Vol. 4, 2010-5 | February 1, 2010 | http://www.economics-ejournal.org/economics/journalarticles/2010-5

The Multilateral Donor Non-System: Towards Accountability and Efficient Role Assignment

Helmut Reisen

OECD Development Centre, Paris and WWZ, University Basel

Abstract Global governance refers to several pillars; one important pillar is the multilateral aid architecture. Its reform can be discussed under the perspectives of representativeness, inclusiveness, and efficiency (of aid delivery). A prerequisite for efficient aid delivery is to map the rising complexity of multilateral development finance, to help identify areas for consolidation, address fragmentation and poor co-ordination at country level, and help identify comparative advantages for an institutional role assignment among multilateral agencies. After doing just that, the paper explores why the multilateral donors have proliferated and provides broad recommendations for a more efficient and accountable multilateral donor system.

Special issue
Global Governance—Challenges and Proposals for Reform

JEL F 35, O19
Keywords Foreign aid; international organizations

Correspondence Helmut Reisen, Head of Research, OECD Development Centre, 2, rue André-Pascal, F 75775 Paris CEDEX 16/France; e-mail: helmut.reisen@oecd.org

1 Introduction

The rise of emerging countries with large populations and energy resources, arguably the dominant economic impulse of the 21st century, and the current grave financial and economic crisis generate a "unique opportunity for creative diplomacy" (Kissinger) for a new world order. Global governance refers to several pillars; one important pillar is the multilateral aid architecture to describe institutions and instruments to support global development and the supply of global public goods. The rise of emerging powers as new official donors, the creation of vertical funds to finance global health and other global commons, the growing role of non-governmental organisations and the increased presence of private philantropy have triggered a growing debate on the need to reform the multilateral aid architecture. Developing country recipients complain about the administrative burdens imposed on them by donor missions, evaluation bureaucracies, policy dialogues and other strings attached to aid money.

Global governance reform can be discussed under the perspectives *representativeness*, *inclusiveness*, and *efficiency (of aid delivery)*:

- The debate on the reform of the Bretton Woods institutions has been defined by the need to restore *representativeness* to the system to reflect the shift in economic and political clout toward the emerging countries; this perspective is familiar to a broad audience by now and extensively debated in the literature already (see, e.g., Boughton and Bradford 2007). IMF quota reform is now underway.
- The apparent shift in global governance from the G8 to the G20 in the wake of the global financial crisis 2007-09 has alerted some observers to the fact that global governance fails to be broadly *inclusive* even after that shift. The challenge is to find ways to have small countries participate in global governance, either through double-majority (budget *and* number of countries) voting principles, through delegated voting mechanisms or ad hoc coalitions (Narlikar and Tussie 2004).

- The *efficiency of aid delivery* has been emphasised in the *Paris Declaration*[1]. The Paris Declaration notes that *excessive fragmentation* of aid at the global, country or sector level impairs aid effectiveness. It called for increased donor complementarity to reduce transaction costs. Further, the Paris Declaration wants to promote a model of partnership that improves *transparency and accountability* on the use of development resources. It recognises that for aid to become truly effective, stronger and more balanced, accountability mechanisms are required at different levels.

The Accra Agenda for Action (AAA) commits donors and developing countries to "complete good practice principles on country-led division of labour" and to "start dialogue on international division of labour across countries by June 2009". This puts division of labour firmly on the agenda for multilateral donors just as much as for bilateral donors. As for multilateral aid, this efficiency aspect is little discussed so far, with the possible exception of streamlining UN aid under "One UN" (Chataîgnier 2008; Vatterodt 2008).

The 2009 OECD/DAC Report on Division of Labour (OECD 2009) examines the concept of aid fragmentation across countries and what has happened since the adoption of the Paris Declaration. It also proposes measures for concentration and fragmentation and options for tackling excessive fragmentation. The policy principle is that where a donor/ partner aid relation is particularly neither significant from the donor's point of view, nor from the recipient's point of view, there is an opportunity to achieve some rationalisation. In a "narrow" definition of concentration measures, the OECD score measures whether a donor provides a higher percentage of a recipient's aid than it provides of total global aid (the donor is "concentrated"), and whether the donor is also among the largest donors that together account for at least 90% of all aid to the recipient (the donor is an "important" donor). On average, one third of bilateral donors' relations fell in this group in 2008. For multilateral agencies, the concentration ratio was a little lower

1 The Paris Declaration, endorsed on 2nd March 2005, lays down a roadmap to improve the quality of aid and its impact n development. 56 partnership commitments are organised around five key principles: ownership, alignment, harmonisation, managing for results, and mutual accountability.
(http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html)

on average (26%), mainly because of the global mandate of many small agencies; the trend was negative as the OECD's narrow concentration measure for multilaterals fell from 29% in 2004.

