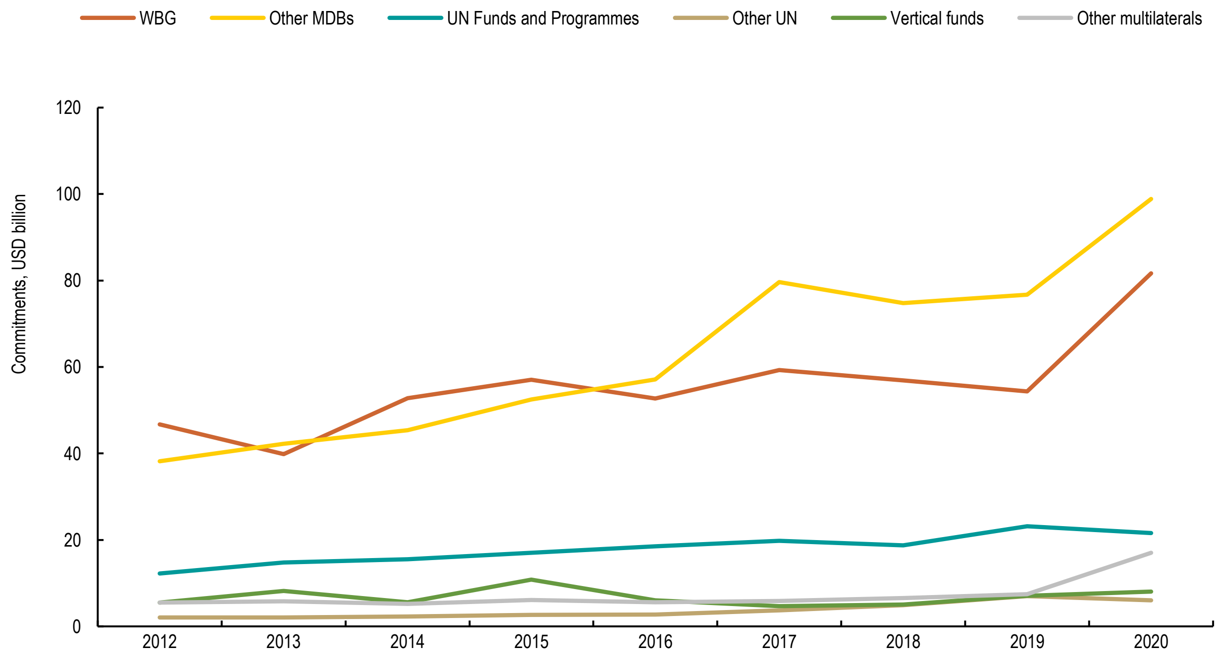
StatLink https://stat.link/74g0wp

4.1.2. The international financial institutions drove the rapid surge in multilateral financing during the first year of the crisis

A breakdown of multilateral outflows by type of multilateral organisations reveals that MDBs drove the rapid increase in outflows. Commitments from the World Bank Group (WBG) and other MDBs increased by respectively 50% and 29% between 2019 and 2020 (Figure 4.3). Taken together, the MDBs accounted for 79% of the total USD 61.5 billion increase in multilateral financing in 2020. This seems surprising in light of the analysis presented in Chapter 3, which shows that inflows to MDBs remained flat or even decreased in 2020. However, this is explained by MDBs unique financing model, which allowed them to rely on multi-year replenishments and to tap into international capital markets to scale up their financing.

Figure 4.3. Despite decreasing or stalling donor contributions, MDBs continued providing growing volumes of financing in recent years

Multilateral commitments, by organisation type (2012-20)



Note: Calculations are based on commitments, in 2020 constant prices.
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/1tpcho

A series of exceptional measures taken by the MDBs was behind a large part of the 2020 surge in multilateral financing. The World Bank Group, for example, drew down IBRD's USD 10 billion crisis buffer in addition to board-approved sustainable annual lending limits. Its concessional window, IDA, fully used all the remaining IDA18 resources in its fiscal year 20 (FY20) and frontloaded about half of the three-year envelope of IDA19 resources in FY21. As mentioned in Chapter 3, IDA donor and borrower country representatives agreed to advance IDA20 by 12 months to enable surge financing to continue in the coming years (World Bank Group, 2021[2]). The ADB disbursed funds through a newly created specialised budget support instrument, the COVID-19 Pandemic Response Option (CPRO), which provides rapid fiscal support for governments to implement countercyclical expenditure programs to mitigate the impacts of the pandemic (Sato, Aboneaaj and Morris, 2021[3]).

The UN also contributed to the multilateral COVID-19 response through a three-pronged approach: (i) the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) used the Global Humanitarian Response Plan (GHRP) to respond to immediate health and multi-sectoral humanitarian needs in especially vulnerable countries; (ii) the WHO's Strategic Preparedness and Response Plan (SPRP) was used to support public health measures to stop the transmission of the virus and care for those affected; and (iii) the UN Framework for the Immediate Socio-Economic Response helped to mitigate the social and economic impact of COVID-19. In parallel, the UN launched two inter-agency appeals to fund the different components of the comprehensive COVID-19 response: the UN Response and Recovery Trust Fund (UNRRTF), a multi-partner trust fund created as a vehicle for providing strategic financial support to the immediate socioeconomic response; and humanitarian appeals to fund the GHRP. In addition, donor contributions to country-based pooled funds (CBPF) and the Central Emergency Response Fund (CERF) were also instrumental in the COVID-19 response.

Other multilaterals delivered the largest increase in relative terms compared to 2019. Financing from the IMF increased by more than six times between 2019 and 2020, reaching USD 10 billion, up from only USD 1.6 billion the previous year and from an average of USD 1.3 billion between 2010 and 2019 (see Box 4.1). Over the same period, commitments from the European Commission and the EU Development Fund increased by 24% and 59%, respectively, from USD 549 million to USD 681 million and from USD 275 million to USD 436 million.

Box 4.1. The IMF made extensive use of its concessional facilities to support low-income countries during the pandemic

The IMF provided financial support to 53 of 69 eligible low-income countries in 2020 and the first half of 2021, disbursing about USD 14 billion at a 0% interest rate through the concessional Poverty Reduction and Growth Trust (PRGT). Most of this support was provided through the fund's emergency financing instruments—the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) – which provide immediate, one-off disbursements to countries facing urgent balance-of-payments needs. The fund was able to respond to a record number of requests for financial assistance through a series of temporary access limit increases to the RCF and RFI, and temporary increases in the Poverty Reduction and Growth Trust's (PRGT) overall access limits (IMF, 2022[4]).

In addition, 29 of the IMF's poorest and most vulnerable countries received debt service relief through the Catastrophe Containment and Relief Trust (CCRT*).* Between April 2020 and October 2021, the CCRT delivered grant-based relief totalling USD 739 million for debt repayments that were due to the IMF. Unrelated to the pandemic, the IMF also approved substantial debt relief to Somalia and Sudan under the Highly Indebted Poor Countries (HIPC) initiative. Both countries cleared their arrears to the IMF and the World Bank, allowing them to resume financial engagement, and reached the HIPC Decision Point[1] in March 2020 and June 2021, respectively. The total debt relief from the IMF for these two countries will amount to USD 1.7 billion (including interim assistance).

The efforts made by the IMF to scale up and accelerate its financial support to developing countries during the crisis have not been without controversy. For example, the approach has resulted in large volumes of IMF financing provided with little or no conditionality in the first compasses of the crisis. Examples include the greater use of the RFI (a facility that does not require borrowing countries to enter into a fully-fledged IMF programme) and the issuance of USD 650 billion in special drawing rights (SDRs), which are automatically allocated to shareholding countries with no strings attached. While this shift ensured a swift response of the institution to the financing needs of developing countries, it has also raised concerns that the IMF is turning into an aid agency and abandoning its traditional role of preventing and mitigating financial crises (Rogoff, 2022[5]).

The progressive transition back to IMF programmes with conditionality is now raising equally difficult questions for the institution. In particular, the shifting global context, marked by successive crises, makes it challenging to find a new equilibrium between the different IMF instruments (conditional and non-conditional). For example, in contrast with the above-mentioned concerns regarding the lack of conditionality of IMF support during the COVID-19 crisis, the Bridgetown agenda for the Reform of the Global Financial Architecture, released by the Government of Barbados in September 2022, called on the IMF to return access to its unconditional rapid credit and financing facilities to previous crisis levels in order to help developing countries facing successive and interconnected crises (Government of Barbados, 2022[6]), Ultimately, the frontline role played by the IMF during the COVID-19 crisis calls for rethinking the roles and capacities of the major IFIs in times of crises, as well as the articulation, timing and sequencing of their support.

1. In the context of the HIPC Initiative, the point at which a country's eligibility for assistance is determined by the IMF and World Bank Executive Boards on the basis of a debt-sustainability analysis and three years of sound performance under IMF- and World Bank-supported adjustment programs.

4.1.3. Multilateral finance was not sufficient to cover developing countries' COVID-related spending

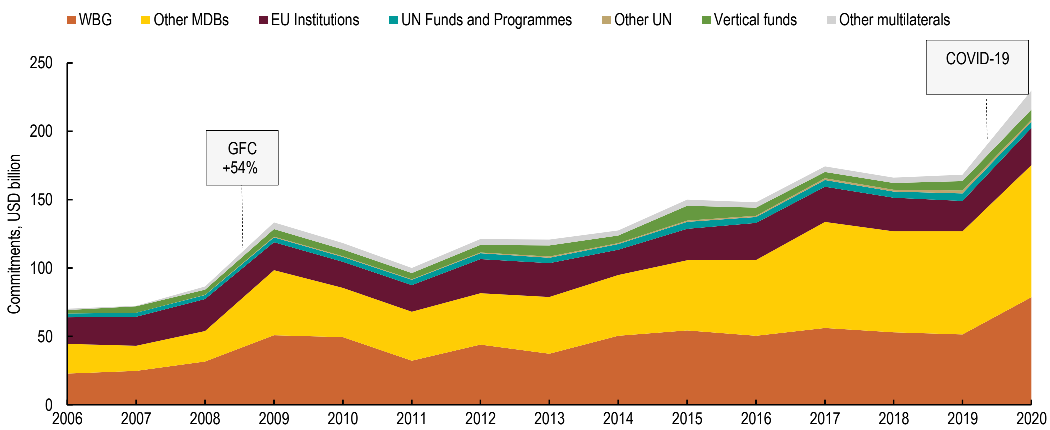
Despite its unprecedented magnitude, the volume of multilateral financing provided to developing countries was still not enough to meet the needs generated by successive crises. Total commitments from multilateral organisations allocated to low and middle-income countries in 2020 amounted to 1.3% of their 2019 GDP, compared to a 9.6% output loss. For UMICs, multilateral outflows added up to less than 1% of their GDP, while they were the most affected income group in terms of output, with a 15.6% drop. Funding shortages also plagued humanitarian agencies throughout 2021, especially as scale-up was required for several concurrent emergencies – notably Afghanistan and Ethiopia – and to combat the on-going effects of the COVID-19 crisis, which continued to impact vulnerable communities (UNOCHA, 2021[7]). As of end of September 2022, UNOCHA's Global Humanitarian Overview reported a record shortfall of USD 31.1 billion, corresponding to almost two-thirds of total funding requirements (UNOCHA, 2022[8]).

Multilateral finance was important for financing some of the policy measures to fight the socioeconomic consequences of the pandemic, especially in low-income countries. Commitments from multilateral organisations amounted to 23.4% of the size of recovery measures in low and middle-income countries, excluding China. More specifically, multilateral commitments to LDCs and LICs were equivalent to 250% of their domestic recovery spending, compared to 11.9% of the recovery package for UMICs.

Compared to the response to the global financial crisis, the increase in multilateral commitments to face the COVID-19 crisis was larger in volume but less significant in percentage. Total multilateral commitments in response to the pandemic in 2020 increased by 37%, compared to a 54% increase in the aftermath of the global financial crisis (Figure 4.4). This is despite the fact that for developing countries, the socioeconomic consequences of the pandemic were more serious than the impact of the global financial crisis. For example, real GDP growth in emerging and developing economies had fallen from 6.1% in 2008 to 2.4% in 2009 (IMF, 2010[9]), while it declined from 3.7% in 2019 to –2.1% in 2020 (IMF, 2021[10]). However, in absolute terms, multilateral commitments increased by USD 62 billion between 2019 and 2020, compared to USD 47 billion between 2008 and 2009.

Figure 4.4. The multilateral response to the pandemic was larger in volume than to the global financial crisis, but smaller in relative terms

Evolution of multilateral commitments (2006-20)



Note: GFC=global financial crisis. Calculations are based on commitments, in 2020 constant prices.
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

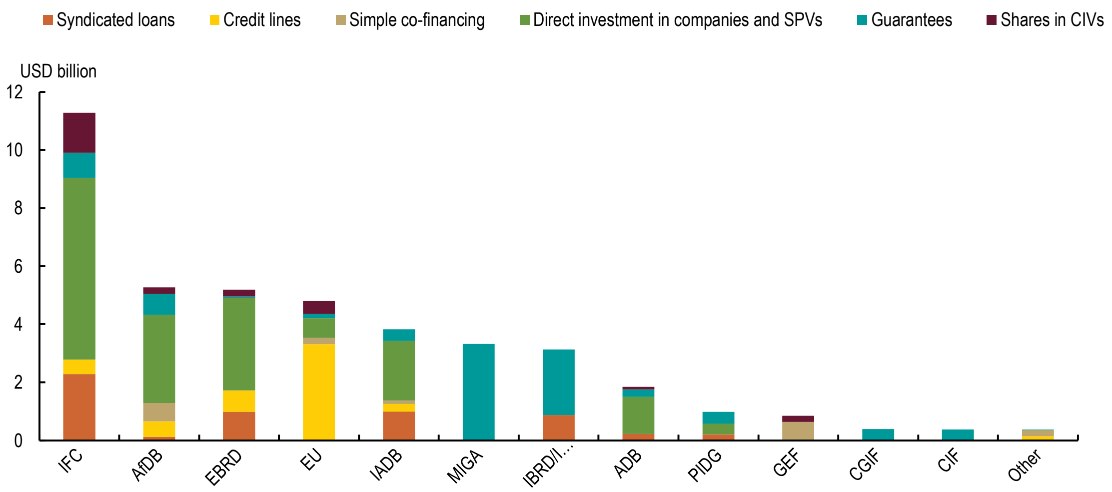
StatLink https://stat.link/tr2y6w

While the capacity to mobilise private finance remains a core strength of the multilateral development system, the amounts involved remain well below what is needed. Multilateral organisations, and the MDBs in particular, play a key role in mobilising private finance for development. In 2020, the International Financial Corporation (IFC) was the multilateral provider that mobilised the largest amounts of private finance for development, followed by the AfDB, EBRD and EU institutions (Figure 4.5). However, total amounts mobilised remain far from the promise made in Agenda 2030 to move "from billions to trillions". In fact, they are not even keeping pace with recent increases in developing countries' financing needs. The *Global Outlook on Financing for Sustainable Development 2023*, for example, estimates that the SDG financing gap in developing countries (excluding China) increased by more than 50% as a result of the COVID-19 pandemic, to reach USD 3.9 trillion in 2020 (OECD, 2022[11]). Over the same period, amounts of private finance mobilised by multilateral organisations for development increased by 20%, and thus went from representing 1.3% of the SDG financing gap in 2019, to less than 1% in 2020.

Moreover, there is currently a lack of harmonised approaches to measure and monitor the development quality of the amounts mobilised from the private sector. Approaches to managing and measuring the environmental, social and economic impact of private finance are highly disparate across the development finance institutions and investment funds involved in private finance mobilisation. Important aspects such as transparency, the protection of human rights and local stakeholder consultation are not systematically taken into account. The OECD-UNDP Impact Standards for Financing Sustainable Development (OECD/UNDP, 2021[12]) provides a framework to guide public and private actors in their investment practices and decision making. The standards are designed to support donors in deploying public resources through development finance institutions (DFIs) and private asset managers, in a way that maximises their positive contribution to the SDGs.

Figure 4.5. The International Financial Corporation mobilised the largest amounts of private finance for development in 2020

Amounts by multilateral provider, 2020



Source: Authors' calculations based on Total Official Support for Sustainable Development, (OECD, 2022[13]), https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/mobilisation.htm.

StatLink https://stat.link/cxsl2z

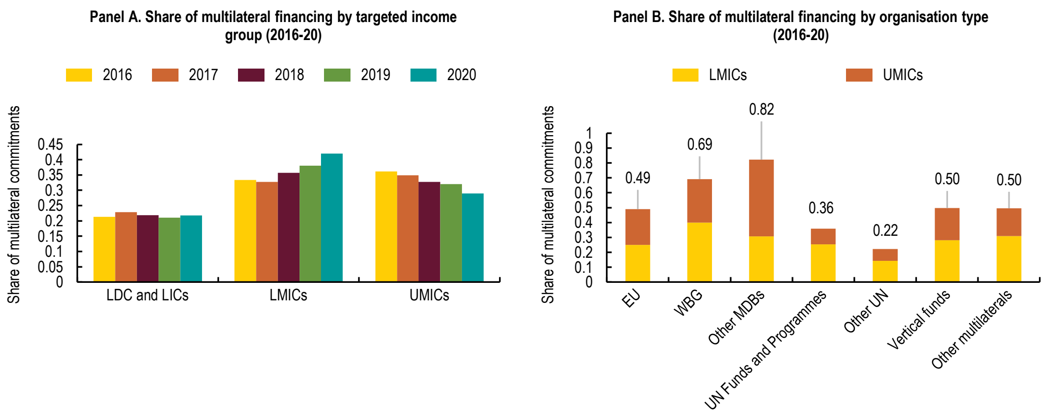
4.1.4. Multilateral development finance still favours middle-income countries

In recent years, multilateral development finance has increasingly focused on middle-income countries. This trend, already highlighted in the previous edition of this report (OECD, 2020[14]), has continued since 2018. Between 2018 and 2019, the share of financing provided by multilateral organisations to middle-income countries increased from 68% to 70% (Figure 4.6). This trend is largely due to the increasing share of multilateral financing to lower-middle income countries (LMICs), which rose from 36% in 2018 to 38% in 2019. In contrast, the share of financing to upper-middle income countries remained relatively stable over the same period, from 33% to 32%, while the share of flows to low-income countries slightly decreased, from 22% to 21%.

The initial pandemic response further channelled multilateral development finance to lower-middle income countries, while maintaining a steady share to LICs. In 2020, LMICs received 42% of the financing provided by multilateral organisations, up from 38% the previous year. The multilateral response to the pandemic also led to a slight rise in the share of multilateral finance targeting LICs, from 21% to 22%, and to a decrease in the share to UMICs, from 32% in 2019 to 29% in 2020.

The shift towards LMICs largely reflects the MDBs' financing patterns. The World Bank and the main regional development banks, who traditionally service middle-income countries, have driven the increase in multilateral finance in recent years, including 2020. In fact, the analysis shows that the countries who experienced the greatest increases in multilateral finance commitments between 2019 and 2020 are all middle-income countries. They include LMICs such as Nigeria, India and Bangladesh, as well as UMICs such as Brazil and the Philippines. MDBs allocated 19% of their financing to LDCs and LICs in both 2019 and 2020, while the share of their financing to LMICs rose from 41% to 43%, and the share of their financing to UMICs decreased from 35% to 33%. In parallel, the share of LDCs and LICs benefitting from financing from the UNDS decreased from 43% in 2019 to 38% in 2020, after having sharply increased from 36% in 2018. This was matched by an increase in financing without a specified country destination from 24% in 2019 to 31% in 2020, while the shares of LMICs (20% in 2019 and 19% in 2020) and UMICs (13% in 2019 and 12% in 2020) remained relatively stable. Vertical funds have seen a different trend in recent years, with an increasing focus on lower-income countries. The share of their financing to LDCs and LICs jumped from 24% in 2018 to 40% in 2019 and thereafter increased slightly to 41% in 2020. Their share of financing to UMICs decreased from 20% in 2019 to 11% in 2020, while their share to LMICs remained stable (25% in 2019 and 24% in 2020).

Figure 4.6. LMICs benefited the most from the surge in multilateral development finance in 2020



Note: Calculations are based on commitments, in 2020 constant prices. UN F&P= UN Funds and Programmes.
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/kr0cyu

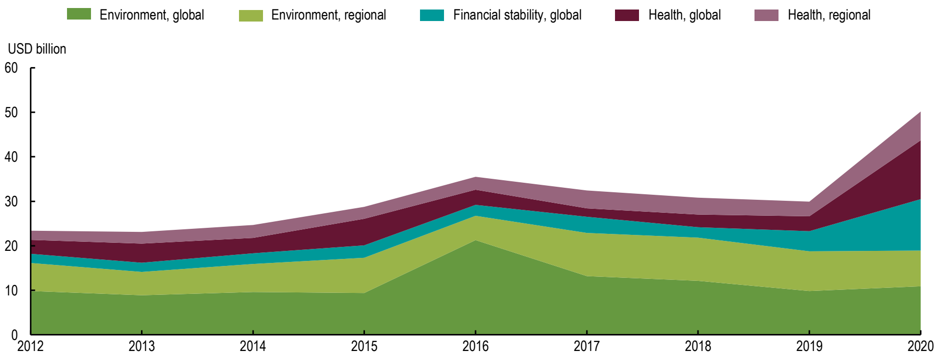
This recent increased focus of multilateral finance on middle-income countries has occurred despite a growing tendency of these countries to borrow from commercial markets. In the years leading up to 2020, many governments turned to issuing sovereign debt in international markets, partly because their financing needs exceeded available concessional resources. Despite increased borrowing costs, this trend continued in 2020, with governments and companies from developing economies issuing USD 757 billion in hard-currency bonds in 2020, the most in more than two decades, to expand their fiscal space for crisis response (Bloomberg, 2020[15]). Lee and Aboneaaj (2021[16]) recommend that if this trend were to continue despite tightening market conditions, multilateral organisations, notably the MDBs, should direct more of their support towards poorer countries that still face barriers to accessing commercial credit, especially as the terms of even non-concessional MDB lending remain highly attractive for debt-burdened countries.

4.1.5. Multilateral development organisations are increasingly incorporating the support to global and regional public goods in their agendas

Multilateral support to global and regional public goods has evolved over time in response to crises and shifts in the global development agenda. The contribution of multilateral development organisations to activities supporting the provision of global and regional public goods, such as global health, climate, or financial stability, more than doubled between 2012 and 2020, from USD 23 billion to over USD 50 billion (Figure 4.7). However, this increase has not been sustained over the entire period, or across sectors. In the first half of the decade and up until 2016, for example, the growth of multilateral expenditure supporting the provision of global and regional public goods was mostly driven by a rise in spending on environment-related activities, probably due to increased awareness and visibility of sustainable development in the lead up to the adoption of the Agenda 2030 and the SDGs. Following a slowdown between 2017 and 2019, a second surge in multilateral financing to activities related to global and regional public goods was registered in 2020, this time driven by an increase in contributions to global health and financial stability, as a result of the COVID-19 health emergency and the ensuing economic crisis. Looking forward, the growing importance of global and regional public goods in the multilateral aid portfolio requires greater efforts to monitor the allocation and impact of multilateral resources allocated to these priorities (Box 4.2).

Figure 4.7. Multilateral financing in support of global and regional public goods has more than doubled

Multilateral financing (ODA and OOF) for global and regional public goods, in USD billion (2012-20)



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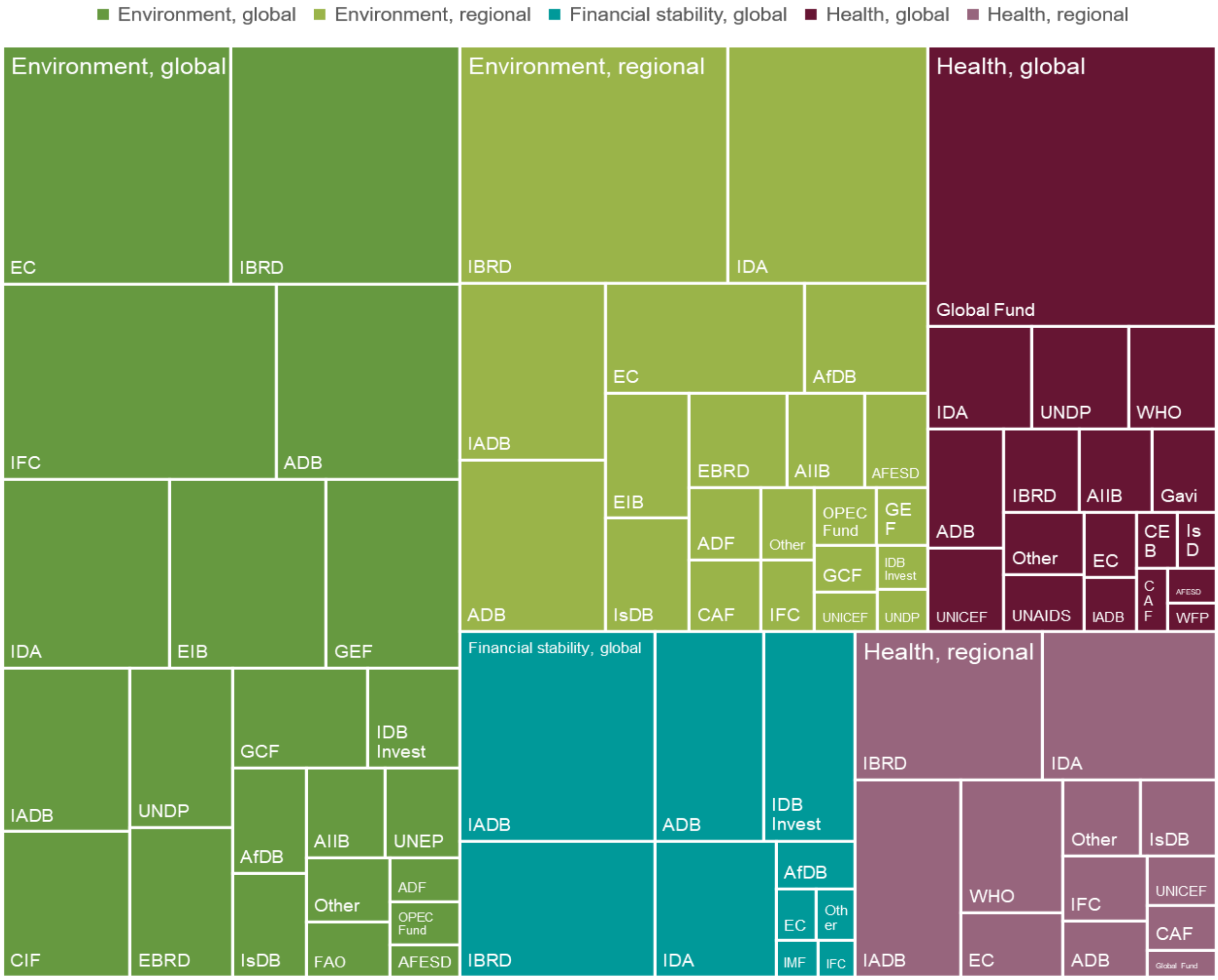
Note: ODA=official development assistance; OOF=other official flows. Calculations are based on commitments, in 2020 constant prices, and include both multilateral outflows and funding earmarked through the multilateral development system. The list of purpose codes used for this analysis is detailed in the statistical methodology annexed at the end of the report.
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/e1dva0

MDBs and vertical funds provide 84% of the multilateral development system's total contributions to activities supporting the provision of global and regional public goods. MDBs, which account for 75% of the total, make an especially important contribution to regional public goods (Figure 4.8), in line with the regional mandate of most multilateral development banks. For example, their financing flows account for 86% of the system's support to regional public goods in the environment sector and 78% in the health sector. Their contribution to global public goods is also high for activities supporting financial stability (97%) and the environment (66%), but less significant for global health (27%), where some vertical funds, such as the Global Fund, appear to dominate the landscape. This reflects in part the fact that the business model of the MDBs, based on government lending, is mainly relevant for global and regional public goods that require investments at the country level (such as the development of physical infrastructure for climate mitigation), but less so for global public goods where benefits are less visible at the local level.

Figure 4.8. MDBs and vertical funds provide the largest volumes of GPG-related finance

Multilateral financing (ODA and OOF) for global and regional public goods, in USD billion (2020)



Note: The analysis of financing flows may not reflect adequately the important role played by norms-setting organisations, including some major UN entities. ODA=official development assistance; OOF=other official flows. Calculations are based on commitments, in 2020 constant prices, and include both multilateral outflows and funding earmarked through the multilateral development system. The list of purpose codes used for this analysis is detailed in the statistical methodology annexed at the end of the report.
Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Report System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

Box 4.2. Total official support for sustainable development (TOSSD) offers a new perspective on multilateral finance for global and regional public goods

Recent crises have underscored the need for better tracking and monitoring of investments in global and regional public goods. Both the COVID-19 pandemic and the climate crisis have shown that public goods are essential for sustainable development, but remain largely underfunded. Drawing lessons from the COVID-19 pandemic, the G20 High-Level Independent Panel on the Financing of Global Commons for Pandemic Preparedness and Response called on countries to substantially increase investments in global public goods. Similarly, in the outcome document of the 2021 Financing for Development Forum, 19 UN member states committed to undertake “further deliberations on financing of global public goods in order to accelerate the achievement of the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda, the Paris Agreement and the Sendai Framework for Disaster Risk Reduction.”

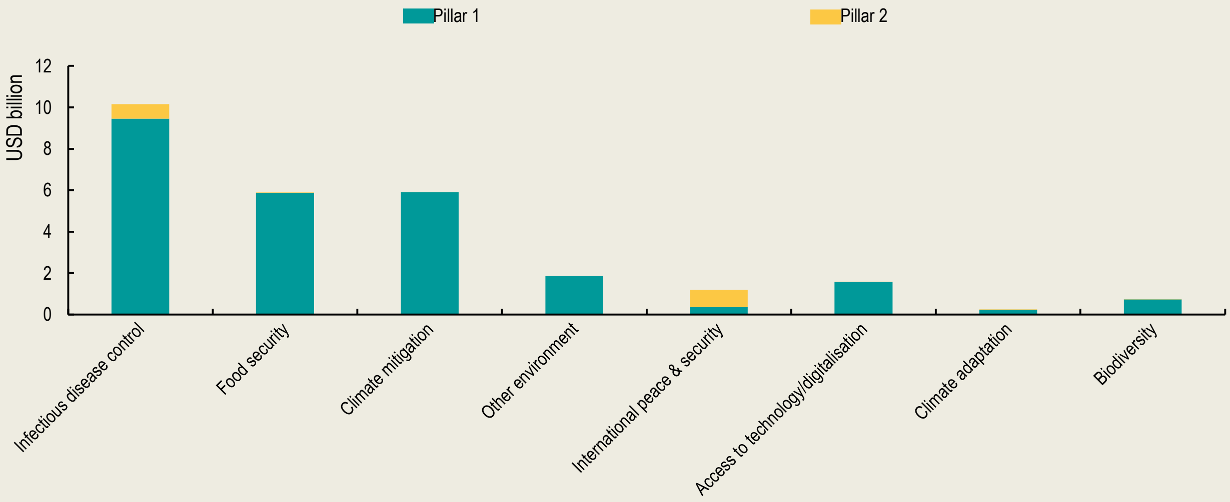
However, no comprehensive measure of public financing exists to track progress and build accountability for such commitments. As shown above, the OECD Creditor Reporting System (CRS) can provide some initial insights into official providers’ support to global and regional public goods. For example, it demonstrates that official providers of development finance often finance public goods through their aid budgets and shows that the share of donor funding going to global or regional public goods has increased significantly over the past two decades. However, the CRS provides only a partial picture due to its focus on international development assistance, which excludes contributions to global and regional public goods that are not primarily development-related.

The new total official support for sustainable development (TOSSD) framework can provide a more detailed perspective on domestic and international support for global and regional public goods. Since the Addis Ababa Conference on Financing for Development, which called for a holistic approach that enhances synergies among all types of actors and resources, the international community, with the support of the OECD, has been working to develop TOSSD as a new statistical framework for the SDG era. The TOSSD framework provides a comprehensive picture of both external official support for sustainable development in developing countries, and of public support to global and regional public goods. It is composed of two pillars: (i) cross-border resource flows to developing countries; and (ii) global and regional expenditures on international public goods (IPGs), development enablers, and global challenges.

Multilateral organisations’ contribution to global and regional public goods spans both pillars of the TOSSD framework. The analysis of GPG-related multilateral outflows in TOSSD shows that the nature of these expenditures varies across public goods. However, the large majority of multilateral outflows is provided as cross-border resource flows to developing countries, under Pillar 1 of the TOSSD framework (Figure 4.9). For example, more than 90% of multilateral outflows supporting climate mitigation, climate adaptation, biodiversity, infectious disease control, and food security fall under TOSSD Pillar 1. By contrast, a majority of multilateral outflows in support of international peace and security is provided through global and regional expenditure.

Figure 4.9. The nature of multilateral support to global and regional public goods varies across sectors

Multilateral disbursements for global and regional public goods (2020)



Note: The chart is based on multilateral disbursements in USD billion, and does not include multi-bi aid (bilateral aid earmarked through multilateral development organisations). The list of purpose codes used for this analysis is detailed in the statistical methodology annexed at the end of the report. TOSSD is a new statistical measure, its data coverage has not yet reached its full potential, but will improve over the next few years.

Source: Authors' calculations based on TOSSD (OECD, 2022[17]), www.tossd.org and the OECD Creditor Reporting System, (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/kl0tfy

TOSSD data on global and regional public goods-related expenditure can help to build the evidence base for multilateral decision making. Strengthening the measurement of multilateral flows to global and regional public goods would provide a more comprehensive picture of current trends and financing gaps. It would also contribute to discussions held with various multilateral forums, such as the UN, G20 and G7, on support measures to prevent, and increase resilience to, future shocks. Lastly, by providing an alternative statistical framework, TOSSD also has the potential to reduce multilateral and bilateral providers' temptation to report such expenditure as ODA where primary benefits are global rather than developmental.

Source: (OECD, 2022[17]), (Bejraoui et al., 2021[18]) and (Elgar et al., forthcoming[19]).

4.2. The contribution of the multilateral development system is critical to meet the challenges of the recovery in developing countries

4.2.1. The sustainability and inclusiveness pillars of the recovery provide a compass for multilateral action in the next decade

The multilateral development system is faced with the challenge of helping realise the promise of building back better in developing countries. As discussed in Section 4.1, multilateral development finance played a counter-cyclical role in the first year of the COVID-19 crisis, providing much-needed finance to help developing countries cope with the impact of the pandemic on their health systems and economy. Looking forward, the multilateral development system will have an equally important role to play in supporting countries' recovery, and realising the promise of the build back better agenda. Yet, as mentioned in Chapter 2, it will have to do so in a challenging and demanding context, marked by a succession of crises with cascading and mutually reinforcing impacts, which are likely to stretch its capacity further.

Environmental sustainability and social inclusiveness are equally important for building the resilience of developing countries to future shocks. The *Global Outlook on Financing for Sustainable Development* 2023 (OECD, 2022[11]) makes the case that the recovery from the recent crises requires a joint focus on sustainability and inclusiveness. The report also highlights how these two pillars can complement one another in building developing countries' resilience to future shocks. Looking forward, these two pillars provide a compass to guide the multilateral system in contributing to the recovery by helping address the concurrent impacts of recent crises on poverty and inequality (including gender-based), as well as on climate and biodiversity.

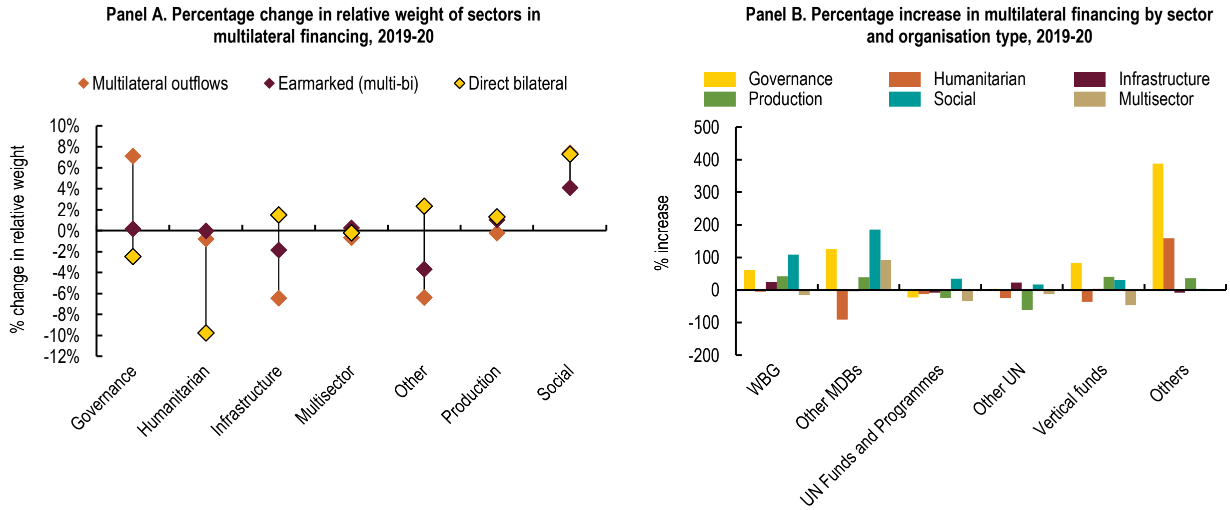
4.2.2. Recent crises have increased the multilateral focus on reducing poverty and inequality

The multilateral response to the COVID-19 pandemic helped mitigate the social impact of the crisis

The COVID-19 pandemic has resulted in increased multilateral financing to poverty and inequality-oriented sectors. In the two years leading up to the COVID-19 crisis, the volume of financing from multilateral development organisations to sectors considered likely to provide direct benefits to the poor experienced a steep increase.

Social and governance sectors received a higher share of overall multilateral commitments in 2020. Social sectors accounted for 24% and 25% of multilateral outflows and earmarked flows respectively in 2020, up from 17% and 18% the previous year (Figure 4.10, Panel A). Over the same period, the share of multilateral outflows to governance-related sectors rose from 12% to 19%, driven by the steep increase in budget support that the main MDBs and the IMF extended to their client countries. These loans have often supported the fiscal measures put in place by developing countries to alleviate the socio-economic consequences of the pandemic. The increase in financing commitments to social and governance sectors is particularly pronounced for MDBs, but less so for more specialised organisations, such as UN entities and vertical funds (Figure 4.10, Panel B). This reflects in part MDBs' broad and versatile portfolios, which allow them to adapt to shifting priorities by repurposing their programmes. In contrast, specialised entities are constrained by their more focused mandates.

Figure 4.10. Multilateral commitments increased the most for social and governance sectors in 2020



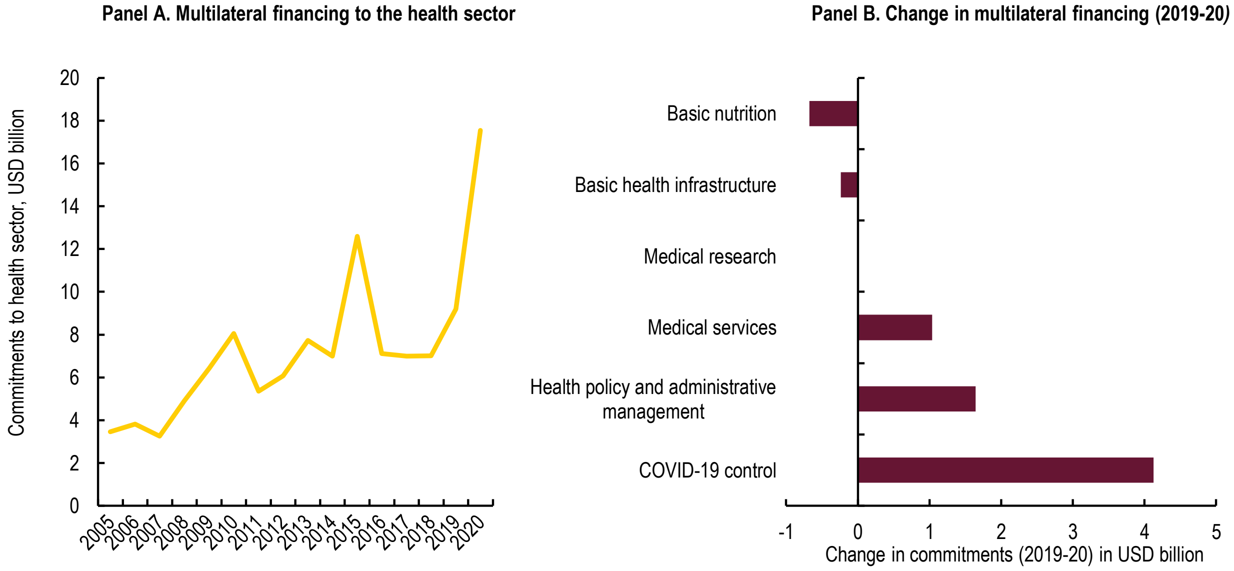
Note: Calculations are based on commitments, in 2020 constant prices. The chart in Panel B is based on multilateral outflows (excluding earmarked flows).
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/phys93

One of the key drivers of the rise in MDBs' commitments to social sectors was their increased focus on social protection. For example, the World Bank committed USD 9.2 billion in additional financing for social protection and jobs activities as part of its COVID-19 response – USD 4.1 billion through IBRD and USD 5.1 billion through IDA (Lee and Aboneaaj, 2021[16]). According to a recent study, the World Bank's support for social protection in response to the COVID-19 pandemic was significantly larger in scale and reach than in the aftermath of the global financial crisis (McCord et al., 2021[20]). The global financial crisis response was characterised by a small number of large loans, primarily to UMICs whose pre-existing systems had significant absorptive capacity, alongside extremely small-scale programmes in IDA countries. In comparison, the scale of the response in 2020 was greater, and included for instance the first World Bank concessional loan to India for national-scale social protection provision, with 800 million beneficiaries. Support for social protection was also explicitly identified as a core priority in both the IDB and ADB pandemic responses. By the end of 2020, 25% of IDB approvals for COVID-19 response lending supported the provision of safety nets for vulnerable populations (USD 2 billion out of a total USD 8 billion), making social protection the highest funded sector in the IDB response (McCord et al., 2021[20]).

The steep increase in health spending during the first year of the pandemic was another key driver of the surge in financing for social sectors. Commitments to the health sector rose by 91% between 2019 and 2020, from USD 9 billion to USD 18 billion (Figure 4.11, Panel A). Nearly half of this increase was due to spending related to COVID-19 control, which amounted to USD 4 billion. However, other areas, such as health policy and administrative management, and medical services, also benefited from the increase in health sector support. Multilateral commitments to health policy and administrative management rose from USD 2 billion in 2019 to USD 4 billion in 2020, and to medical services from USD 0.7 billion to USD 1.7 billion over the same period. Conversely, the focus on the COVID-19 response appears to have crowded out financing to some other health-related issues. For example, some areas such as basic nutrition and basic health infrastructure experienced a decrease in financing, amounting to respectively 72% (USD 700 million) and 20% (USD 240 million) compared to 2019 (Figure 4.11, Panel B).

Figure 4.11. Support for COVID-19 control drove the steep increase in multilateral health finance in 2020



Note: Calculations are based on commitments, in 2020 constant prices. For the chart in Panel A, the 18 following health-related purpose codes were included in the analysis: Health policy and administrative management (12110), Medical education/training (12181), Medical research (12182), Medical services (12191), Basic health care (12220), Basic health infrastructure (12230), Basic nutrition (12240), Infectious disease control (12250), Health education (12261), Malaria control (12262), Tuberculosis control (12263), Health personnel development (12281), NCDs control, general (12310), Control of harmful use of alcohol and drugs (12330), Promotion of mental health and wellbeing (12340), Other prevention and treatment of NCDs (12350), Research for prevention and control of NCDs (12382), and Covid-19 control (12264).
Source: Authors' calculations based on the OECD Creditor Reporting System (OECD, 2022[1]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1

StatLink https://stat.link/g3mdh7

A strong recovery will require increased multilateral focus on poverty and inequality

The succession of multidimensional crises has set back several years of progress in the fight against poverty and inequality. In the years prior to the COVID-19 pandemic, developing countries were making significant progress in reducing poverty. The pandemic, which is estimated to have seen an additional 97 million people fall into extreme poverty (World Bank Group, 2021[21]), marked the end of a-two decade downward trend in extreme poverty. It also set back hard-won progress achieved in multiple areas of sustainable development. These long-term development setbacks will also disproportionately affect the outcomes and financing needs of the most vulnerable, turning the COVID-19 crisis into a pandemic of inequality.

Preventing high rates of poverty and inequality from becoming entrenched will require sustained support from multilateral organisations. The pandemic and Russia's invasion of Ukraine are driving heightened financing needs from developing countries in key areas of human development, such as health and education. Recent crises have demonstrated that the multilateral development system can play a key role in supporting the poor and marginalised, for example through reforms and activities aimed at strengthening social protection systems, and providing access to health and education opportunities. The vast protracted effects of recent crises on poverty and inequality, with millions of people falling back into extreme poverty and an exacerbation of existing inequalities (including gender-based), require multilateral organisations to sustain their support in the coming years for key areas that make a recognised contribution to reducing poverty and inequality. This may include revisiting their existing policies and systems to ensure they are aligned with poverty and inequality reduction objectives.

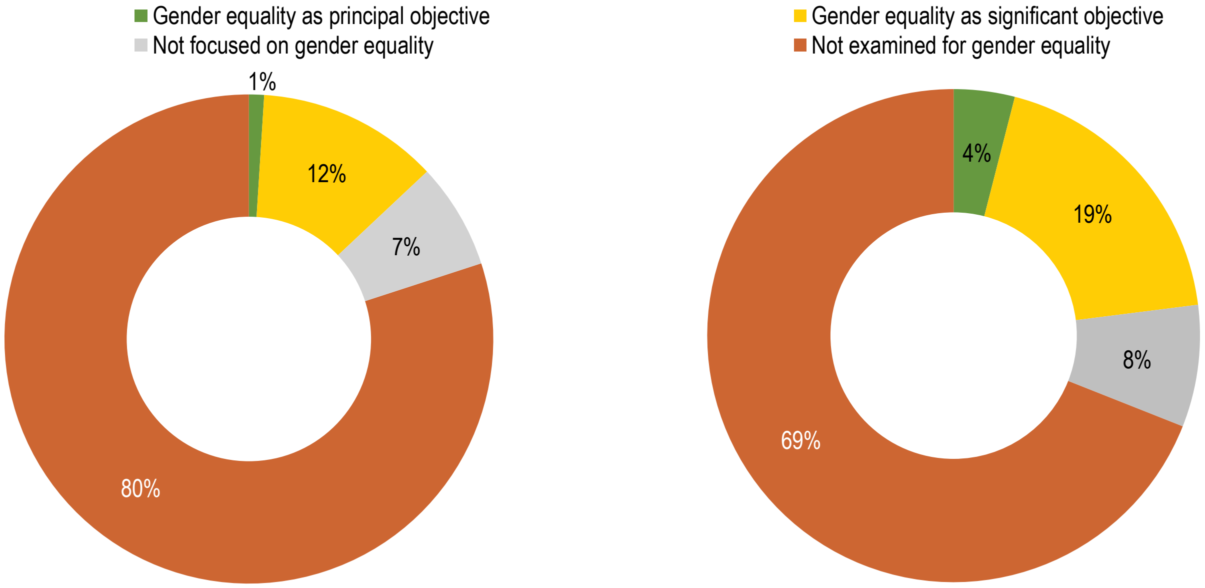
Some organisations have already incorporated a strong focus on poverty and inequality in their mandate and strategies. For example, the World Bank Group has a clear and longstanding dual mandate of ending extreme poverty and promoting shared prosperity. It operationalises this mandate by producing global poverty and inequality data, and by integrating poverty and inequality considerations into policies and programmes, including the Systematic Country Diagnostics developed in close collaboration with its client countries. Similarly, the UNDP has taken steps to operationalise the pledge to leave no one behind and has undertaken an evaluation to assess how the organisation's conceptual and operational frameworks translate the pledge of leaving no one behind into concrete action (UNDP, 2021[22]).

Multilateral activities with a focus on addressing inequalities, including gender-based, have the potential to make the recovery more sustainable and effective. A substantial body of evidence shows that inclusive economies are more resilient and productive (Cingano, 2014[23]). Increasing the share of multilateral investments that promote greater equality and access to opportunities could thus be highly cost-effective and yield large economic and developmental returns over the long run. Gender equality provides a concrete example of the benefits of reducing inequalities in productivity and development outcomes. For example, several studies have shown that advancing women' and girls' equality, and closing the gender gap, could increase global GDP (McKinsey&Company, 2015[24]) (IMF, 2018[25]).

The analysis in this report suggests that multilateral development organisations have ample room for improvement in this area. In 2019-2020, for example, only 13% of multilateral organisations' ODA and 23% of other official flows (OOF) were reported to the OECD as addressing gender equality (OECD, 2022[26]), compared to 45% and 32% respectively for ODA and OOF from DAC members. These low figures reflect in part the lack of systematic and comparable reporting on this topic among multilateral entities. Between 2019 and 2020, only around one-fifth (20%) of ODA and one-third (31%) of OOF from multilateral organisations was examined for gender equality. Given the key role the multilateral development system plays in supporting an inclusive recovery in developing countries, it appears particularly important to strengthen the reporting and tracking of multilateral outflows that support gender equality in order to provide a comprehensive picture of multilateral organisations' contributions in this area.

Figure 4.12. Multilateral development organisations can improve their gender equality focus and reporting

Total ODA (left) and OOF (right) by all multilateral organisations reporting to the OECD, 2019-20 average



Note: The charts are based on commitments on multilateral outflows (excluding multi-bi, earmarked aid flows) reported to the OECD by multilateral organisations. ODA=official development assistance; OOF=other official flows.
Source: *Development finance for gender equality and women's empowerment: A snapshot*, (OECD, 2022[26]), https://www.oecd.org/dac/Gender_ODA_2022.pdf.