Given the limited progress achieved toward less multilateral donor fragmentation since 2005, this paper is more radical: In order to promote accountability, it is proposed to assigning UN Millennium Development Goals (MDGs) (goals and/or targets) to multilateral agencies together with a specialisation among them along the lines of the Tinbergen rule.

In line with the objectives of the Paris Declaration this paper is concerned with the efficiency of aid delivery by multilateral donors; in other words, it works toward reducing redundancies, mission creep and overlap so beneficial for economists' and ex-politians employment but so burdensome to poor countries (and donor budgets). However, this paper is far from producing operational instruments that would foster devision of labour and accountability among the multilateral donor organisations. To be sure, donors cannot be made fully accountable for the attainment of a specific MDG, because it is usually influenced by many factors that cannot be controlled by them. Nonetheless, the MDGs have the advantage to break down into targets so that may actually facilitate traceability; moreover, they are timebound which opens the opportunity to try different organisational responsabilities over long time spans.

The next section will map the rising complexity of the donor landscape. Section 3 will then look for positive and normative explanations of the rise in multilateral complexity. Section 4 will briefly document the cost of complexity to donor budgets and to recipients. Section 5 will try to identify avenues toward efficient role assignment.

2 Mapping the Multilateral Donor Non-System

The international development-finance system has become highly complex. New actors, both public and private, have emerged as important sources of finance. Traditional donors have begun using new financing instruments to deliver their aid. The goals of development assistance—already numerous—have broadened to include global and regional public goods. One would like to think that the international aid architecture is an orderly process guided by simple principles, but the trends clearly show that we have a *non-system*[2]. Unlike some of its elements (such as the Bretton Woods sister organisations), this non-system does not result from coherent design, but is a child of spontaneous disorder. In recent years, the multilateral aid system has been growing in complexity. Too many multilateral organisations, with overlapping mandates, complex funding arrangements and conflicting requirements for accounting and reporting seem at odds with the aid effectiveness agenda.

The multilateral donor non-system needs serious mapping, a time-consuming exercise that is only now being started at the OECD/DAC[3]. What is the rationale of mapping? Such mapping identifies overlaps—leading to reduction of multilateral remit or proposals for consolidation; rivalries - leading to clarification of roles; and absences of co-ordination—leading to the design and implementation of co-ordinating structure. The mapping of the multilateral landscape is required to help identify areas for consolidation, address fragmentation and poor co-ordination at country level, and help identify comparative advantages for institutional role assignments among multilateral agencies. These are preconditions for the multilateral system to deliver aid effectively, with benefits for donors and partner countries alike.

The DAC's Creditor Reporting System (CRS—database of aid activities) allows for recording the 'channel of delivery' in order to collect information on aid routed *through* the multilateral system. It thus provides a natural starting point for mapping multilateral donors. Late 2008, the CRS listed 263 international organisations to which core contributions count as official development assistance (ODA); this count includes public-private funds such as the Global Environment Facility (GEF) and Global Fund to Fight AIDS, TB, and Malaria (GFATM). The OECD (2008) study covered 229 agencies of the 242 that were on the list in 2007, since no information—not even a website—could be found for the other 13 organisations.

2 I borrow the term from M. W. Cordon (1983) who has applied it to describe the Post-Bretton Woods international monetary system; as Corden stresses, the term non-system in ino way implies that it can't survive or ist necessarily inferior to planned intended systems.