StatLink https://stat.link/236sew

The inclusion of gender sensitive planning in multilateral organisations' COVID-19 response varied significantly, even across institutions with similar operational models. Recent research on MDBs' social protection response to the pandemic showed that most of their projects carried out in 2020 (73%) included gender targets in their project design (Webster et al., 2021[27]). This study also reveals that while many World Bank projects launched during the first wave of the MDBs pandemic response (between April and June 2020) lacked gender equality targets, those launched during the second wave (between October and December 2020) had a greater gender focus. In contrast, other MDBs, such as the ADB and the AfDB, included gender sensitive planning consistently in the project design throughout all phases of their pandemic response.

Improved reporting on poverty and inequality-related markers would make it easier to oversee multilateral contributions to these areas, and to identify potential gaps and inefficiencies. For example, there is currently no agreed definition of what constitutes a poverty-reducing development activity. Similarly, as noted in recent OECD analysis (2022[26]), the fact that multilateral organisations do not consistently examine or report their financing flows against the DAC policy markers on gender equality or on the inclusion and empowerment of persons with disabilities makes it difficult to provide a reliable picture of the volume of multilateral activities targeting inequality.

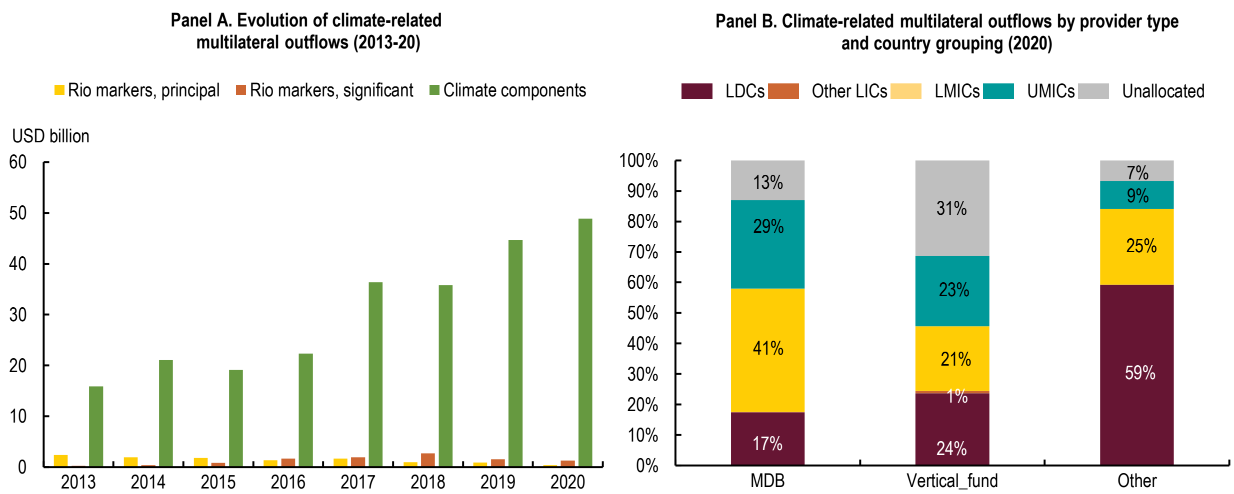
4.2.3. A sustainable recovery requires greater multilateral support to address the growing climate and biodiversity emergencies

The multilateral development system is a major and growing actor in the area of green finance

Multilateral organisations, and MDBs in particular, channel the majority of official development finance for climate. The climate component of multilateral activities has grown at a rapid pace since 2016, from USD 22.3 billion in 2016, to USD 48.9 billion in 2020 (Figure 4.13, Panel A). Thanks to this rapid growth, the multilateral development system accounted for 44% (USD 36.9 billion) of total climate finance provided or mobilised by developed countries in 2020 (USD 86 billion). MDBs provided the vast majority of climate-related multilateral outflows in 2020 (93%), followed by vertical funds (6%). Other multilateral entities, namely IFAD and the Nordic Development Fund, accounted for the remaining 1%.

The growing role played by MDBs in multilateral climate finance may exacerbate its focus on middle-income countries. Multilateral development banks and vertical funds provide climate-related finance to different country groupings. The breakdown of climate-related activities by country groupings shows that multilateral organisations differ in their country focus. A large share of MDBs' climate finance (70%) is provided to middle-income countries (41% to LMICs, 29% of UMICs, compared to 17% for LDCs). In comparison, vertical funds channel a larger share of climate-related finance to LDCs (24%). They also provide a relatively large share of climate-related finance that is unallocated by income group (31%), mainly corresponding to multi-country, regional or global activities. Lastly, both IFAD and the Nordic Development Fund (other multilaterals) mostly target LDCs, which reflects their focus on lower-income countries (Figure 4.13, Panel B). Given the differences in country allocation observed across multilateral entities, the increasing volumes of climate finance provided by MDBs may result in a greater focus on middle-income countries over time. While a focus on middle-income countries can be explained by the important role they can play in climate mitigation, close monitoring is required to ensure multilateral climate finance remains targeted to where it can make the greatest difference.

Figure 4.13. Climate-related multilateral outflows have grown at a rapid pace since 2016



Note: Calculations are based on commitments, in 2020 constant prices.
Source: Authors' calculations based on climate-related development finance at the activity level, (OECD, 2022[28]), https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm.

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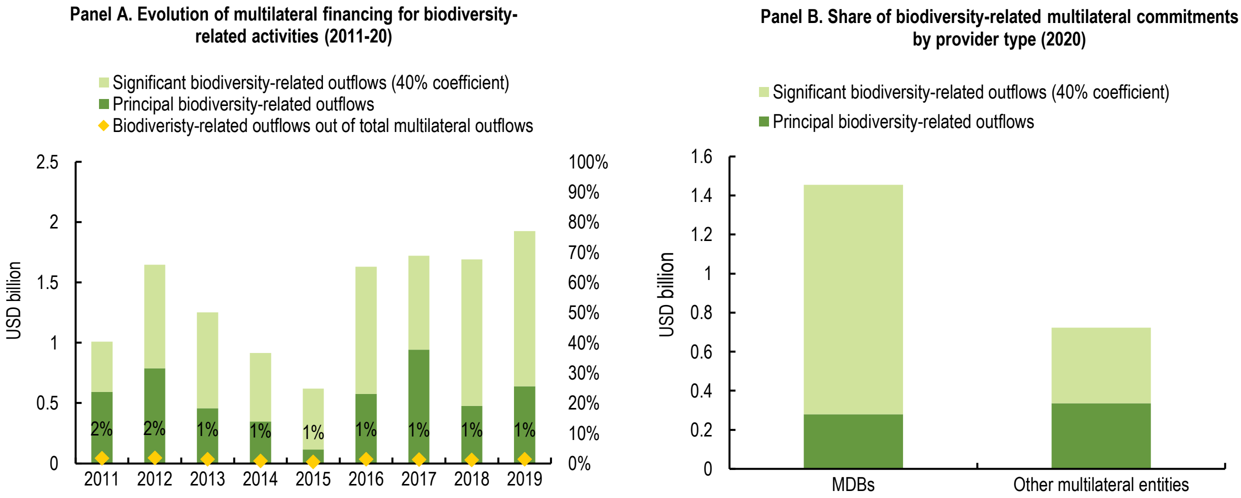
The past decade has also seen a growth in multilateral financing for biodiversity. A recent study shows that multilateral development finance for biodiversity-related activities increased by 210% between 2011 and 2020, from USD 1 billion to USD 3.1 billion (Casado-Asensio, Blaquier and Sedemund, 2022[29]). In relative terms, however, the share of biodiversity-related flows in total multilateral development finance has remained relatively stable over 2011-20, at around 1%, peaking at 2% in 2011 and 2020. The World Bank Group and the Global Environment Facility (GEF) are the two largest multilateral providers for biodiversity-related activities, representing 55% of total multilateral commitments (Figure 4.14).

Figure 4.14. Multilateral development finance for biodiversity-related activities has increased markedly since 2017



Note: Charts are based on multilateral commitments, in USD billion, constant 2020 prices.
Source: (Casado-Asensio, Blaquier and Sedemund, 2022[29]), *Multilateral institutions' biodiversity-related development finance: trends over 2011-20.*

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Persistent bottlenecks in climate and biodiversity-related finance suggest the need for greater mainstreaming

Greater efforts by multilateral development organisations will be required to address the growing gap in green finance. The twin climate and biodiversity crises call for a strong response from multilateral stakeholders. According to recent estimates from the Intergovernmental Panel on Climate Change (IPCC), the volume of climate finance needs to increase by three to six times by 2030 to limit global warming to below 2°C (Intergovernmental Panel on Climate Change, 2022[30]). While public finance alone will not suffice to close the climate investment gap, multilateral providers can send a clear signal to private investors by increasing their efforts to align their official development finance flows with the Paris Agreement. Although it has had less visibility, the protection of biodiversity also has a large financing gap. The USD 3.1 billion in multilateral finance for biodiversity-related activities contrasts with the USD 500 billion spent annually by governments on support that is potentially harmful to biodiversity (OECD, 2020[31]). The 15th meeting of the Conference of the Parties (COP 15) to the Convention on Biological Diversity represents an opportunity to raise biodiversity's profile and garner broad support and concrete commitments from public and private financiers.

Currently, bottlenecks in multilateral climate finance impede greater resource mobilisation and effective resource deployment. While the sustained increase in multilateral financing for climate action observed in recent years represents real progress, persistent blockages in the allocation of these resources continues to hinder developing countries' access to climate finance. These bottlenecks owe in part to the complexity of the multilateral climate finance architecture, and the intricate application processes and requirements involved in accessing these resources. Recent research shows that particularly vulnerable countries that would benefit the most from climate finance, tend to face difficulties in accessing green funds in part due to their limited administrative and technical capacities (Box 4.3).

Multilateral financing for biodiversity remains highly concentrated in the portfolios of a few institutions, suggesting potential to further mainstream the topic. The top four multilateral providers of biodiversity-related finance (GEF, ADB, IBRD, and IDA) committed on average over USD 500 million in financing for biodiversity-related activities between 2011 and 2020 (Casado-Asensio, Blaquier and Sedemund, 2022[29]). The relative importance of biodiversity differs markedly across multilateral institutions. Around 65% of GEF's activities are related to biodiversity, reflecting the importance of biodiversity in its mandate and its central role in delivering the objectives of the Convention on Biological Diversity (CBD, 2020[32]). At the other end of the spectrum, although MDBs have only a limited share of activities related to biodiversity, the sheer volume of their financing commitments makes them important actors in this area. Other institutions, such as the GCF, are becoming increasingly important due to their growing focus on biodiversity. For example, the GCF increased the relative weight of biodiversity in its operations from 4% in 2015 to 61% in 2020. This shows that increased awareness of the interlinkages between biodiversity and other key areas of the global development agenda (such as climate change and global health) could lead to further multilateral investment in biodiversity-related activities.

Box 4.3. Despite progress, small island developing states still face hurdles accessing green funds

Green fund disbursements to small island developing states (SIDS) more than quadrupled between 2013 and 2020, from USD 55 million to USD 239 million. This increase is mainly due to a surge in financing from the Green Climate Fund (GCF), especially oriented at infrastructure projects targeting SIDS in the Oceania region.

The emergence of the GCF onto the multilateral green fund landscape has made the existing architecture more complicated, but it has also brought some welcome improvements. While the Global Environment Fund (GEF) was the leading green fund for SIDS between 2013 and 2020, its dominant position has been increasingly challenged by the GCF, which became the top green fund provider for SIDS in 2019 and 2020. GCF commitments are associated with larger global deals (when including co-financiers). They are also disbursed more quickly than the other major green funds (GEF, CIFs and the Adaptation Fund).

Constant vigilance is required in the coming years because green funds' commitments, which provide an indication of future trends, declined abruptly in 2019 and did not regain previous levels in 2020. Following a period of uninterrupted growth between 2015 and 2018, which saw green funds' commitments reach an average USD 378 million per year between 2017 and 2018, commitments dropped abruptly in 2019 to USD 228 million, back to their 2016-17 levels.

Several factors continue to constrain SIDS' access to green funds:

- Climate adaptation and biodiversity-related activities still attract relatively little financing compared to mitigation projects. SIDS are among the countries most affected by climate change, and thus have a crucial need for support to adapt to the consequences of the climate crisis. However, the volume of financing for climate adaptation is much smaller than for climate mitigation projects. Some studies suggest that this may stem from greater need for adaptation projects to present a compelling business case for this type of project compared to climate mitigation projects (Lindenberg and Pauw, 2013[33]).

- Low rates of return on mitigation projects in SIDS could prevent key financiers from dedicating their resources to them. All SIDS have committed to ambitious climate action, including to achieve 100% renewable energy production by 2030. However, these countries could see their ability to access new mitigation finance decline in the future due to the growing importance given by climate funds to the need to prove return on investment in terms of CO_2-equivalent reductions in order to approve financial involvement in mitigation projects. This raises the question of how to measure return on climate mitigation projects in countries with low absolute emissions, but which still in need of funding to transition to net-zero.
- Lack of technical capacity and other governance issues in SIDS result in frequent bottlenecks and delays in the disbursement of green funds to these countries. By the end of 2020, only 52% of GCF commitments had been disbursed (commitments made mainly between 2015 and 2017). This ratio was similar (53%) for the CIFs, although it corresponds to commitments from earlier years (mostly made between 2012 and 2015). GEF shows a lower disbursement-to-commitment ratio, at 33%, mainly corresponding to transactions committed between 2013 and 2015 (and some in 2008). This seems to mainly be linked to SIDS' limited technical and human resource capacities to manage complex projects.

A comprehensive diagnostic of those problems could help improve SIDS' absorption capacities and attractiveness for green-related investment projects. This could help identify current gaps and needs for specific support measures, such as international technical assistance and capacity building to increase the chances of success of local project managers applying for funds, and adopting alleviating measures to allow green investments in SIDS to come to fruition. Also, as more complex deals seem to be a cause for delaying disbursements to SIDS, re-considering the complexity and number of co-financiers involved in each deal could be another option to explore to increase green financing for SIDS and other countries with specific vulnerabilities.

Source: (Piemonte, forthcoming[34])

4.3. Outlook and policy recommendations

4.3.1. The shift from emergency response to recovery requires better co-ordination

Multilateral organisations were able to rapidly ramp up their financing to support the crisis response in developing countries. As argued in Chapter 3, the successful scaling up of finance relied largely on MDBs' access to capital from international markets. The multilateral crisis response to COVID-19 confirmed multilateral organisations' ability to: (i) quickly disburse funds in response to crises thanks to their strong relations with partner countries; and (ii) flexibly shift priorities through the sectoral re-allocation of funds.

The pandemic response saw a reshuffling of the constellation of players in the multilateral development system. The IMF gained new prominence in the field of multilateral development finance, and MDBs became more active in sectors traditionally dominated by other organisations. New multilateral channels were also created, adding to the complexity of an already crowded multilateral architecture.

With the financing needs of developing countries now shifting from emergency response to recovery, there may be a need to clarify co-ordination mechanisms and agree on an effective division of labour to avoid redundancies and other inefficiencies in the medium to long term. Recent research suggests that improving co-ordination among MDBs requires filling a critical missing gap in the global governance architecture – a body responsible for holding MDBs accountable as a group for crisis response and ongoing support for global and regional public goods (Lee and Aboneaaj, 2021[16]).

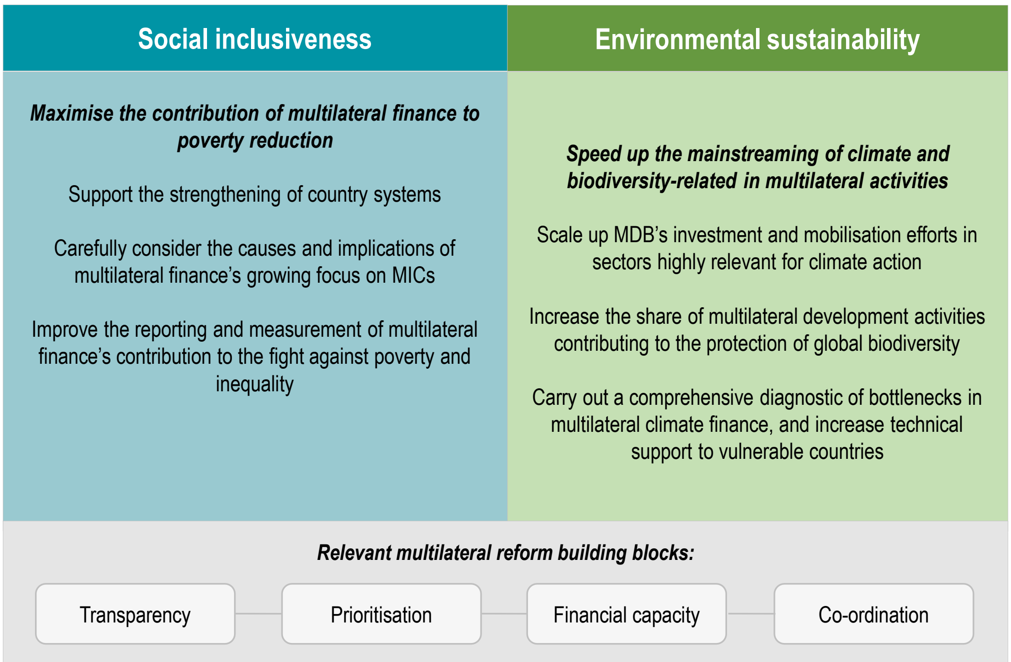
4.3.2. Multilateral development finance is called on to play a pivotal role in developing countries' recovery from successive crises

Adapting multilateral development finance will be crucial to tackle the broad range of development challenges that are intensifying with the emergence of consecutive global crises. Figure 4.15 summarises key policy recommendations to ensure that multilateral development finance contributes to the two pillars of sustainable development: social inclusiveness and environmental sustainability.

Given the large impact of recent crises on developing countries, an abrupt drop following the exceptional levels of multilateral support registered in 2020 could impede a strong, inclusive and sustainable recovery. The analysis in this chapter showed that following the global financial crisis, multilateral commitments registered two consecutive years of decline, by -11% in 2010 and -16% in 2011. The huge combined effect of the COVID-19 crisis and Russia's large-scale war against Ukraine, which led to an unprecedented rise in global poverty and inequality, calls for multilateral efforts in the coming years to be sustained.

Ensuring greater effectiveness and prioritisation of multilateral development finance will be particularly important to make the most of scarce resources. In the context of growing financing needs and constrained development budgets, avoiding overlaps and redundancies across multilateral organisations' mandates and portfolios, ensuring complementarity between multilateral and bilateral efforts, and addressing the lack of whole-of-system accountability will be key to achieve the greatest development effectiveness and impact. It will be equally important to ensure that multilateral development finance helps realise the promise of building back better in developing countries, by contributing to both pillars of the recovery – social inclusiveness and environmental sustainability (Figure 4.15). Increasing the focus of multilateral programmes on those furthest behind, as well as on areas with the greatest impact, such as the climate agenda, will be an effective way to maximise multilateral development finance.

Figure 4.15. Ensuring a dual focus of multilateral development finance on social inclusiveness and environmental sustainability will be important to support the recovery in developing countries



Source: Authors' illustration.

Ensure that the needs and priorities of the poor and marginalised become a priority in multilateral investments

- **Revisit the objectives, policies and allocations of multilateral organisations to ensure they are aligned with poverty and inequality reduction objectives**. In the context of increasingly constrained development budgets, this could also help maximise scarce official resources by ensuring greater focus and impact on those furthest behind.
- **Increase multilateral support to country systems in order to ensure the effective mitigation of poverty and inequality.** As noted in this chapter, a large share of the recent surge in multilateral finance was channelled to developing countries through budget support and policy-based lending from IFIs. For these forms of financing to benefit the poor and disadvantaged, beneficiary countries need well-functioning public financial management and redistributive systems. In fact, a larger amount of multilateral finance in response to the COVID-19 crisis was channelled through countries' own social protection systems than after the global financial crisis, mainly thanks to the greater support for building domestic systems and programmes in the years preceding the pandemic. This suggests that multilateral support for country systems is a key enabler of effective crisis response that can more effectively target and support the most vulnerable and disadvantaged populations.
- **Rethink the growing focus of multilateral development finance on middle-income countries.** The multilateral response to the COVID-19 pandemic has exacerbated the recent increase in multilateral financing for middle-income countries – mostly MDBs' non-concessional financing. As these countries tend to enjoy greater access to commercial debt and alternative means of financing than LDCs and other low-income countries, a rethink is needed of whether the current allocation of multilateral development finance adequately meets the financing needs of developing countries.
- **Harmonise approaches to measure the contribution of multilateral development finance to reducing poverty and inequality.** The lack of a shared approach makes it difficult to measure and assess the effectiveness of the multilateral development system in reducing poverty and inequality, and to propose options to improve multilateral support in this area. The DAC Community of Practice on Poverty and Inequalities, which convenes all relevant multilateral actors, could be a useful platform to seek agreement among multilateral stakeholders on potential ways to track development financing for poverty and inequality reduction, and to monitor and evaluate the relevance, effectiveness and impact of multilateral providers' interventions. The revised GPEDC monitoring framework could also enable better tracking and monitoring of multilateral organisations' activities for poverty and inequality reduction, and clarify their contributions to the international pledge to "leave no one behind" (Box 4.4).

Box 4.4. A strengthened focus on poverty and inequality reduction in the new GPEDC monitoring framework

The Global Partnership for Effective Development Co-operation (GPEDC) is the primary multi-stakeholder vehicle for driving development effectiveness. It supports the implementation of effective development co-operation principles, promotes mutual accountability, and works to sustain political momentum for more effective development co-operation and partnerships. Since 2013, the flagship instrument of the GPEDC – its global monitoring exercise – has provided an overview of progress towards more effective development co-operation and partnerships. A summary of performance and trends for multilateral organisations from the 2018 Global Partnership monitoring exercise can for example be found in the OECD 2020 *Multilateral Development Finance* report (OECD, 2020[14]).

The monitoring process and framework was comprehensively reformed over 2020-22, and the new monitoring exercise will be rolled out in 2023. This new exercise will continue to generate country-level evidence on the performance of multilateral and bilateral partners on their alignment to partner countries' priorities and results, predictability of disbursements to the public sector, transparency, and use and strengthening of public financial management systems of the partner countries where they operate.

From 2023 for the first time, the new framework will also measure multilateral and bilateral providers' efforts to leave no one behind, as pledged in the 2030 Agenda, and to the implementation of the Kampala Principles for Private Sector Engagement in Development Co-operation (Global Partnership for Effective Development Co-operation, 2019[35]). Finally, the new framework will also highlight existing evidence on how bilateral partners fund the multilateral development system (e.g. amount and share of funding to the multilateral system, and the share of core vs. earmarked funding as available from the OECD and other sources).

Mainstream climate and biodiversity further in multilateral development finance

- **Take greater and bolder action to reduce the growing green and climate financing gap.** The large climate financing needs estimated by the IPCC to limit global warming to below 2°C call for greater efforts by development partners to finance climate mitigation and adaptation activities in developing countries. The multilateral development system plays a crucial role in providing green finance and technical assistance. Thanks to their proven ability to rapidly scale up financing, and their investment track-record in sectors highly relevant for climate change, such as renewable energy and transport, expectations are growing on MDBs and vertical funds to continue increasing their focus on climate finance. Multilateral organisations can also advise and incentivise governments to integrate global and regional public goods-related concerns into public budgeting decisions through the targeted and conditional provision of low-cost financing options.
- **Mainstream biodiversity further in multilateral development finance.** Despite robust growth over the past decade, the share of biodiversity-related flows in total multilateral development finance remains relatively low. Biodiversity only represents 1% to 2% of multilateral development organisations' portfolios, as compared to 6.3% on average for bilateral providers (Casado-Asensio, Blaquier and Sedemund, 2022[29]). If multilateral institutions, especially MDBs, were to increase the shares of their biodiversity-related investments to match the averages of bilateral donors, an additional USD 6.1 billion per year could be invested in biodiversity. The upcoming Conference of the Parties to the Convention on Biological Diversity (COP15) provides an opportunity for

multilateral stakeholders to reinforce their commitments to the protection of global biodiversity, notably by promoting increased financing from the Global Environment Facility and the MDBs.

- **MDBs should continue to lead multilateral efforts to catalyse private finance for sustainable development through innovative instruments and partnerships.** Over the past decade, multilateral development banks have pioneered multiple innovations to mobilise green finance from the private sector. Recent OECD analysis, for instance, stressed the role of MDBs in bringing the global green, social, sustainability and sustainability-linked bonds market to scale through large-scale issuances, including in local currencies in emerging markets (OECD, 2022[36]). The mobilisation of green equity is another recent innovation being trialled by MDBs. For example, the Trade and Development Bank (TDB), a regional development finance institution covering Eastern and Southern Africa, is currently considering the introduction of green shares, which are non-voting equity securities. By issuing these shares, TDB would make a commitment to investors to deploy four times the value of the green share proceeds in climate-related projects.
- **Scale up support to vulnerable countries in accessing multilateral climate finance.** Scaling up the provision of technical assistance and capacity-building can help ensure that even the poorest and most vulnerable countries, which tend to be the most affected by climate change, are able to access multilateral climate finance. This would help tackle some of the existing bottlenecks in climate finance, in particular in the case of countries most in need (LDCs, SIDS, landlocked developing countries and fragile states), which lack the technical capacity, resources and governance to identify, apply to, and manage funding for climate action. A comprehensive review of current bottlenecks in climate finance could also help re-consider the complexity of the current climate finance architecture and projects, and provide options for an alternative climate finance offer tailored to the needs of the poorest and most vulnerable countries.
- **Improve co-ordination and co-operation on the provision of global and regional public goods and the implications for multilateral development co-operation.** The analysis in this chapter has revealed the increasing share of multilateral finance going to a range of inter-linked global challenges – from climate and biodiversity risks, peace and security and infectious diseases to financial and macroeconomic stability. Mitigating these risks and building resilience to these types of shock requires greater international co-ordination and co-operation. In particular, increased financing (both in terms of aid and other financing) and deeper consideration of how to balance emergency response needs with surge capacity and risk mitigation measures are needed. This will also require environmental considerations to be mainstreamed in multilateral organisations' overall financing decisions.
- **Increase transparency and monitoring of multilateral organisations' support to climate change and biodiversity protection.** This could be achieved through a more systematic, consistent and comparable reporting of official development finance to these areas. At the moment, the co-existence of different approaches to report and measure these flows (e.g. climate component vs Rio markers) makes it difficult to accurately track, monitor and analyse multilateral organisations' contribution in these important areas of the 2030 Agenda.

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Annex A. Statistical methodology

This annex presents the statistical approach used to estimate and analyse financial flows to, and from, the multilateral development system.

Scope of multilateral inflows and outflows

The analyses in Chapter 3 focus on funding to the multilateral development system (inflows). This includes core contributions to multilateral organisations (multilateral ODA) and bilateral aid earmarked through multilateral organisations (multi-bi aid). Chapter 4 focuses on financing from the multilateral system (outflows). This includes multilateral outflows and bilateral aid earmarked through multilateral organisations (multi-bi aid). Unless specified otherwise, EU institutions are considered as multilateral organisations in the analyses.

Clustering of sectors

The analyses in this report refer to seven sector clusters, based on OECD Creditor Reporting System purpose codes:

1. Governance: governance and civil society (150), general support (510);
2. Humanitarian: emergency response (720), reconstruction relief and rehabilitation (730), disaster prevention and preparedness (740);
3. Infrastructure: water (140), transport (120), communications (220), energy (230);
4. Multisector: general environment protection (410), other multisector excl. rural development (430);
5. Production: banking and financial services (240), business and other services (250), agriculture, forestry, fishing (310), industry, mining and construction (320), trade policy and regulations (331), tourism (332), other multisector – only rural development (43040);
6. Social: education (110), health (120), population policies and reproductive health (130), other social infrastructure and services (160);
7. Other: developmental food aid (520), other commodity assistance (530), action related to debt (600), administrative costs of donors (9100, refugees in donor countries (930), unspecified (998).

Clustering of multilateral organisations

For analytical purposes, the report clusters multilateral organisations into six categories: UN Funds & Programmes, other UN entities, World Bank Group, other MDBs, vertical funds and other multilateral organisations.

In Chapter 3 (inflows), the six categories are based on OECD Creditor Reporting System (CRS) channel codes:

1. UN Funds & Programmes: channel codes 41114, 41116, 41119, 41120, 41122, and 41140 ;

2. Other UN: all organisations listed under parent channel code 41000 with the exception of the UN Funds & Programmes listed above;
3. World Bank Group: all organisations listed under parent channel code 44000;
4. Other MDBs : all organisations listed under parent channel code 46000;
5. Vertical funds: channel codes 47111, 47122, 47129, 47130, 47044, 47045, 47136, 47501, 47502, 41317, and 47107.
6. Other: all other channel codes.

In Chapter 4 (outflows), the six categories are based on a combination of OECD Creditor Reporting System donor codes and channel codes.

1. World Bank Group: donor codes 901, 902, 903, 905, and all organisations listed under parent channel code 44000;
2. Other MDBs: donor codes 906, 909, 913, 914, 915, 953, 976, 981, 990, 1013, 1015, 1019, 1024, 1037, and all organisations listed under parent channel code 46000;
3. UN Funds and Programmes: donor codes 807, 974, 959, 963, 966, and channel codes 41114, 41116, 41119, 41120, 41122, and 41140 ;
4. Other UN: 923, 932, 940, 944, 948, 960, 964, 967, 971, 992, 1020, 1023, 1038, and all organisations listed under parent channel code 41000 with the exception of the UN Funds & Programmes listed above;
5. Vertical funds: donor codes 811, 997, 1011, 1012, 1016, 1311, 1312, 1313, and channel codes 47111, 47122, 47129, 47130, 47044, 47045, 47136, 47501, 47502, 41317, and 47107.
6. Other: all other donors and channels.

In some cases, the World Bank Group and the other MDBs are presented in the same category. The same applies to UN Funds & Programmes and other UN entities, which are sometimes presented under a broader UN category.

Calculation of multilateral financing to global and regional public goods

Two types of analyses of multilateral financing to global and regional public goods are presented in Chapter 4.

The first analysis, used in Figures 3.7 and 3.8, distinguishes between global and regional public goods, and includes both multilateral outflows and financing earmarked through multilateral organisations. This analysis is based on OECD Creditor Reporting System data, and uses the following purpose codes to estimate financing in support of global and regional public goods:

1. Global public goods:
   a. Health: infectious disease control (12250), STD control, incl. AIDS (13040), tuberculosis control (12263), COVID-19 control (12264), medical research (12182), health statistics and data (12196);
   b. Environment: environmental research (41082), energy generation/renewable sources (all codes under 232), energy research (23081), forestry development (31220), fishing policy and administrative management (31310), fishery development (31320), environmental policy and administrative management (41010), biosphere protection (41020), biodiversity (41030), site preservation (41040);
   c. Financial stability: macroeconomic policy (15142), financial policy and administrative management (24010), monetary institutions (24020), actions relating to debt (all codes under 600).

2. Regional public goods:
    a. Health: health policy and administrative management (12110), medical education/training (12181), medical services (12191), health education (12261), health personnel development (12281);
    b. Environment: water sector policy and administrative management (14010), water resources conservation (14015), water supply and sanitation – large systems (14020), water supply – large systems (14021), sanitation – large systems (14022), river basins development (14040), waste management/disposal (14050), education and training in water supply and sanitation 914081), environmental education/training (41081).

The second analysis, used in Figure 3.9, focuses on eight categories of global and regional public goods, and is based on a combination of TOSSD statistics and OECD Creditor Reporting System data.

For multilateral organisations that report to TOSSD, the following methodology is used to estimate financing in support of the eight categories of global and regional public goods (based on TOSSD statistics):

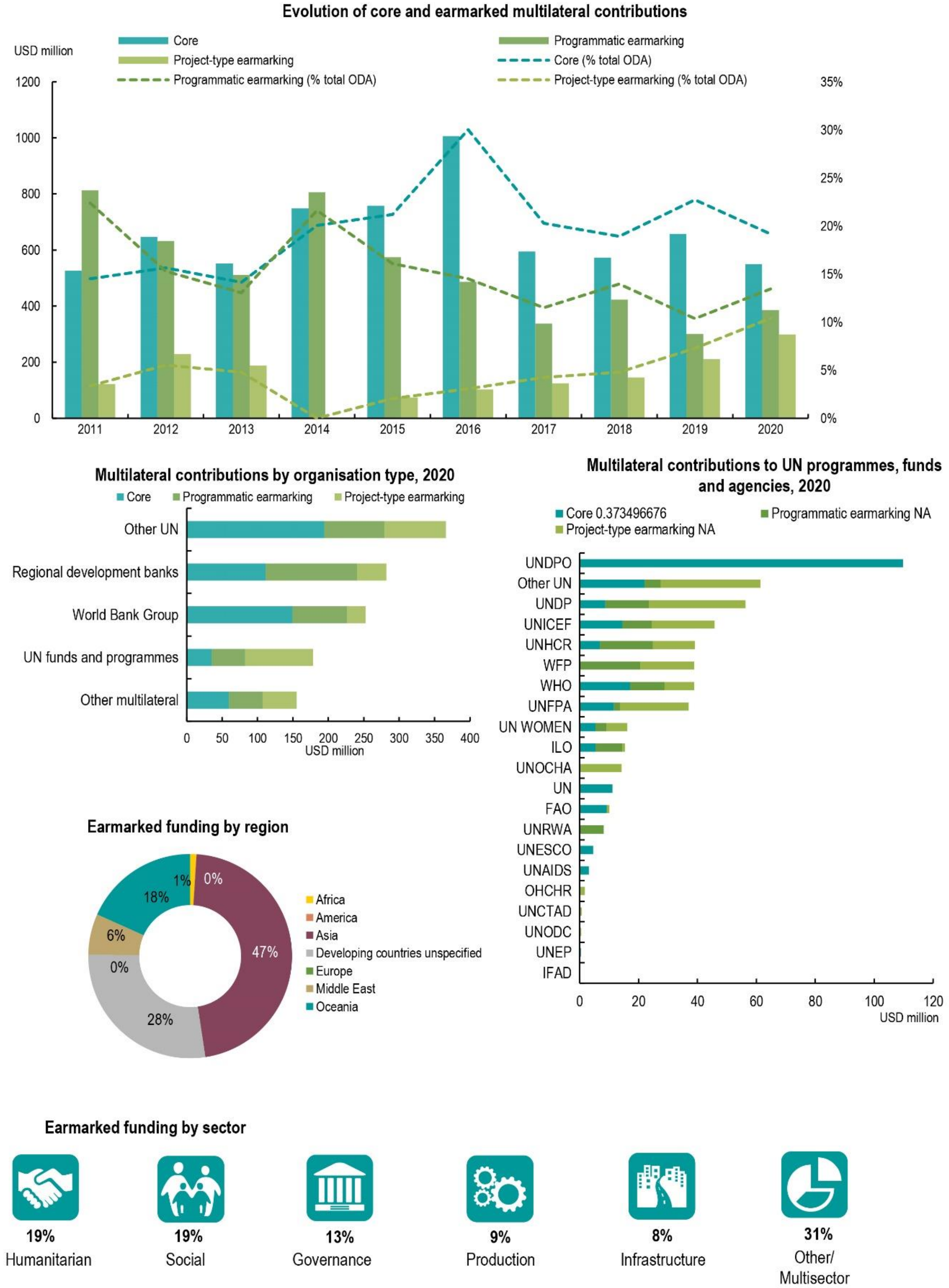
1. International peace and security: purpose codes 15230, 43050, 31165, 16063, 1513010, 15210, 15220, and 1520010;
2. Infectious disease control: purpose codes 12250, 12262, 12263, 12264, and 13040;
3. Food security: purpose codes 43071, 43072, 52010, and 72040;
4. Climate mitigation: purpose codes under 232 and purpose code 23183;
5. Climate adaptation: keyword “adaptation”;
6. Biodiversity: purpose code 41030 and keyword “biodiversity”;
7. Other environment: purpose codes under 410, excluding climate mitigation, adaptation and biodiversity keywords;
8. Access to technology/digitalisation: purpose codes 22010, 22020, and 22040.

For multilateral organisations that do not report to TOSSD, the following methodology is used to estimate financing in support of global and regional public goods (based on OECD Creditor Reporting System data):

1. International peace and security: purpose codes 15230, 43050, 31165, 16063, 15210, and 15220;
2. Infectious disease control: purpose codes 12250, 12262, 12263, 12264, and 13040;
3. Food security: purpose codes 43071, 43072, 52010, and 72040 and “nutrition” marker;
4. Climate mitigation: purpose codes under 232 and purpose code 23183;
5. Climate adaptation: “adaptation” marker;
6. Biodiversity: purpose code 41030 and “biodiversity” marker;
7. Other environment: purpose codes under 410 and “desertification” marker, excluding “climate mitigation”, “adaptation” and “biodiversity”;
8. Access to technology/digitalisation: purpose codes 22010, 22020, and 22040.

Annex B. Country factsheets: DAC providers' use of the multilateral development system

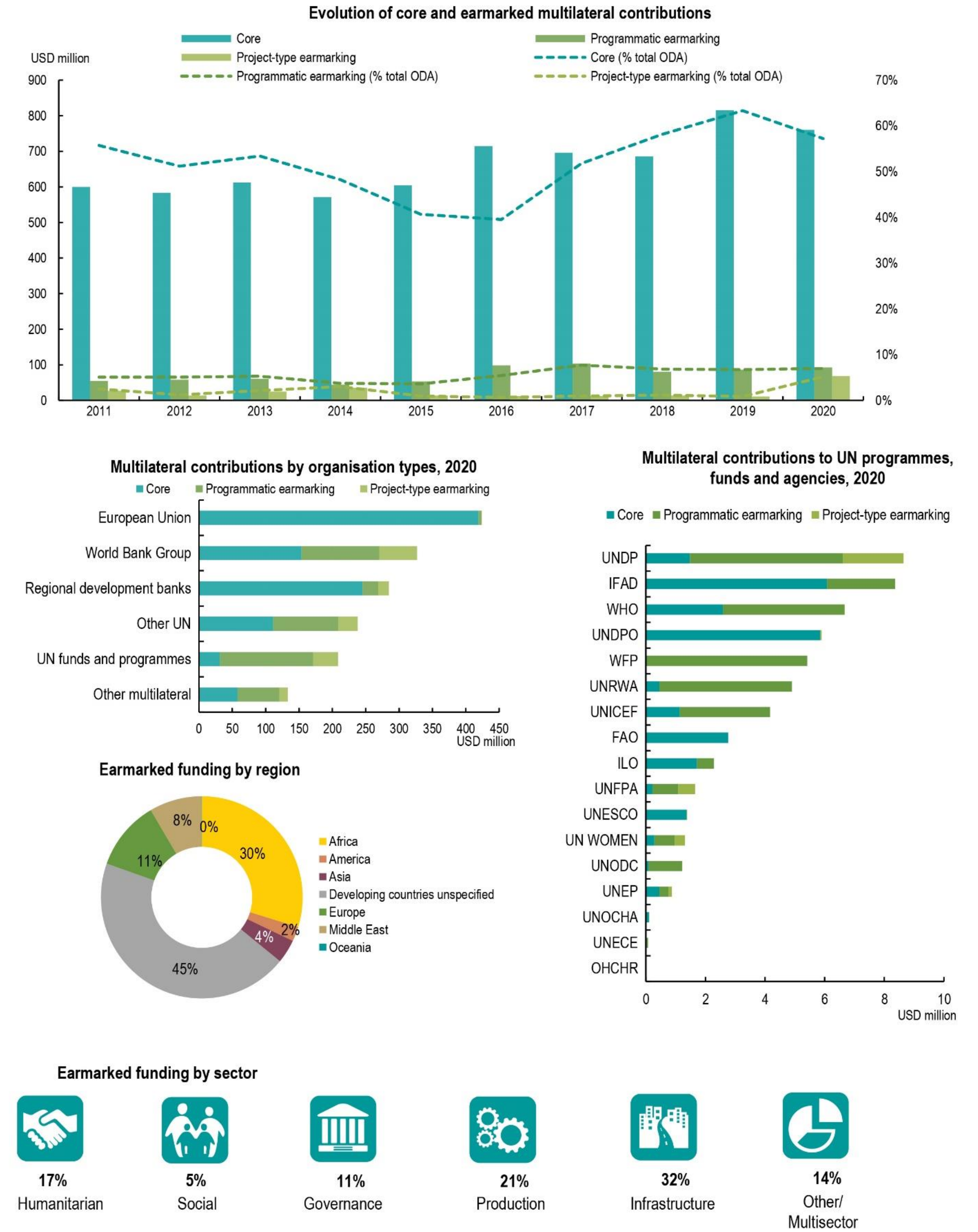
Figure A B.1. Australia: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/y53knj

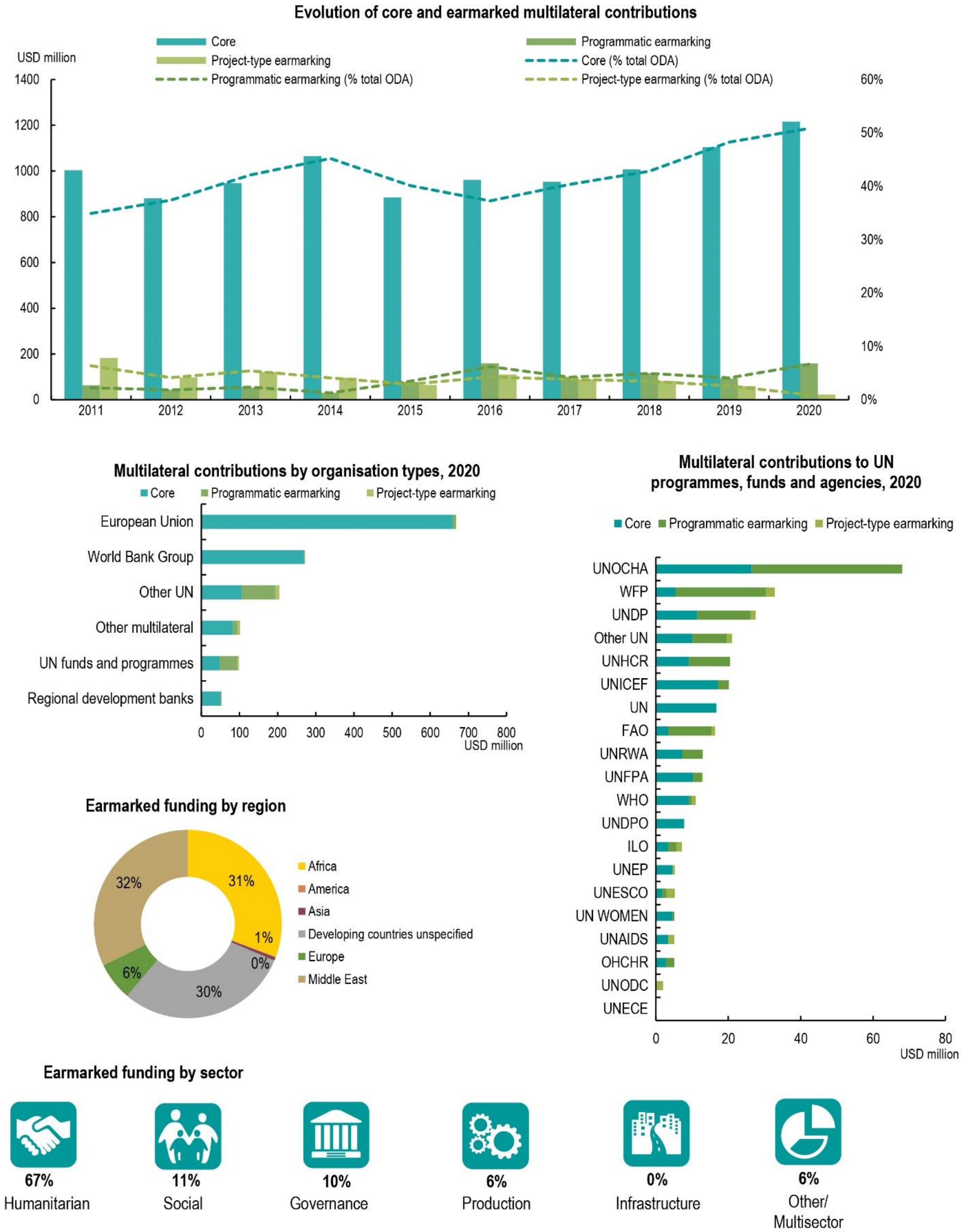
Figure A B.2. Austria: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/tgzk0f

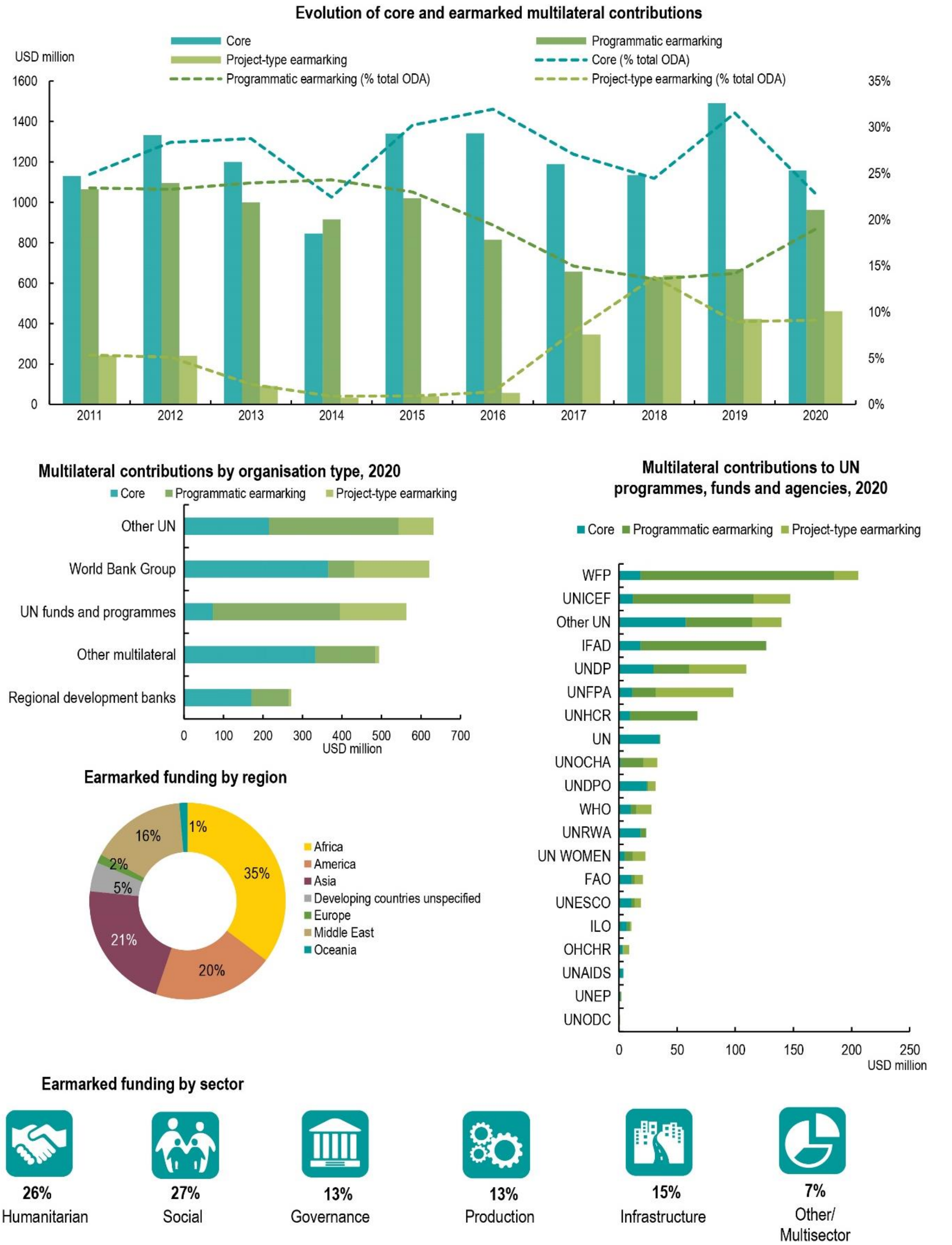
Figure A B.3. Belgium: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/u9im2d

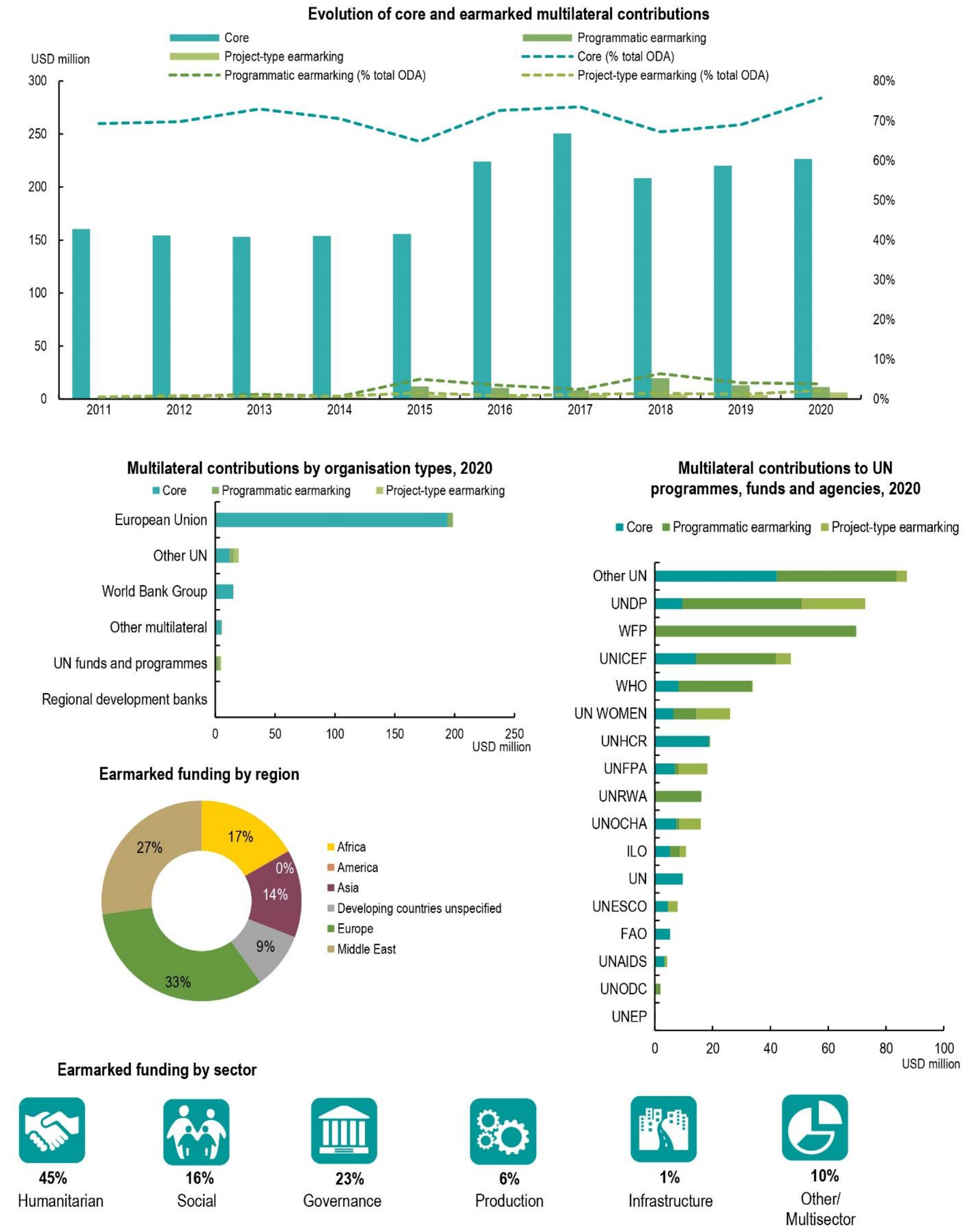
Figure A B.4. Canada: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/e3wnh6