3 See OECD (2008).

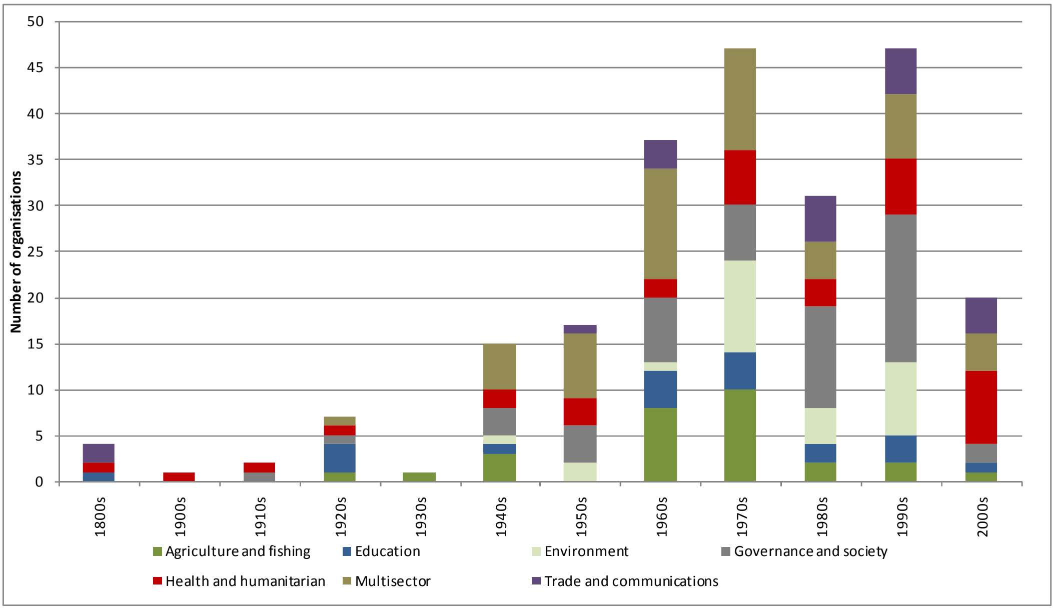
The multilateral donors fall into three broad categories, according to CRS classification:

- 47 UN agencies, funds and commissions,
- the IMF (2 trust funds) plus the multilateral agenccies (5 bodies IDA, IFC, IBRD, MIGA, more than 1000 trust funds) of the World Bank, 12 regional development banks and funds,
- other, which comprises NGOs, global funds and the European Commission with four bodies.

Add to this the 23 DAC donor governments with each a varying number of extending agencies, 35 international non-governmental organisations, five main public-private partnerships, and you get a rough idea of the 'old' donor cartel. The cartel has recently been complemented by a growing number of non-traditional donors, from China and other emerging markets, often in the context of a scramble for energy extraction rights (Paulo and Reisen, 2010).

Figure 1 shows the number of organisations founded each decade by their main sector of activity. Early multilateral organisations are found in cross-border trade and communications, with the creation of the International Communications Union (1865) and the Universal Postal Union (1874). The bulk of the organisations/funds have been created since 1945. Only 15 of the organisations existed in 1940. In the 1940s, 15 more organisations were founded, following the creation of the Bretton Woods institutions in 1944 and the UN in 1945. The 1960s and 1970s saw an explosion of new agencies, with the creation of major bodies such as the UNDP and African and Asian Development Banks in the 1960s and 10 environmental (including UNEP and Habitat) and 10 agricultural research bodies in the 1970s. The 1980s and 1990s saw a rapid growth in agencies addressing governance and societal issues, most of them relatively small organisations. The health sector is often cited as highly fragmented, which may be in part due to the growing number of non-official actors. As far as official bodies are concerned,

Figure 1: The Proliferation of International Organisations (by decade of establishment and sector of activity)



Source: OECD (2008).

there are now 34 health and humanitarian agencies on the list, almost half of them created since 1990.

Table 1 provides information for country programmable ODA, the multilateral donor's share in total CPA, and respective staff numbers[4], which excludes

4 Vaubel et al (2007) analyse staff growth in 27 international organizations in the years 1950–2001. From the first to the last year, staff increased at a compound average rate of 3.2% per annum, while the number of member states rose by only 2.5%. The pooled analysis of 817 observations (including task proxies and organization dummies) reveals that (i) the elasticity of staff to membership is much larger than unity (1.36), (ii) United Nations organizations have significantly more staff, (iii) international organizations in the United States and Switzerland have significantly less staff, (iv) heterogeneity in terms of per capita income limits the size of an international organization and that (v) its staff is larger if its membership comprises many industrial or (former) communist countries.

Table 1: Selected Multilateral Donors, avg 2005/2006 (in 2006 $)

Organisation	Country Programmable ODA (CPA), gross, bn $	Donor's Share in Total CPA, per cent	Number of staff, end 2007	Percentage of administrative budget to ODF**
IDA/IBRD (World Bank)	8.2	13.0	8,600	7
EC	6.4	10.2	4,400*	n.a.
Asian DevFund (ADB)	1.4	2.2	2,700	8
The Global Fund	1.1	1.8	450	n.a.
African DevFund (AfDB)	0.9	1.5	1,042	12
IMF (PRGF)	0.7	1.1	2,500	75
UNRWA	0.6	0.9	27,000	52
IDB Special Fund	0.5	0.8	1,745	11
UNICEF	0.5	0.8	7,200	14
UNDP	0.4	0.7	5,300	129
Total (242 in 2007)	43.0			

Sources: OECD, DAC (2008); *The Economist*, July 5th, 2008 for UNICEF; Annual Reports for others, except *, which is based on EU sources; **ODF is the sum of official development assistance and nonconcessional lending (Easterly and Putze 2008).

consultants and other temporary staff . Commitments of core and non-core funding to these agencies amounted to around USD 43 bn in 2006, out of a total of USD

133 bn[5]. Just five of them (EC, IDA, The Global Fund, Asian and African Development Banks) account for two thirds of the funding to the agencies. At the other extreme, 100 agencies (40% of the total) are estimated to have an annual revenue of USD 20 million or less and combined receive only around USD 800 million in ODA (2% of the total). The ten multilateral donors listed in table 1 accounted for 33 % of total CPA during 2005–2006.

Equipped with considerable manpower and administrative budgets, multilateral donors are well equipped to demonstrate their *raison d'être* should any doubts arise. In their struggle for survival, international organizations can be generally expected to modify their mission statements over time. To quote Babb and Buira (2005, p. 59) on the Bretton Woods sisters:"Founded at the end of World War II to help lay the foundations of a new era of stability and prosperity, the World Bank and the International Monetary Fund (IMF) are widely viewed as having evolved in ways that would have surprised their founders. A term that has gained popularity among World Bank and IMF critics is "mission creep," or the systematic shifting of organizational activities away from original mandates."

The so-called *Malan Report*[6], a Fund/Bank-sponsored "Report of the External Review Committee on Bank-Fund Collaboration", released on 27th February 2007, asked the International Monetary Fund to stop offering long-term finance to developing countries, leaving the World Bank to be the global development agency, as its work overlapped with the World Bank and that it should refocus its efforts on macroeconomic areas where it had greater expertise. Further, it admonished that there is currently no robust dialogue between the Bank and the Fund as they consider their future strategies and the implications this may have for how they work together. In particular, bank staff expressed concerns over directions in the Fund's medium-term strategy, particularly the role of the Fund in

5 DAC member countries also channel large amounts through the multilateral system that are earmarked either by sector, theme, country or region—referred to as multi-bi or non-core aid (USD 11 bn in 2006). These funds are reported as bilateral ODA in DAC Statistics.

6 To be sure, the *Malan Report* also pointed to many examples of good collaboration between the Bank and the Fund, such the Financial Sector Assessment Program (FSAP), the Heavily Indebted Poor Countries (HIPC) Initiative, and the debt sustainability analysis and framework.

low-income countries and the division of responsibilities over financial sector issues.

Weary of agency patronage that links the two organisations to different ministries in most donor countries, the External Review Committee insisted that this should involve a meeting of 24 Governors, not 48. Each country and constituency should determine whether they will be represented at this joint meeting by their Bank or Fund Governor (where they differ). “This alone may encourage greater collaboration in capitals, particularly between Finance Ministries/Central Banks and Aid/Development Ministries” (IMF 2007, p. 8).

Table 2 tries to juxtapose original mandates and information derived from recent mission statements. Substantial *overlap* becomes visible as the International Monetary Fund has encroached upon the fields originally occupied by the multilateral development banks, while the World Bank has tried to shift activities into areas originally dealt with by the UN system. So while the UN and the Bretton Woods Institutions were established with the intention that they would be complementary, their mandate shift has led to competition, overlap and duplication[7].

The UN Development System has attracted considerable attention for its overlapping roles and mandates (OECD/DAC 2005). Three agencies in Rome are concerned with food security: FAO, WFP and IFAD; two UN organisations deal with health services for youngsters and young women: UNFPA and UNICEF; UNDP has three service lines related to AIDS, notwithstanding the UN organisation created to deal with Aids, UNAIDS; and the environment sector is taken care of by three UN bodies: UNDP, UNEP and UNIDO. Table 3 presents a notion of duplication and overlap in the area of ‘aid for trade’[8].

7 The International Development Association (IDA), the concessional lending arm of the World Bank, has a replenishment mechanism based on three-year cycles of negotiations and agreements with donors. The rising share of debt-sustainability IDA grants and lower share of soft loans over the past replenishments potentially leads to competition with the UN, which has traditionally used grant funding for its operations.