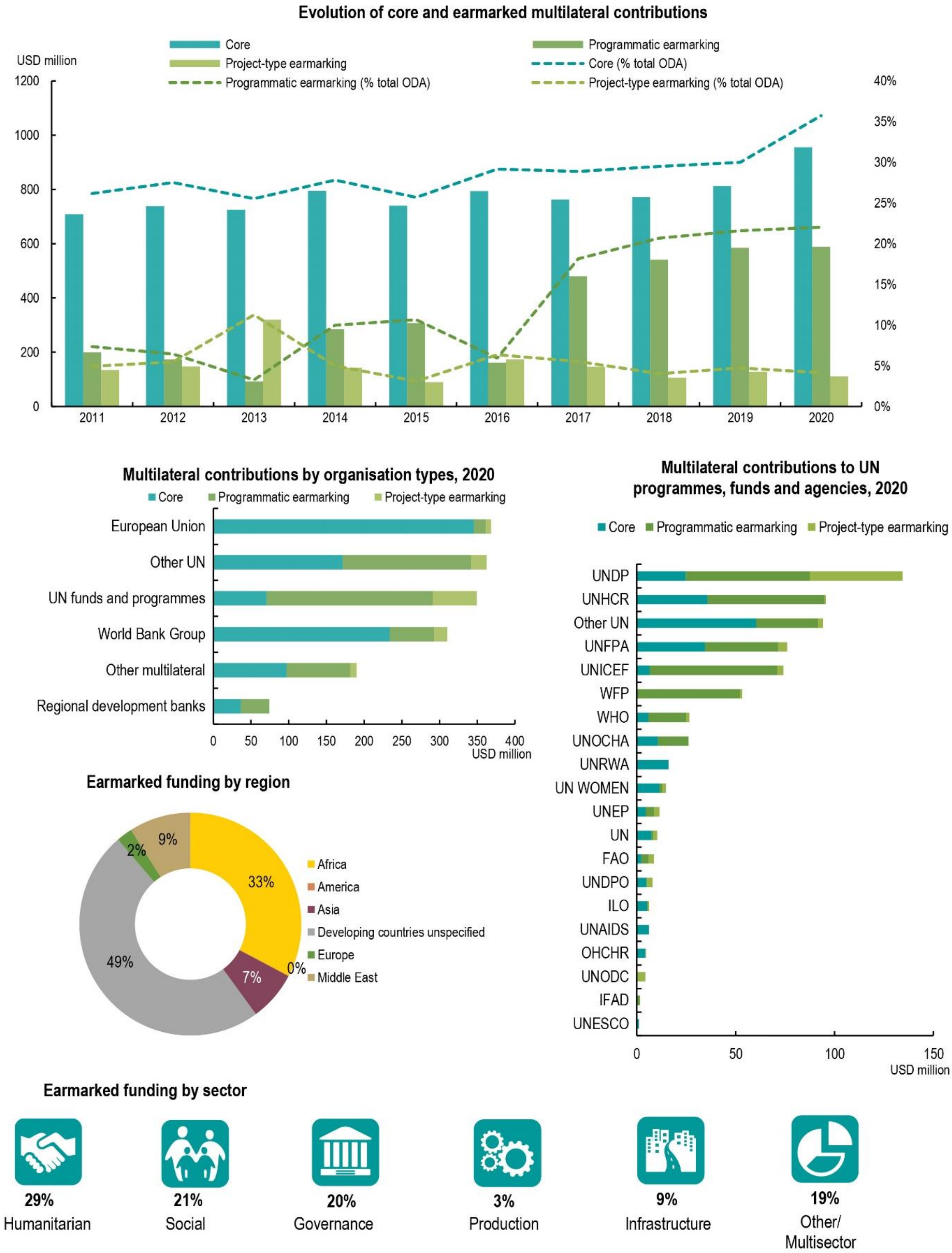
Figure A B.5. Czech Republic: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/esqax4

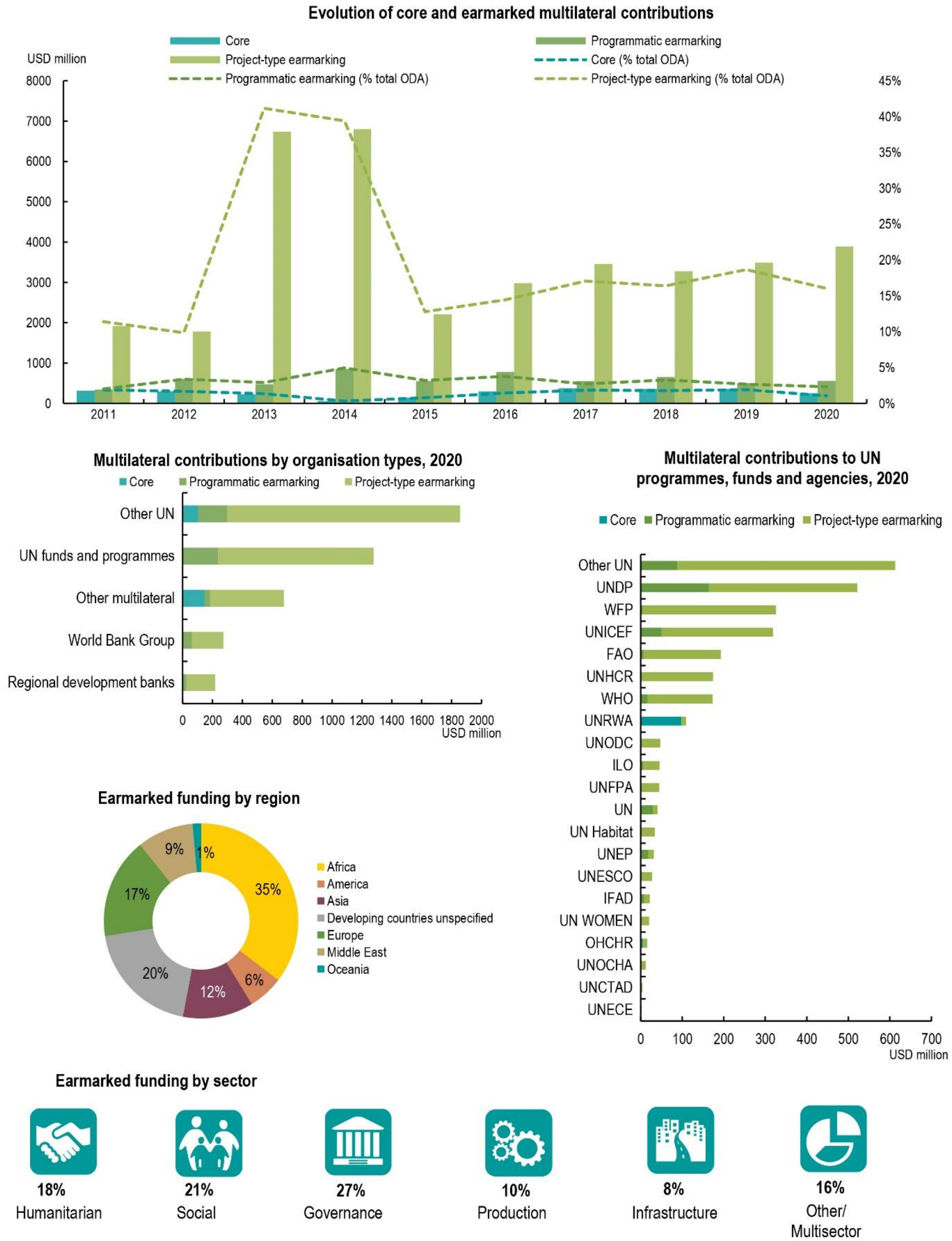
Figure A B.6. Denmark: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/8ta0sm

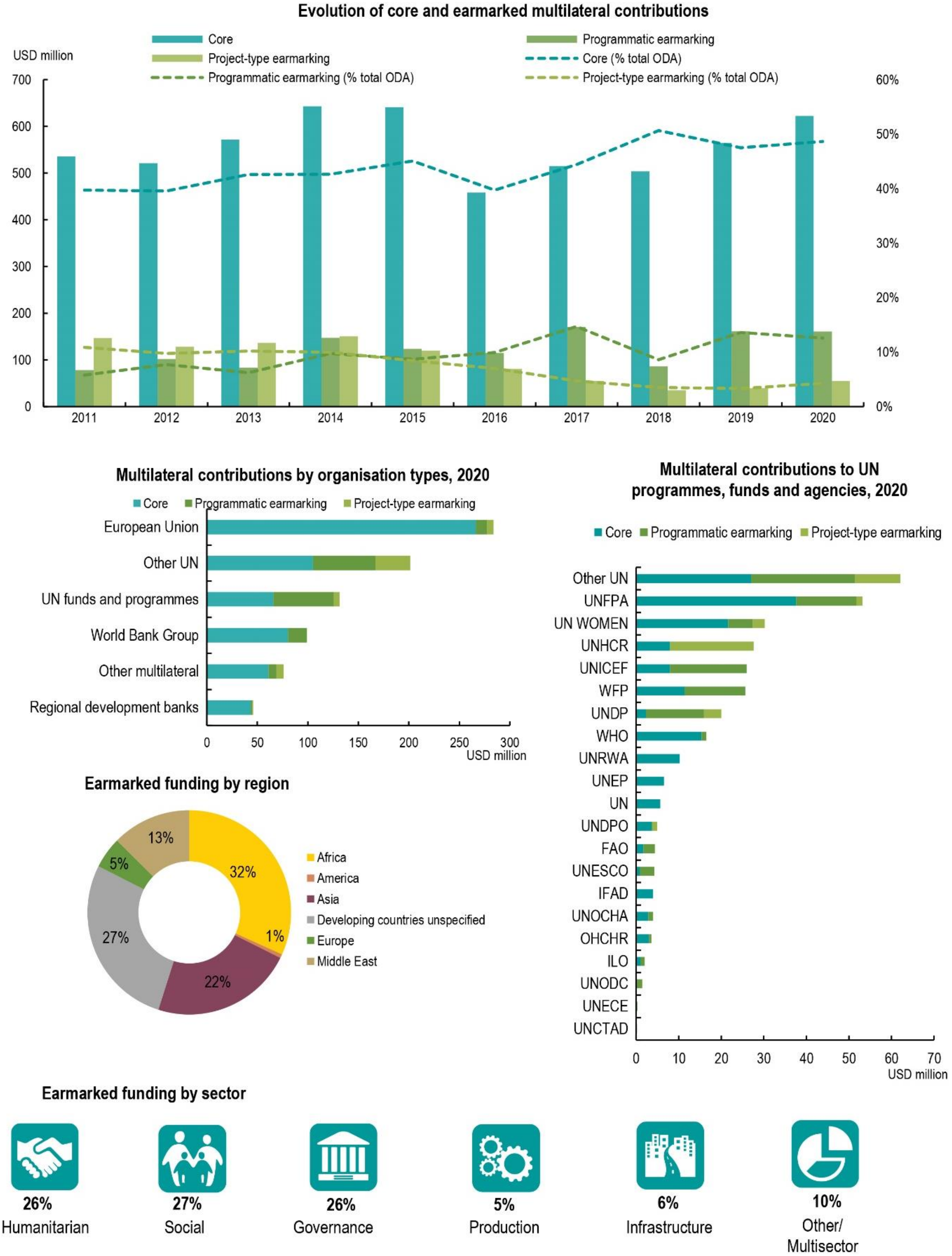
Figure A B.7. EU Institutions: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/ev4sfw

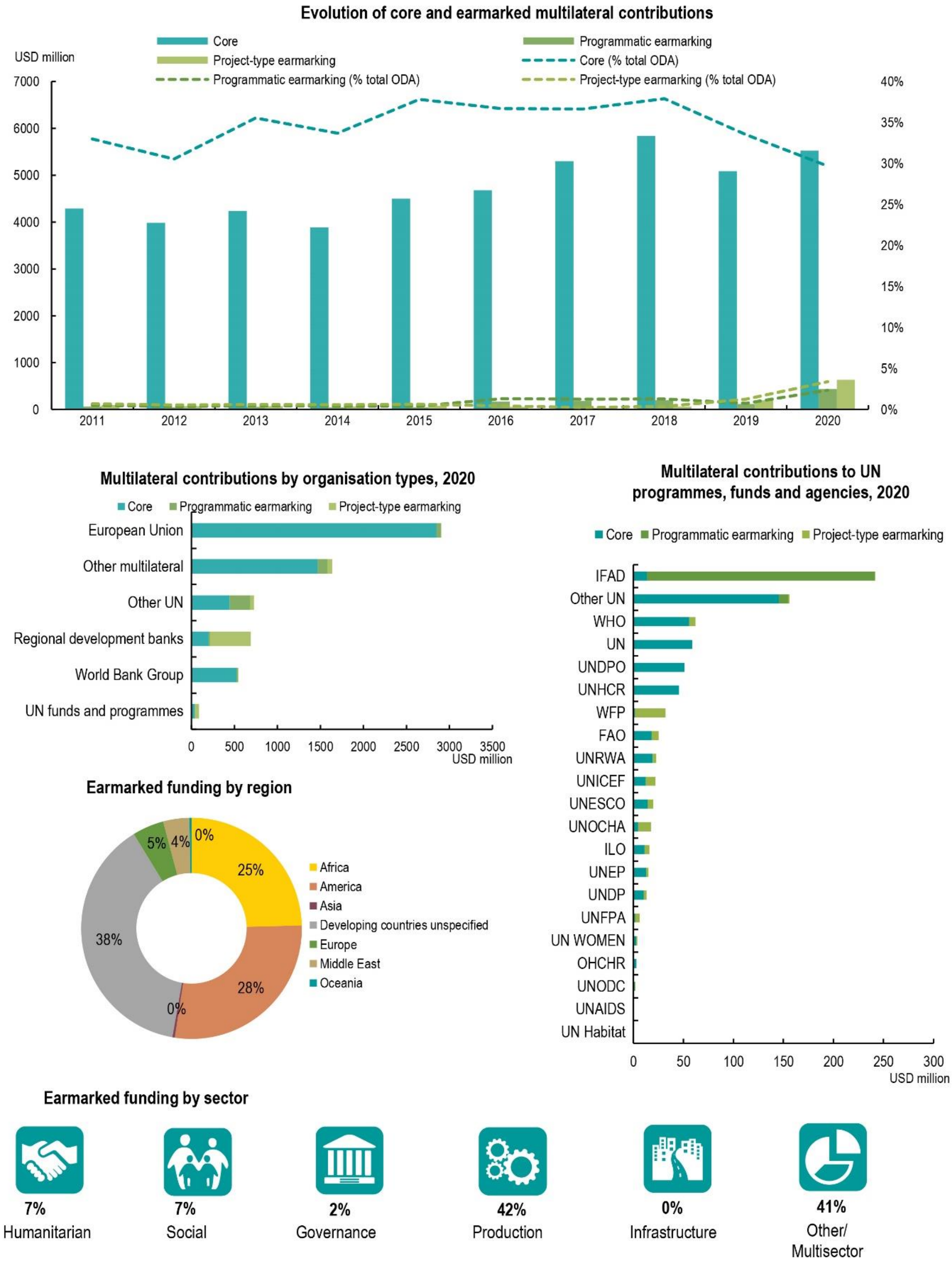
Figure A B.8. Finland: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/472etx

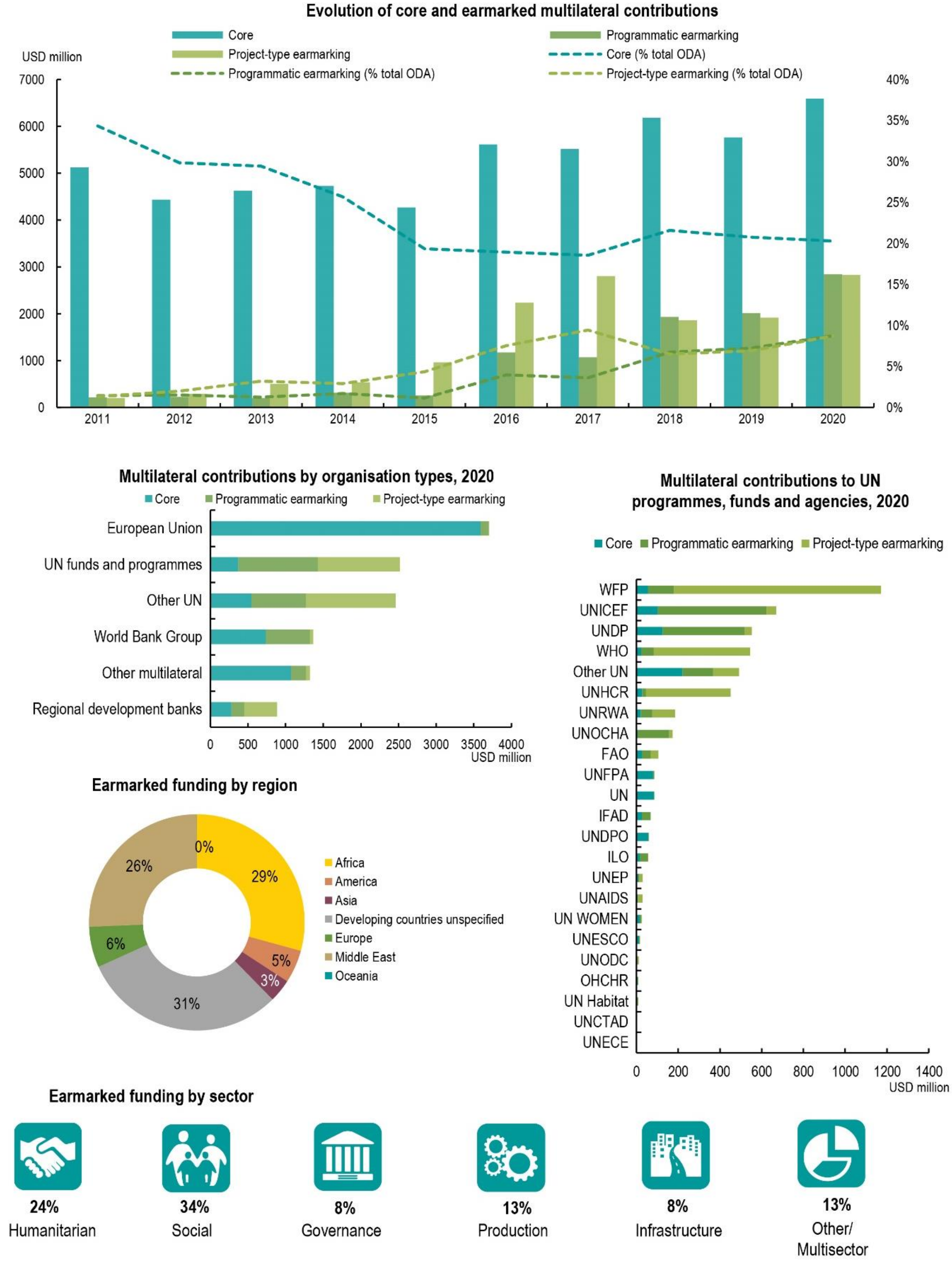
Figure A B.9. France: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/uclnp9

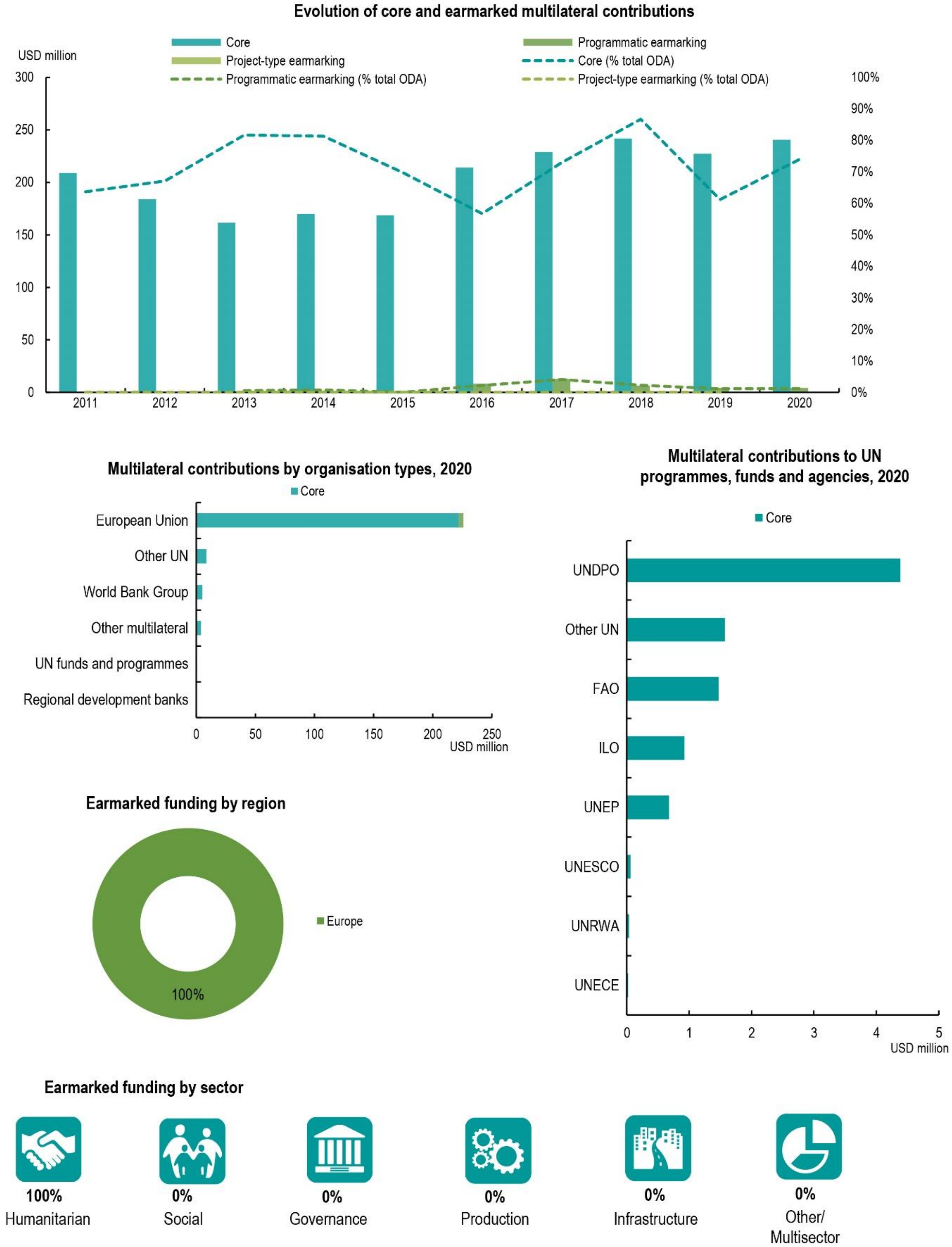
Figure A B.10. Germany: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/zun0bd

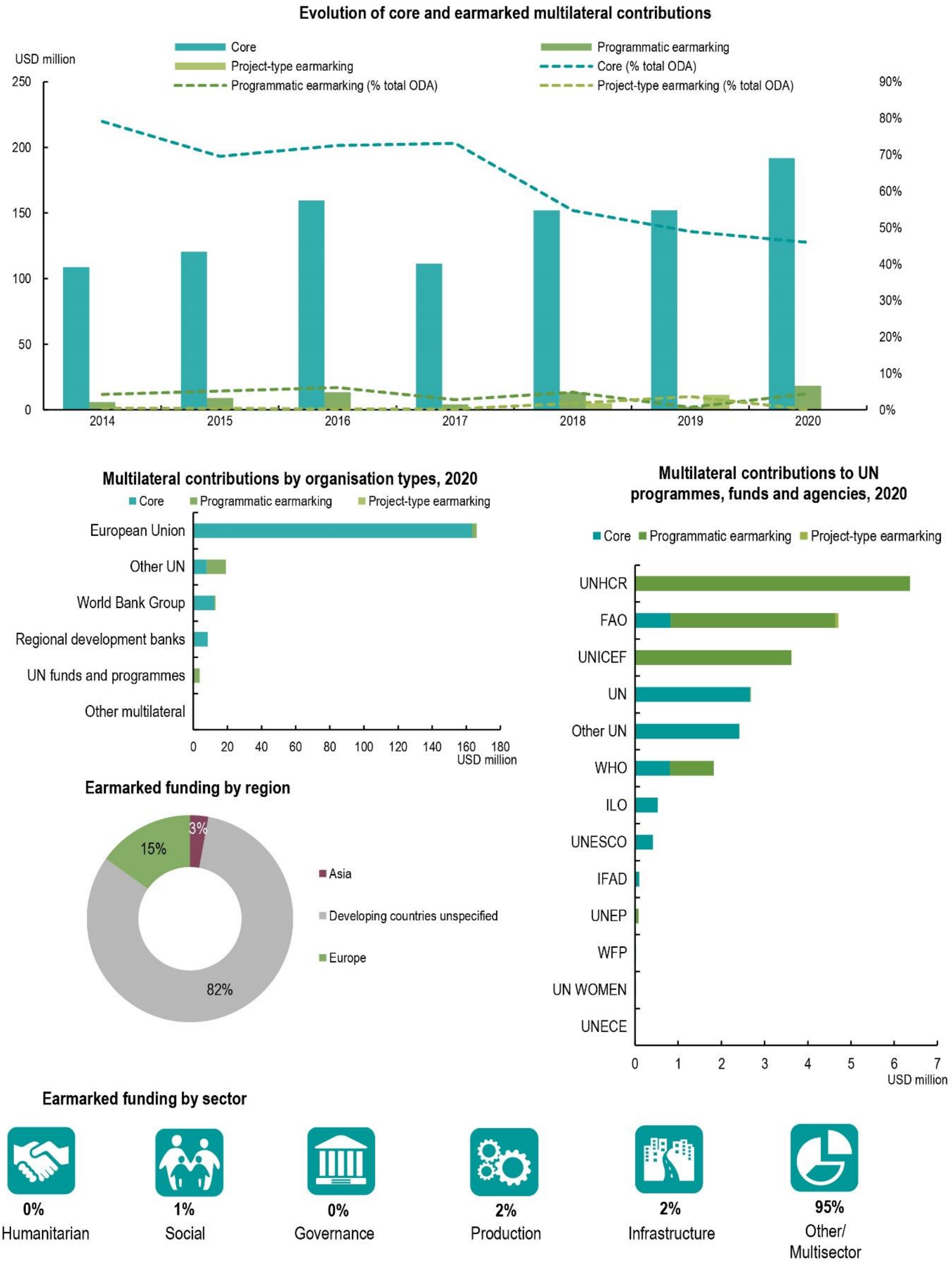
Figure A B.11. Greece: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/x7bf46

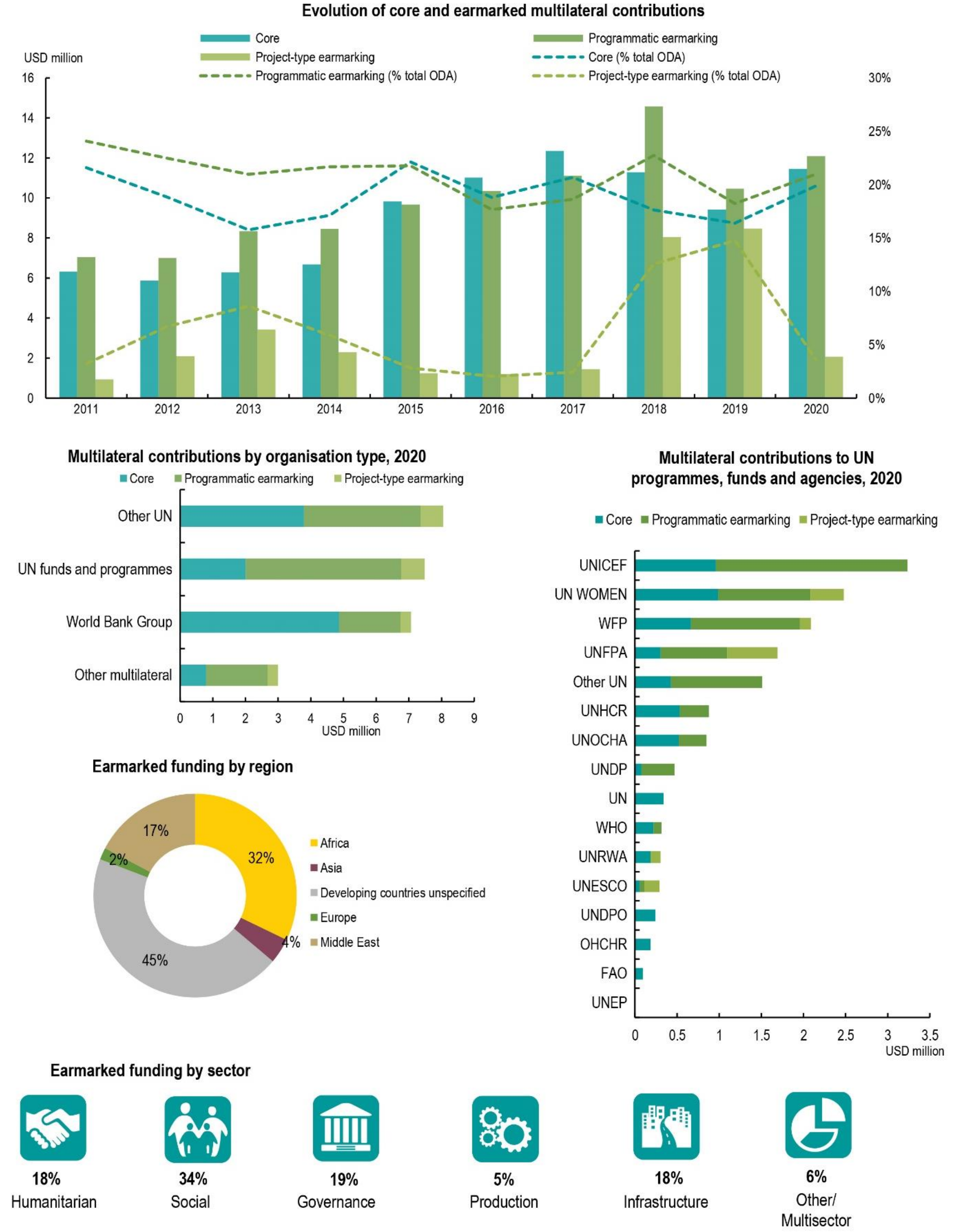
Figure A B.12. Hungary: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/xprc1k

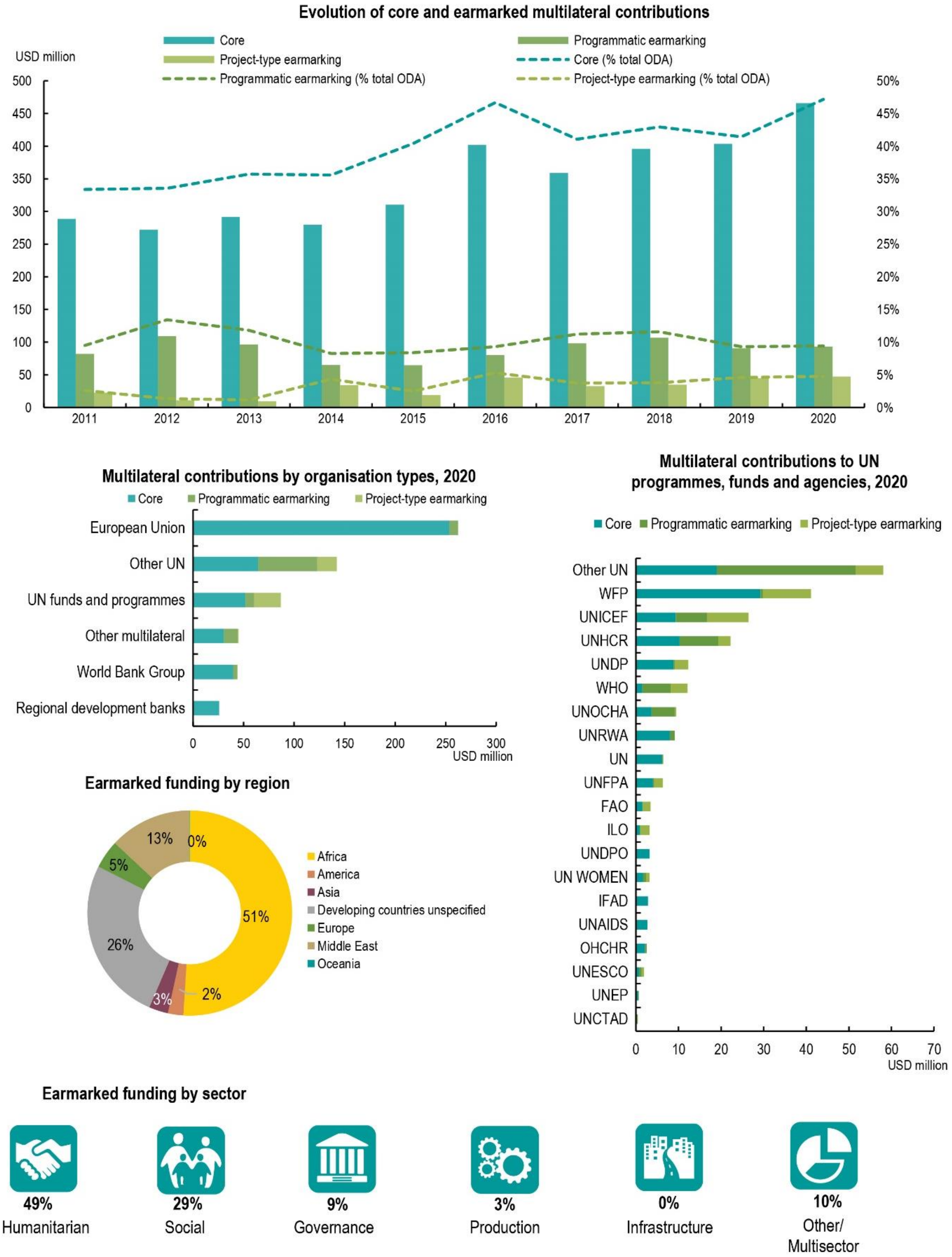
Figure A B.13. Iceland: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/jdh37o

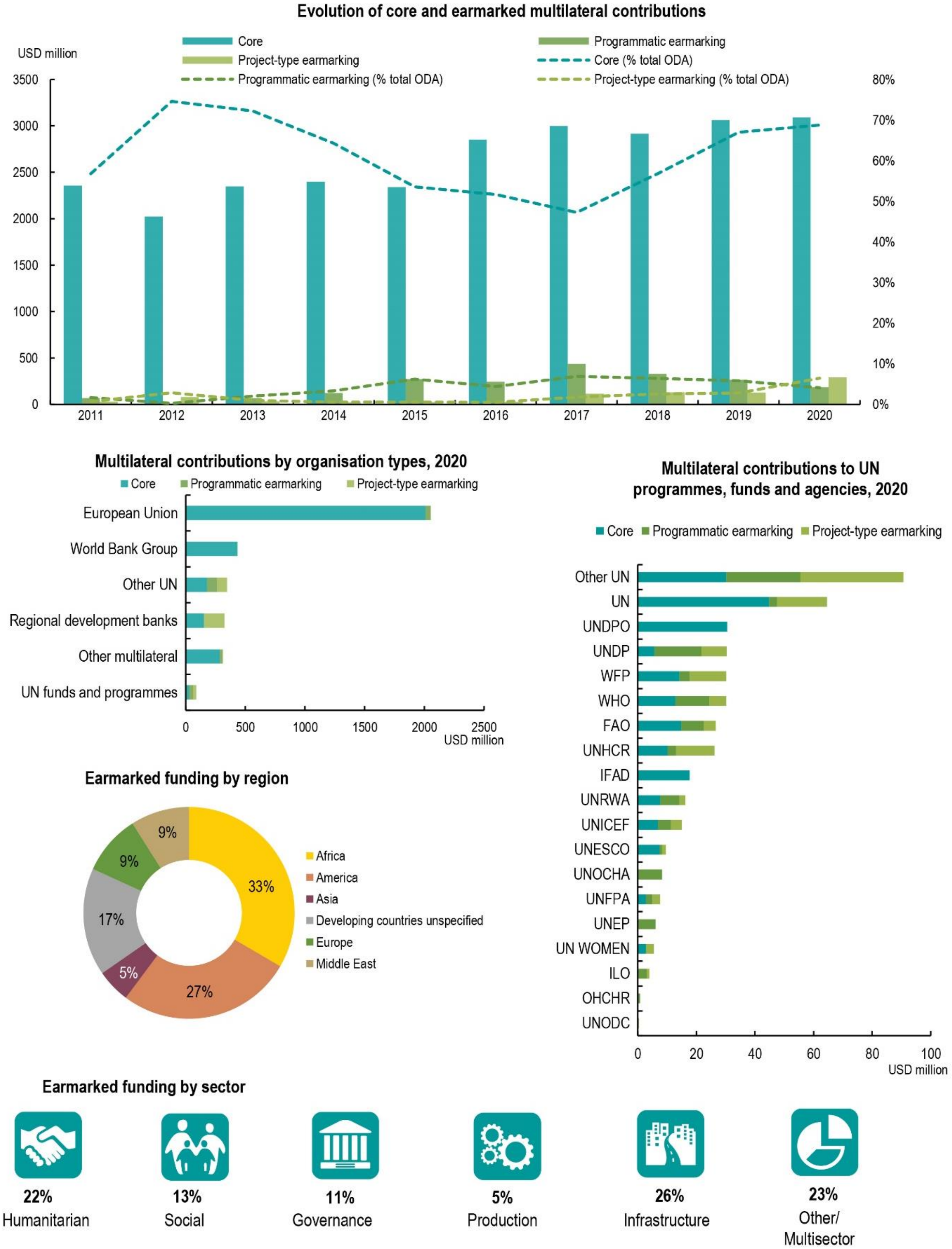
Figure A B.14. Ireland: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/gzq81l

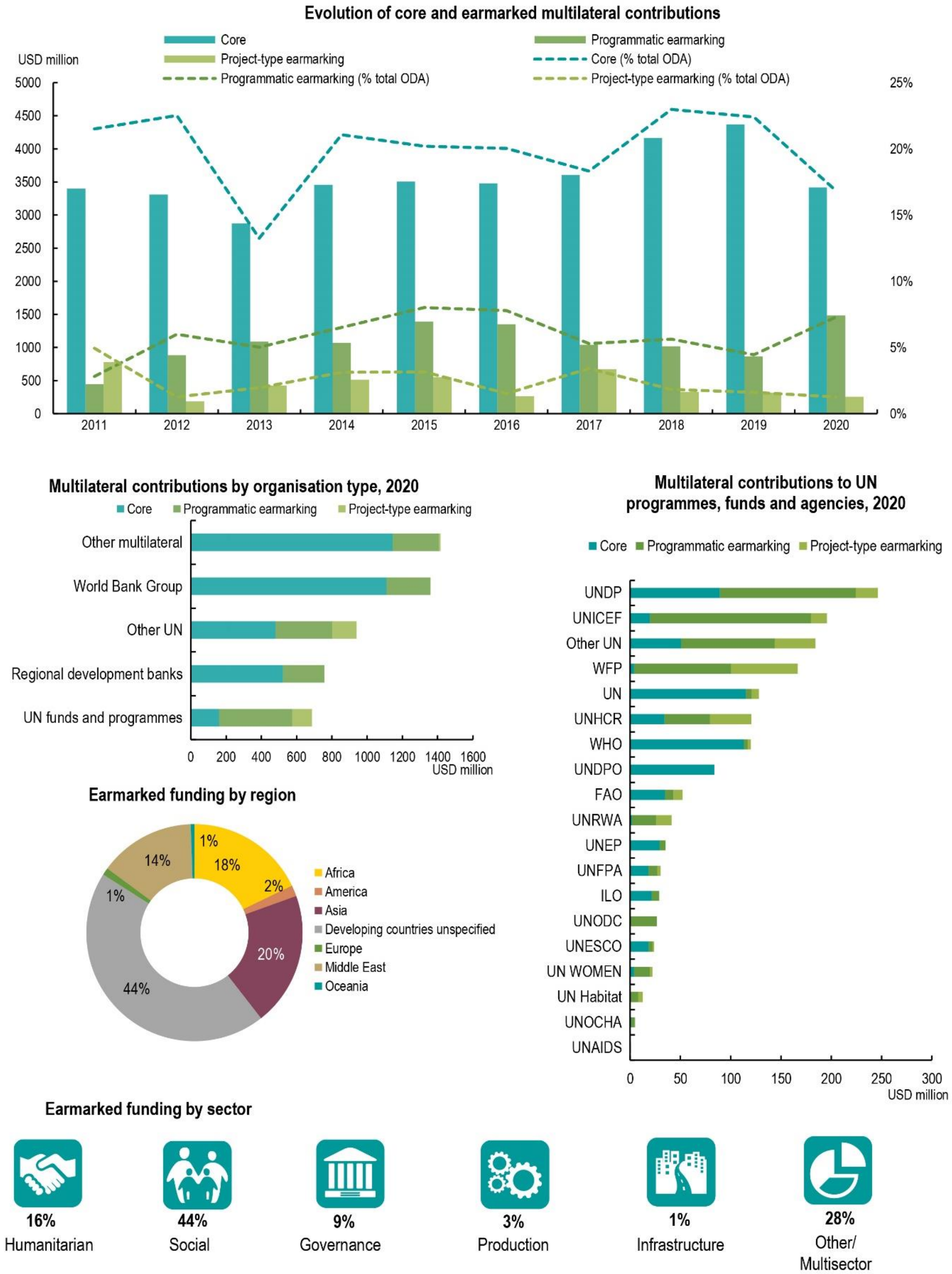
Figure A B.15. Italy: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1..

StatLink https://stat.link/noma0i

Figure A B.16. Japan: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/3bc60h

Figure A B.17. Korea: Use of the multilateral system

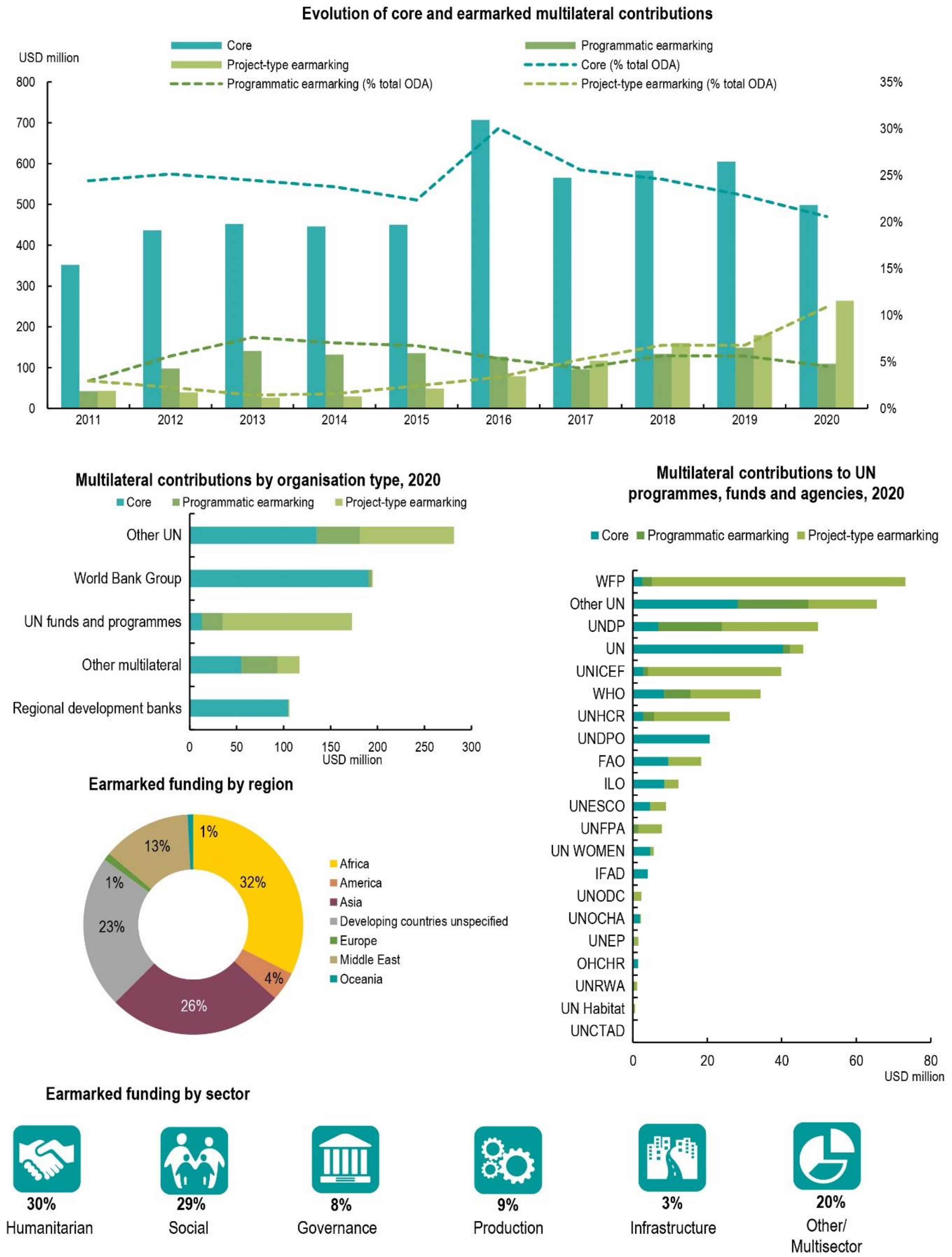


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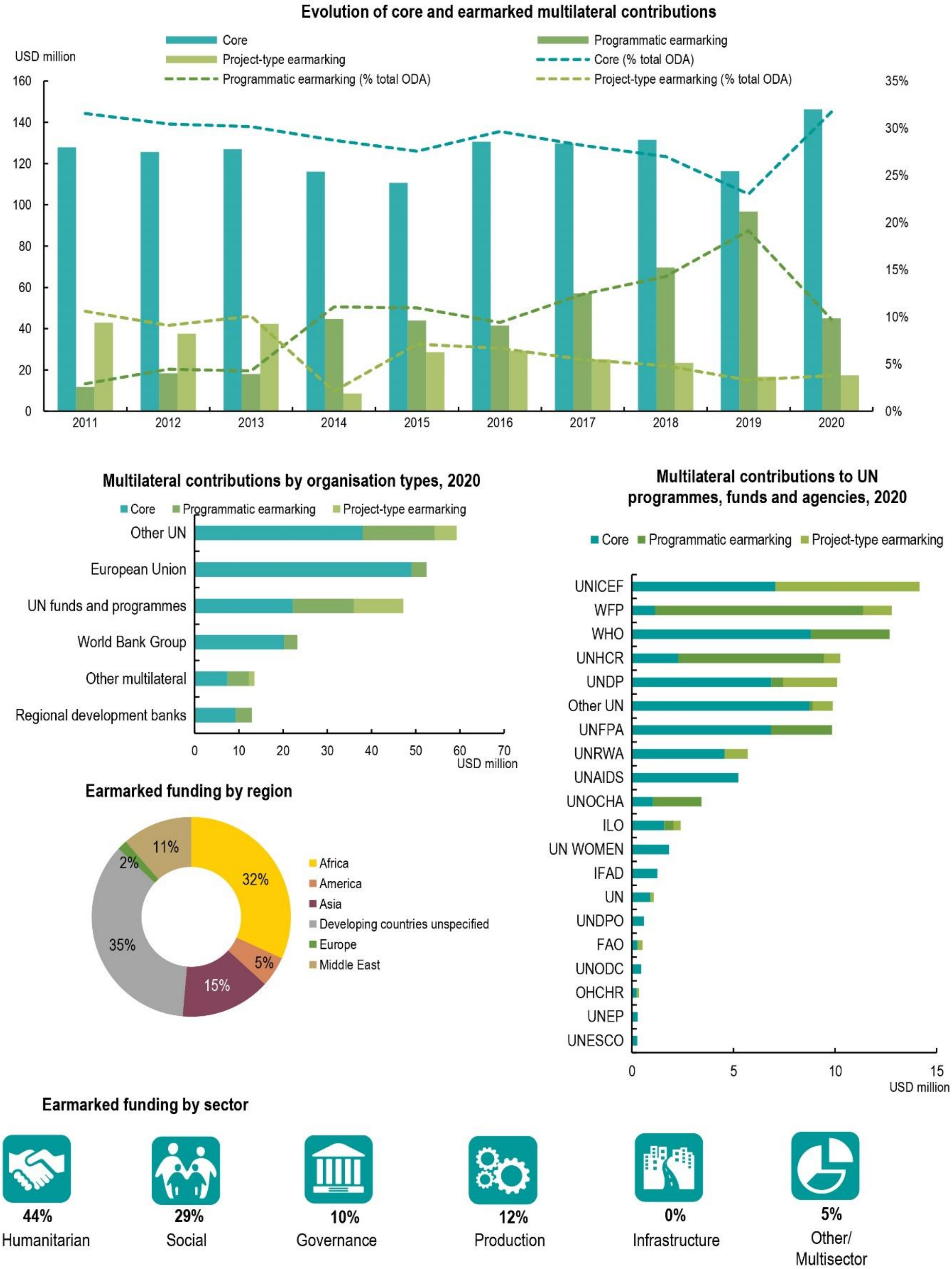
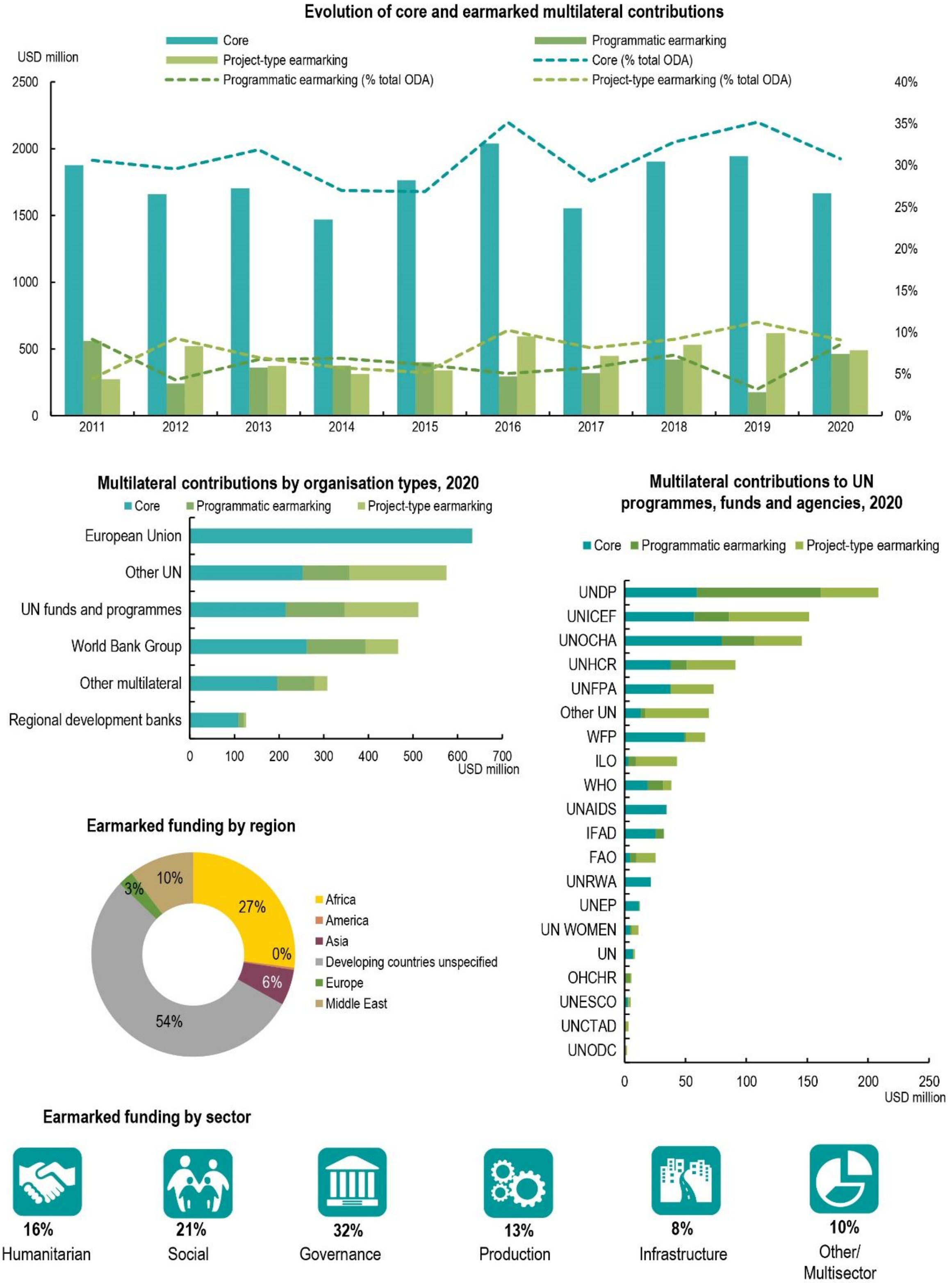
Figure A B.18. Luxembourg: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/1dz0uc

Figure A B.19. Netherlands: Use of the multilateral system



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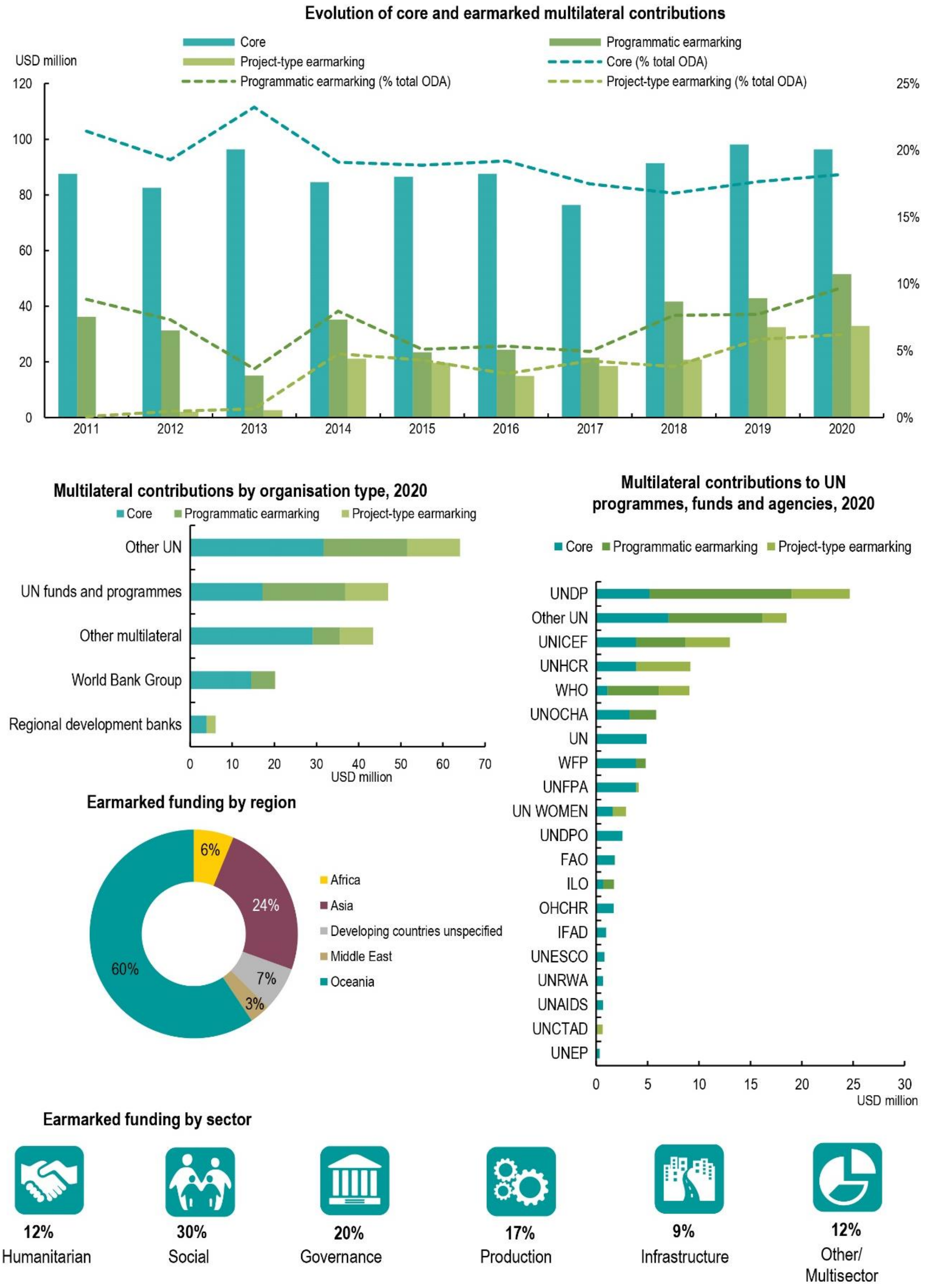
StatLink https://stat.link/a9pbc4

Figure A B.20. New Zealand: Use of the multilateral system



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StatLink https://stat.link/u2m0kf

Figure A B.21. Norway: Use of the multilateral system

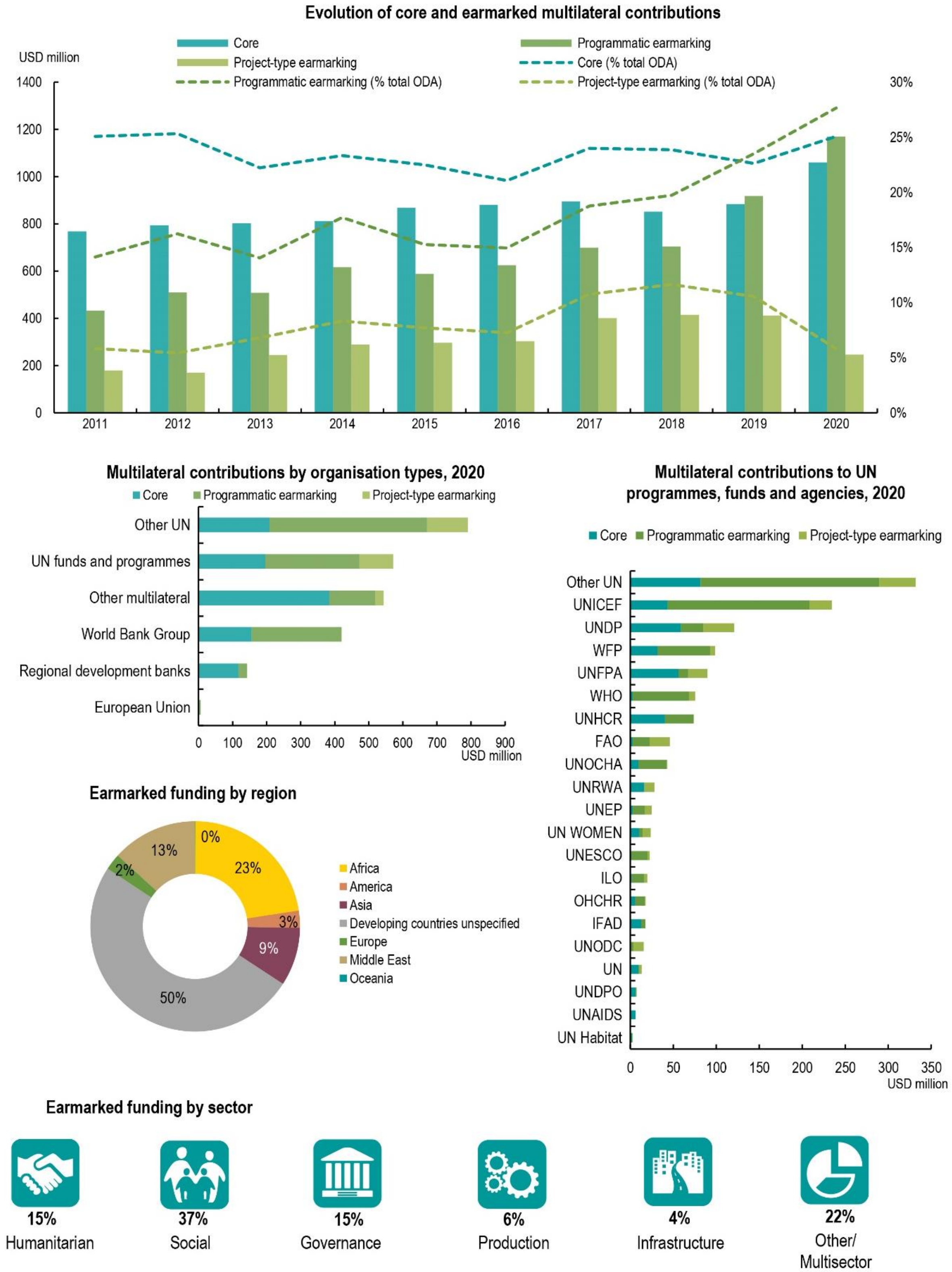

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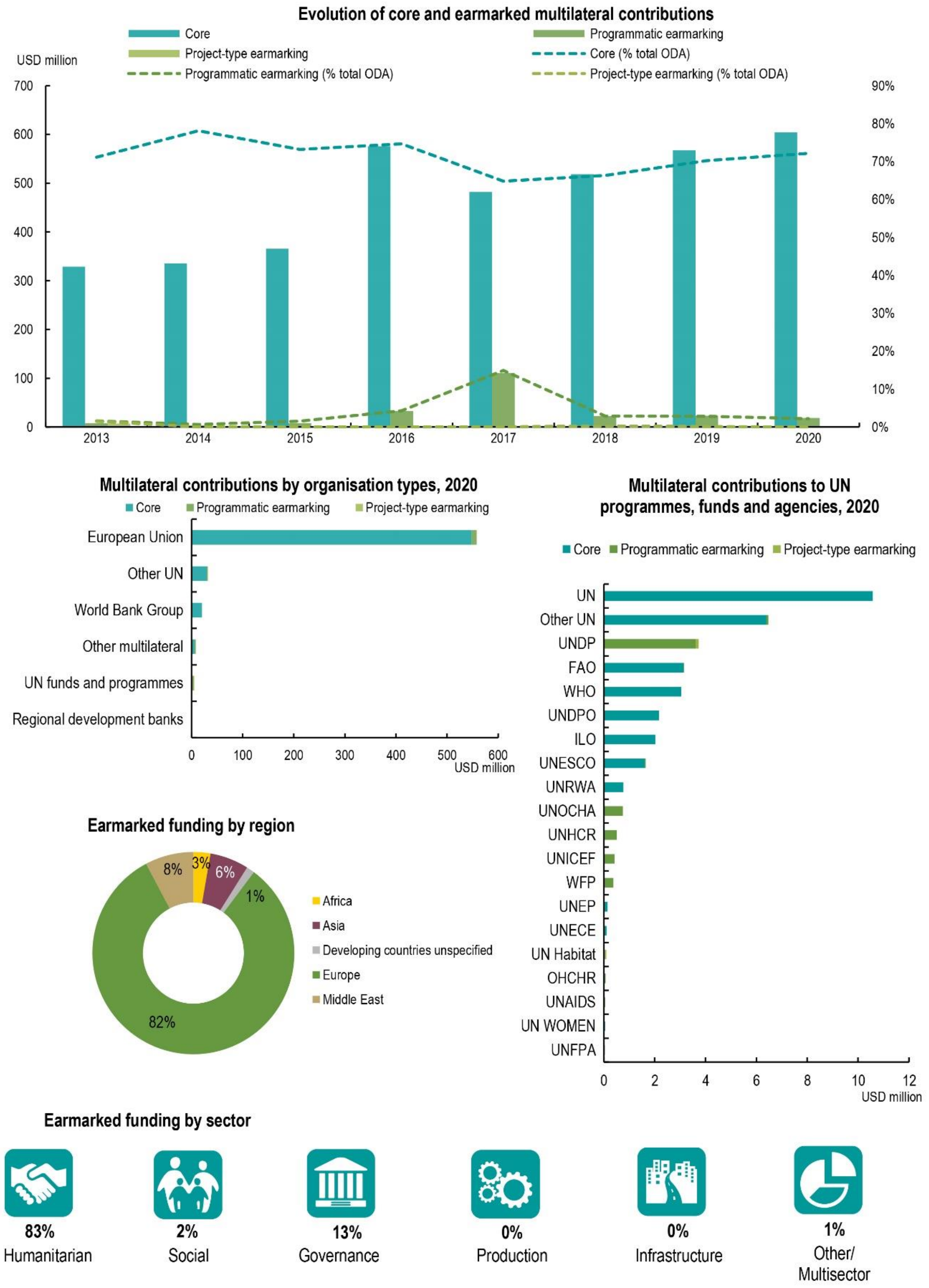
Figure A B.22. Poland: Use of the multilateral system



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StatLink https://stat.link/ck9og2

Figure A B.23. Portugal: Use of the multilateral system

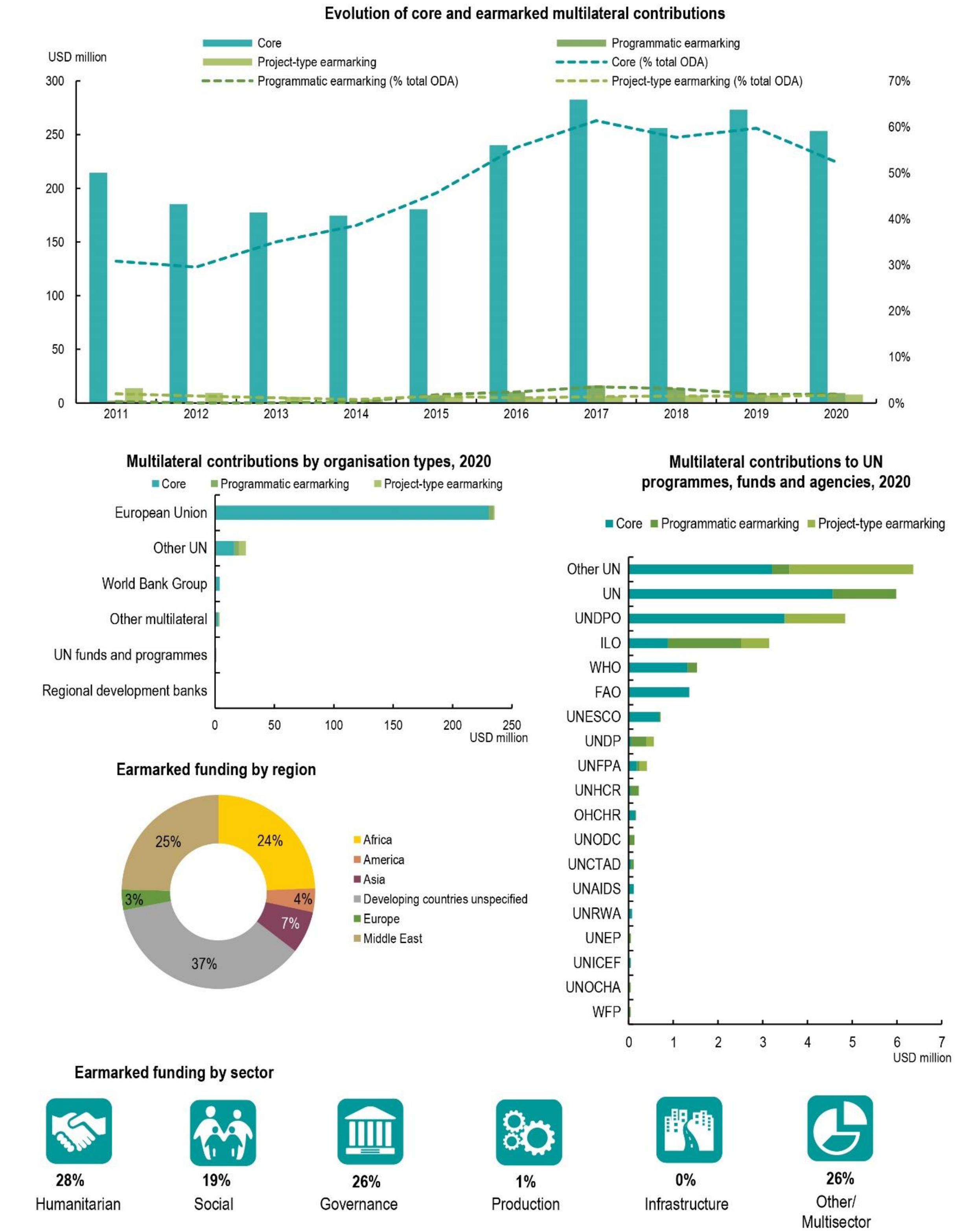

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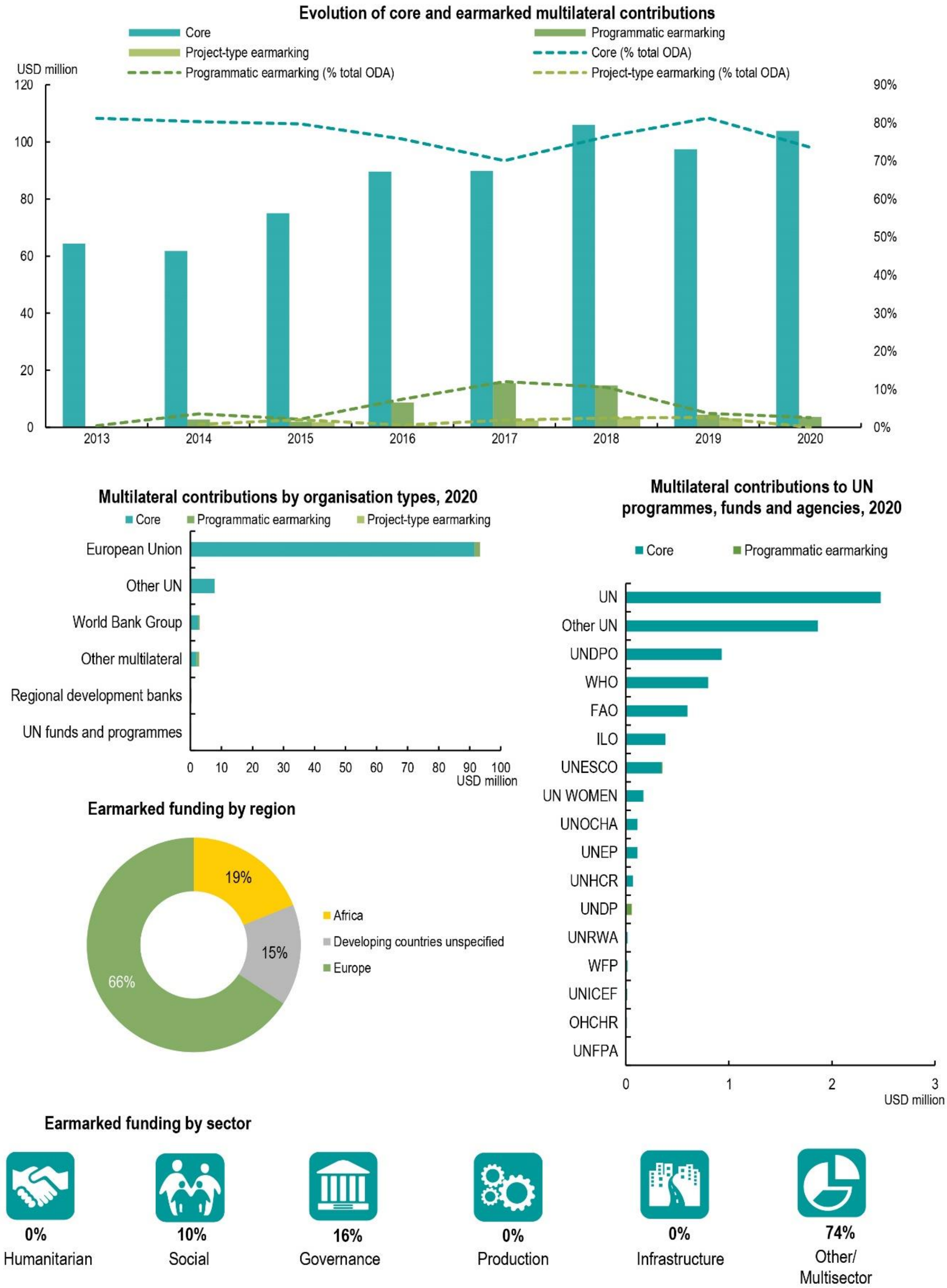
Figure A B.24. Slovak Republic: Use of the multilateral system



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StatLink https://stat.link/ec5sl8

Figure A B.25. Slovenia: Use of the multilateral system

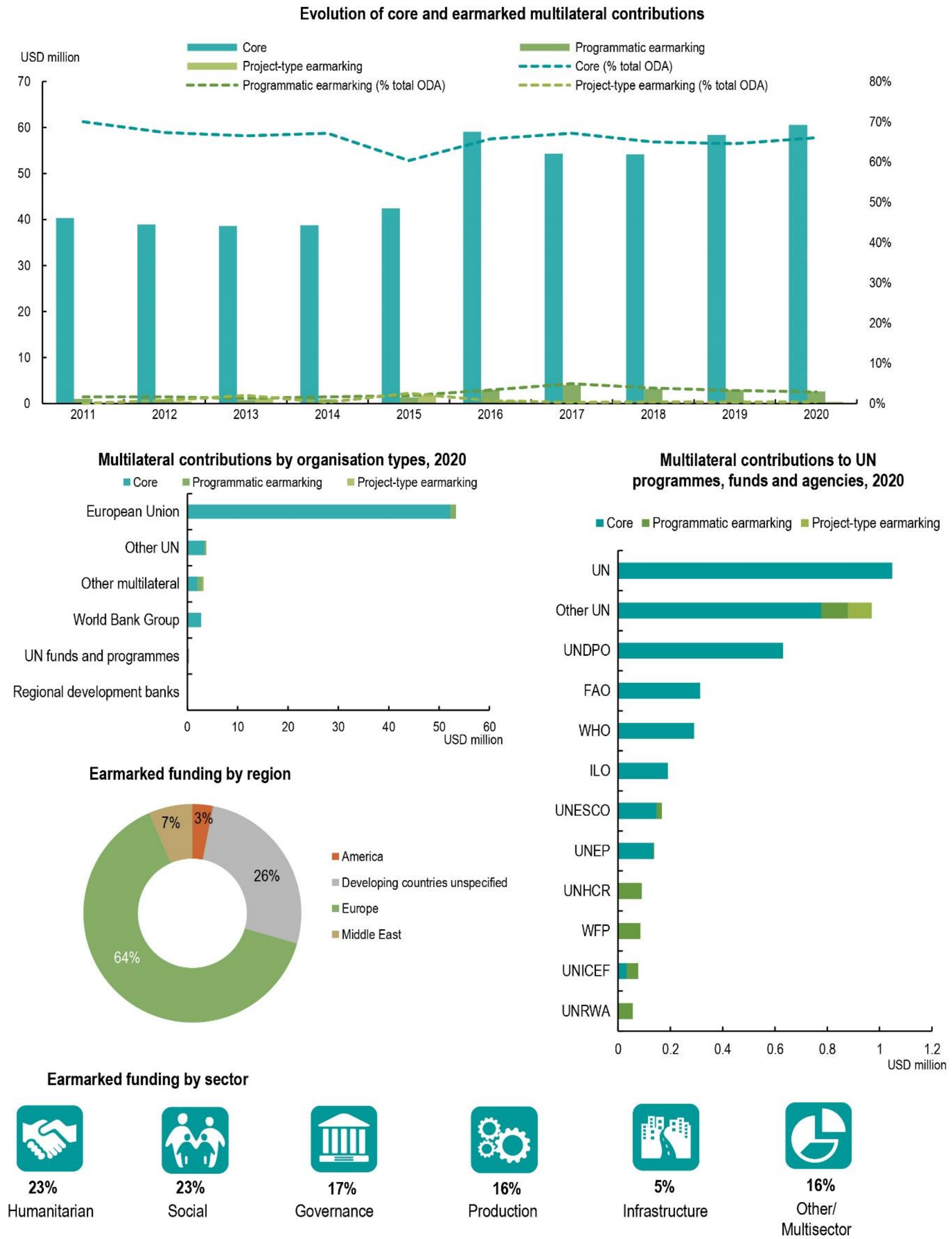

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Figure A B.26. Spain: Use of the multilateral system

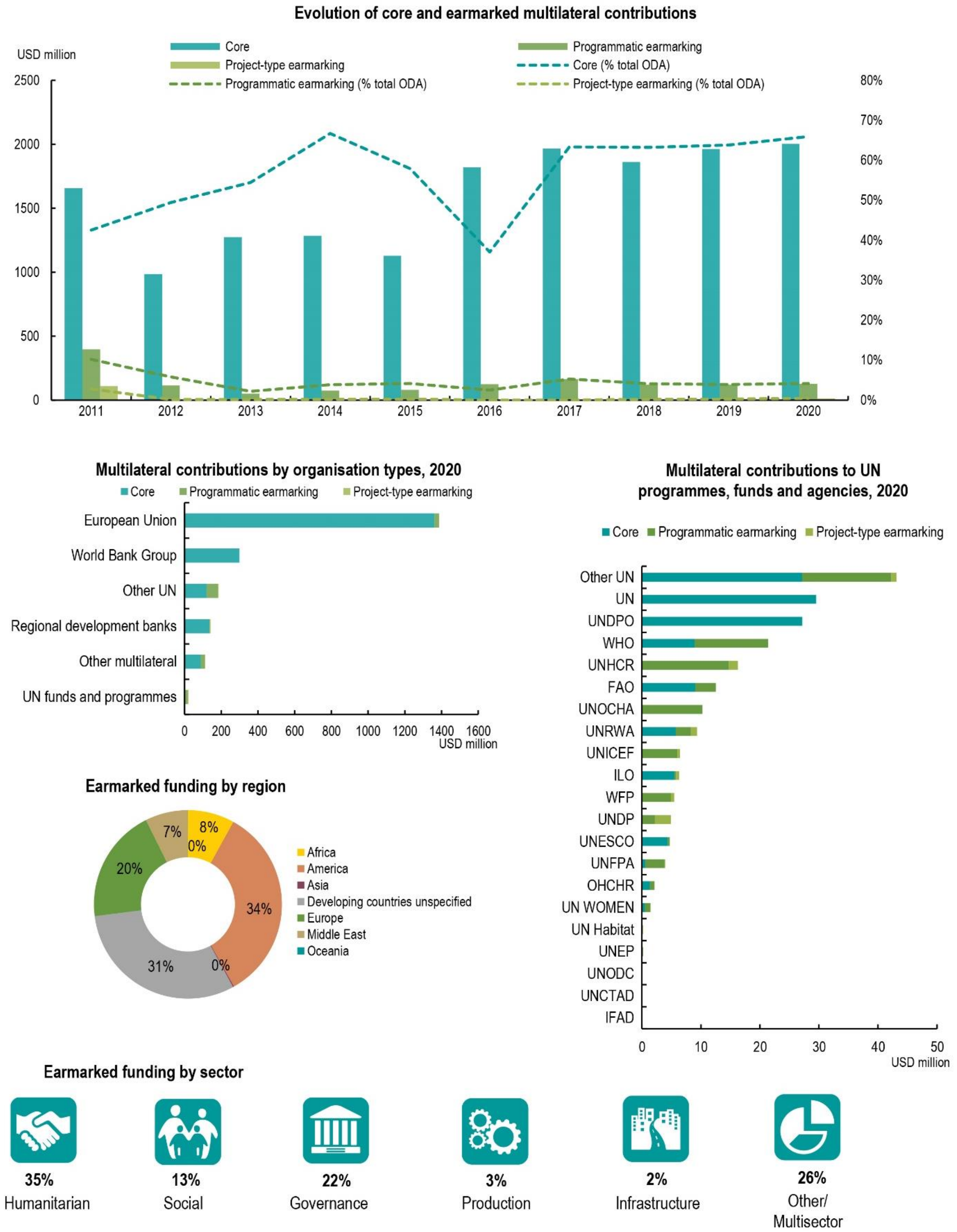

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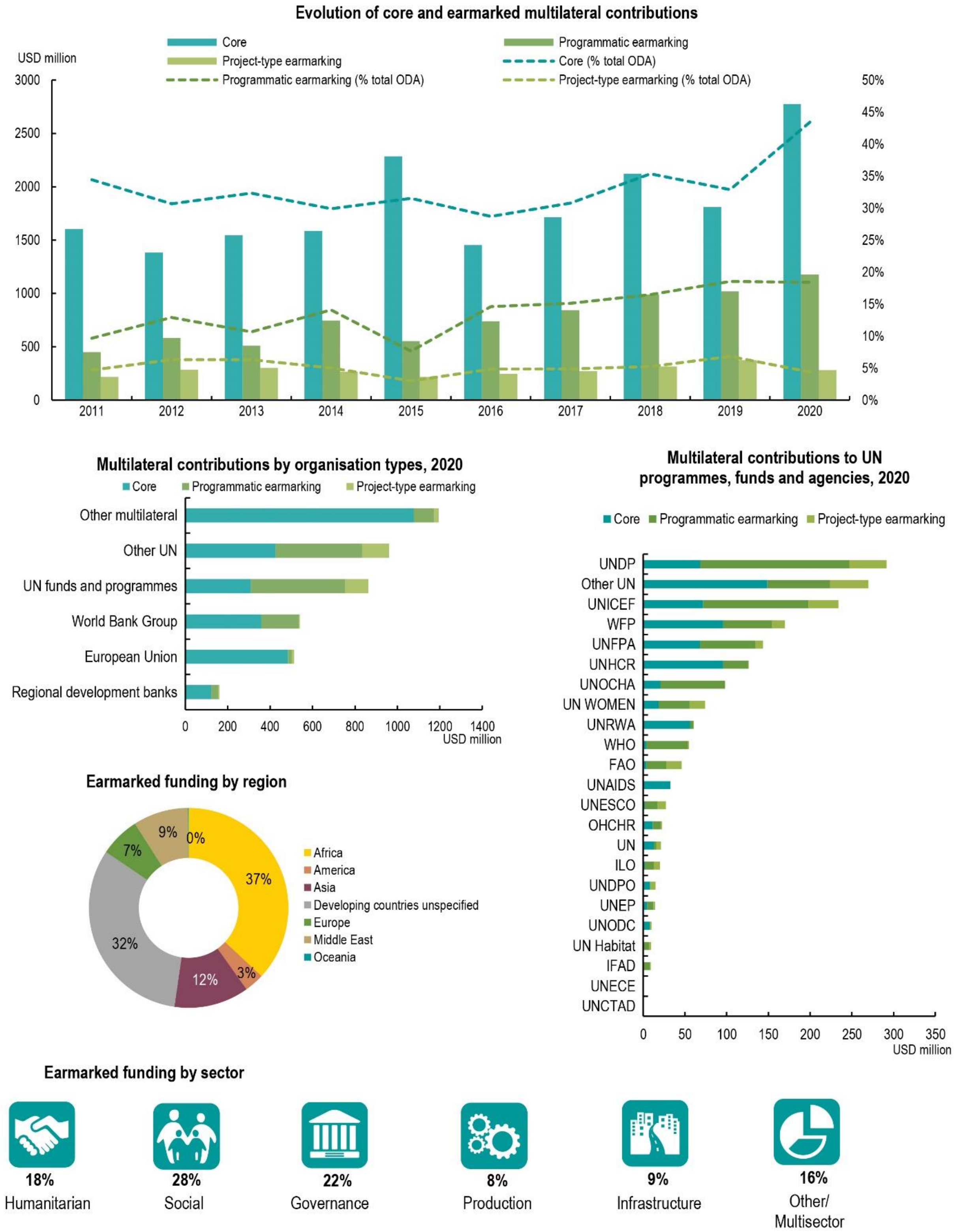
Figure A B.27. Sweden: Use of the multilateral system



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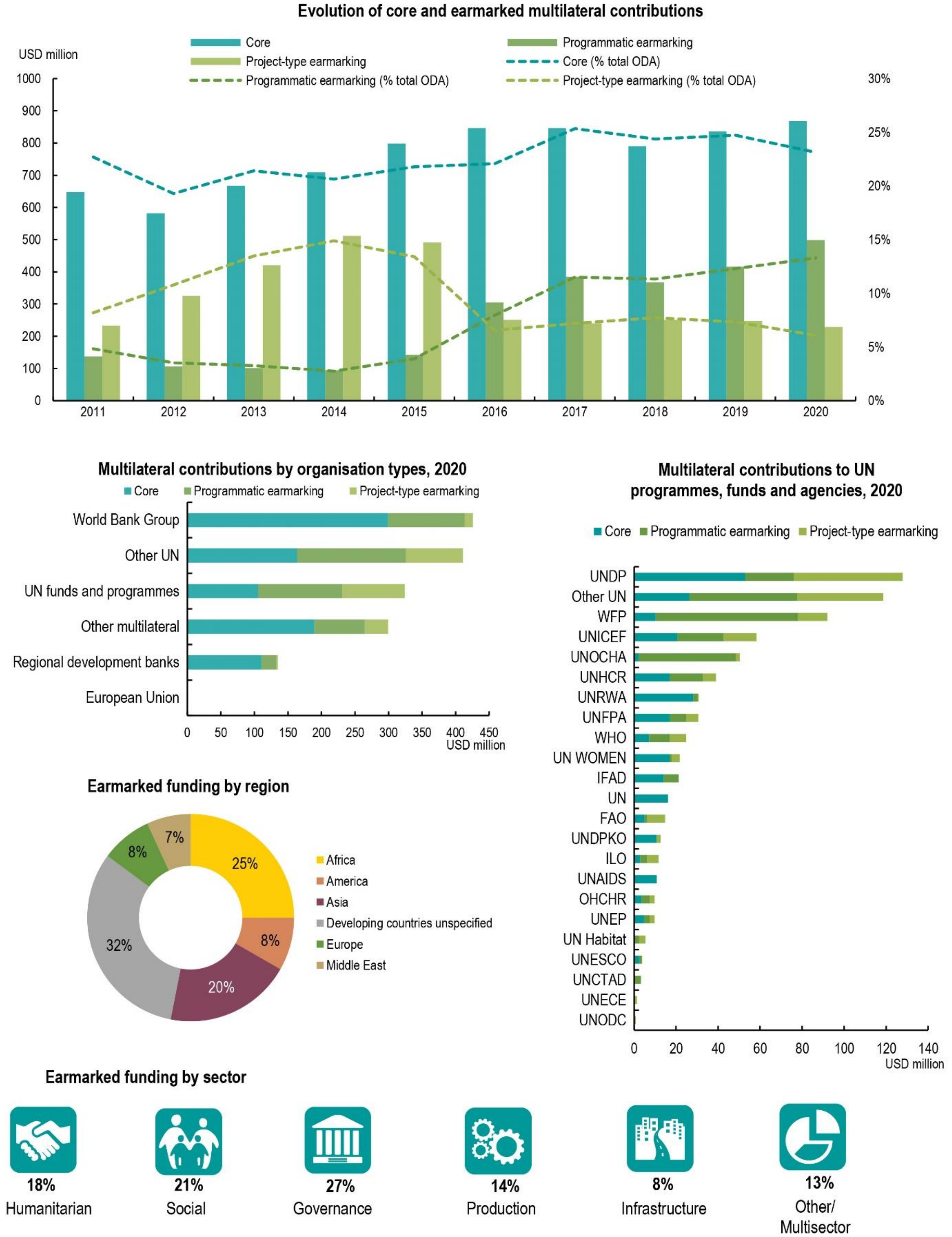
StatLink https://stat.link/y20p8b

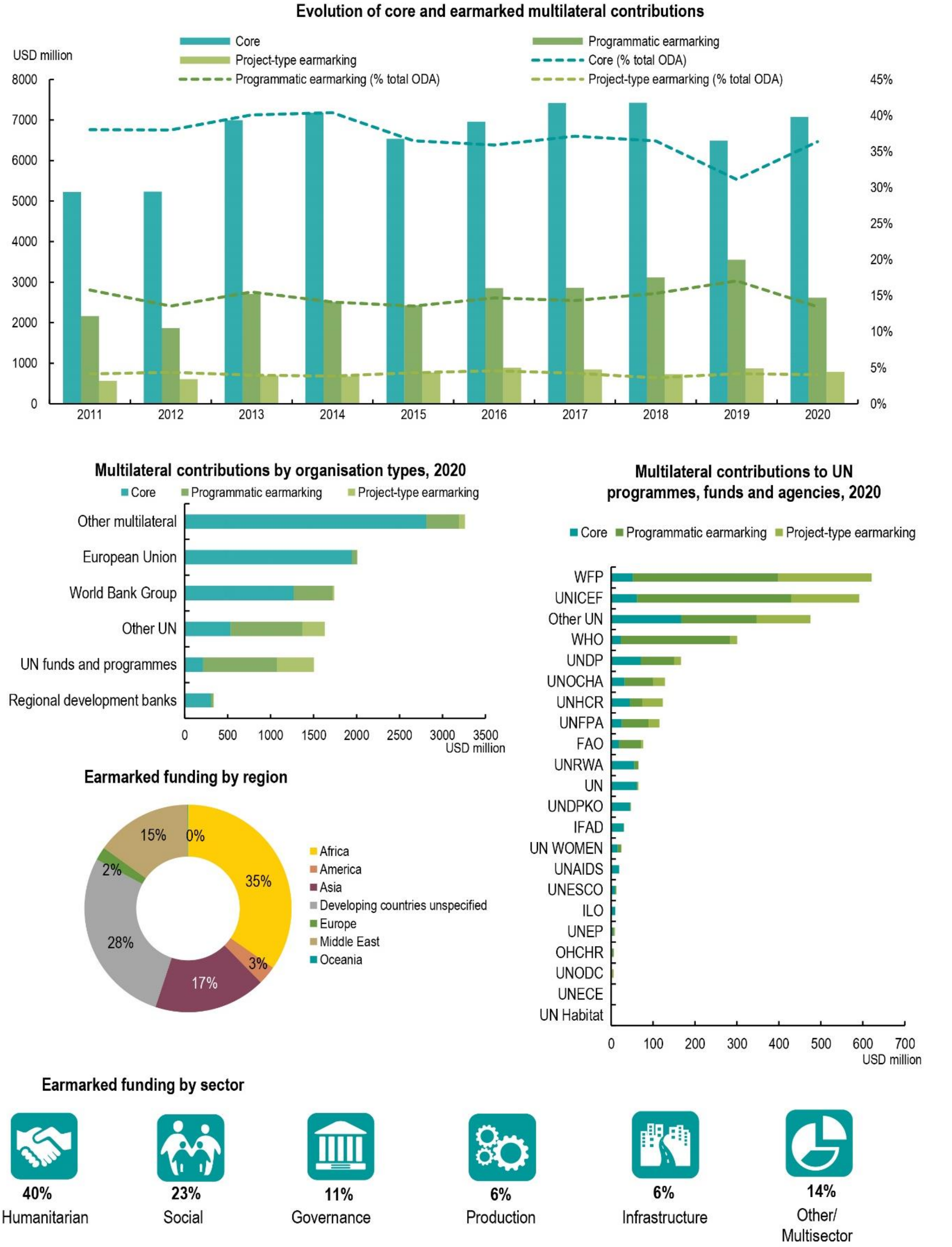
Figure A B.28. Switzerland: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/cxkszh

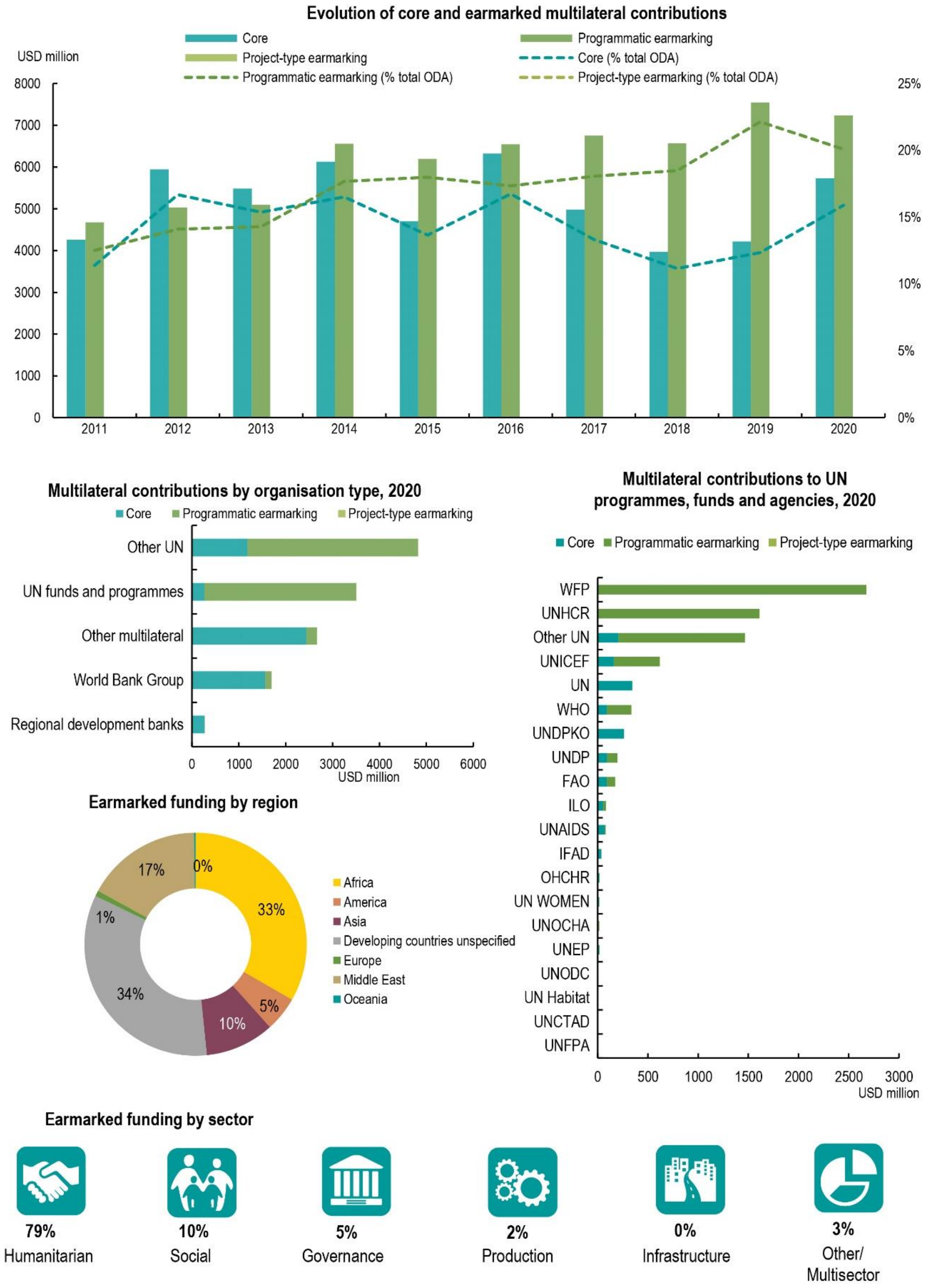
Figure A B.29. United Kingdom: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/r2pvjw

Figure A B.30. United States: Use of the multilateral system



Source: Authors' calculations based on (OECD, 2022[1]), "Creditor Reporting System", https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

StatLink https://stat.link/63bwh0s

Glossary

2030 Agenda 2030 or the 2030 Agenda for Sustainable Development: The 2030 Agenda for Sustainable Development is centred on the 17 Sustainable Development Goals (SDGs) agreed in September 2015. It is also conceived as a broad agenda that includes the AAAA as a framework for implementation and the Paris Agreement on Climate Change, and that builds on a history of multilateral agreements such as the Universal Declaration of Human Rights.

Addis Ababa Action Agenda (AAAA): Negotiated at the Third Financing for Development Conference in Addis Ababa, Ethiopia, in July 2015, the AAAA sets out a financing strategy for implementing the global sustainable development agenda adopted in September 2015. It includes more than 100 measures covering all sources of finance and includes co-operation on a range of issues include technology, science, innovation, trade and capacity building.

Core contributions/multilateral ODA: Core contributions to multilateral organisations are resources transferred to multilateral organisations and that the governing boards of these organisations have the unqualified right to allocate as they see fit within the limits prescribed by the organisation's mandate.

Earmarked/non-core/multi-bi contributions: Earmarked contributions are resources channelled through multilateral organisations over which the donor retains some degree of control on decisions regarding disposal of the funds. Such flows may be earmarked for a specific country, project, region, sector or theme, and they technically qualify as bilateral ODA.

Multilateral organisations: This report covers the over 200 multilateral organisations with governmental membership that carry out development activities. The OECD maintains the list of ODA-eligible organisations, which is publicly available at: https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/annex2.htm.

Multilateral outflows: Financial flows from multilateral organisations to partner countries or global/regional development issues.

ODA funding to the multilateral system: This term refers to all funds channelled to and through multilateral organisations. It encompasses core contributions to multilateral organisations (multilateral ODA) and earmarked resources channelled through multilateral organisations (also known as non-core resources or multi-bi funding).

Project-type earmarking: Project-type earmarked contributions are resources strictly earmarked for a specific use, at the project level, leaving no, or limited flexibility to the recipient organisation on their allocation. These resources include contributions to project-type interventions (aid type C01 in the DAC CRS list of codes), as well as contributions in terms of donor country personnel (aid type D01) and other technical assistance (aid type D02).

Programmatic earmarking: Programmatically earmarked contributions are resources that are earmarked with a greater degree of flexibility. These resources include contributions to specific-purpose programmes and funds managed by implementing partners (aid type B03 in the DAC CRS list of codes), as well as contributions to basket funds/pooled funding (aid type B04).

Multilateral Development Finance 2022

Nearly three years after the outbreak of the COVID-19 pandemic, a succession of mutually reinforcing crises and a challenging global context are putting the multilateral development system under pressure. Multilateral development finance is stretched across an ever expanding list of priorities, ranging from humanitarian crisis response to the provision of global and regional public goods. The urgent nature of these crises requires renewed efforts to strengthen the financial capacity of the multilateral development system but should not divert attention from other parts of the reform agenda, such as the need to reduce the fragmentation of the multilateral architecture.

This third edition of the *Multilateral Development Finance* report presents recent trends in multilateral development finance in order to inform decisions by the members of the OECD Development Assistance Committee (DAC) on their strategic engagement with multilateral organisations. It presents an overview of challenges and ongoing reform efforts, and examines the evolution of financial flows to, and from, multilateral organisations. The report is supplemented by online statistics on DAC members' multilateral contributions, available in the Development Co-operation Profiles.

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