8 Country overlap, mission creep and duplication are not confined to the UN system, however. At the multilateral and regional development banks the duplication in country allocation seems to have intensified, with most overlap in Central Asia (ADB, EBRD, World Bank, Council of Europe Development Bank and European Investment Bank).

Table 2: Mandate Shifts of Selected International Organizations

	Core Mandate Originally	Core Mandate Today	Remarks
IMF	Help countries facing temporary balance-of-payments problems in a global fixed exchange-rate system.	Crisis management and resolution, surveillance over macroeconomic and exchange rate policies, and provision of international liquidity.	*Meltzer Commission:* IMF should restrict its financing to provision of liquidity, and stop lending to countries for long-term development. Poverty Reduction and Growth Facility (PRGF, the IMF's concessional lending facility for low-income countries) should be eliminated. *Malan Report:* stop offering long-term finance
World Bank	Public loans for postwar reconstruction and development, from capital-rich to capital-poor countries. The capital commitments of rich countries lead to low borrowing cost.	The World Bank has been adding tasks to its mandate for years, from structural adjustment loans, support for opening, Balkan reconstruction to education for girls in Muslim countries to the fight against AIDS. IDA becomes more grant-based.	To eliminate the overlap across the activities of the World Bank and regional banks, the *Meltzer Commission* would make the regional development banks the sole provider of long-term loans.
UN	To maintain international peace and security; to develop friendly relations among nations; to cooperate in solving international economic, social, cultural and humanitarian problems and in promoting respect	In September 2000, some 150 presidents, prime ministers and other world leaders met at UN Headquarters to sign the "Millennium Declaration", which implies specific, obtainable targets to be reached by 2015.	*Delivering as One*, the Report of the Secretary-General’s High-Level Panel on UN Reform mentions a list of potential overlaps between the work of the Secretariat—particularly its Department for Economic and Social Affairs (DESA)—and UN Funds and Programs in the areas of trade and development,

	for human rights and fundamental freedoms; and to be a centre for harmonizing the actions of nations in attaining these ends.		macroeconomic issues and finance, sustainable development and human settlements or population issues.
Regional Development Banks	Initial mandate similar to the World Bank, to provide soft loans to mostly government-led projects in transportation, power and infrastructure in the respective regions. Comparative advantage: feeling of ownership.	Shift in emphasis towards policies aimed at reducing poverty and strengthen health and education, often through direct member contributions (soft windows) or grants. Increasing trade-capacity assistance.	*Gurria/Volcker Commission on the Role of Multilateral Development Banks in Emerging Markets* defends lending to countries with access to private capital, recommends enhanced credibility to induce policy change.

Source: Own tabulation based on mission statements found in annual reports.

The Report of the UN Secretary-General's High-Level Panel on UN system-wide coherence in the areas of development, humanitarian assistance and the environment (*UN—Delivering as One*), released on November 9, 2006, recommended "that the UN Secretary-General, the President of the World Bank and Executive Director of the International Monetary Fund set up a process to review, update and conclude formal agreements on their respective roles and relations at the global and country level". Two years later, Vatterodt (2008) finds that progress has been very limited: UN organisations still had not conducted an analysis of their comparative advantages and failed to define their division of labour on the basis of the results. To be sure, this finding would not surprise Dame

Table 3: Aid for Trade: Major Implementing Agencies (USD million)

	Total aid -for-trade	Trade Policy and Regulations	Trade Development
ITC	18	2	16
FAO	16	6	10
UNIDO	15	7	8
UNCTAD	12	10	2
WTO	10	10	0
UNDP	6	5	1

Note: These organisations (except UNDP) do not report to regular DAC statistics, only to the WTO/OECD database. As a consequence, the trade development category is included in the table instead of building productive capacity.

* Annual average over 2001–2004 at constant 2004 prices.

Source: SECO/OECD/DEV Report, December 2006, mimeo, unpublished.

Anstee[9]. If the UN is unable to overcome its fragmentation, so Chataîgnier (2008), it will not overcome its marginalisation in the persuit of global public goods, to the satisfaction of unilateralists.

Eight Millennium Development Goals (MDGs) were unanimously agreed by UN member nations in 2000. The Goals seek to focus international development efforts on the reduction of extreme poverty, the provision of universal primary education, combating key threats to health, environmental sustainability and a fairer international trading and financial system. United Kingdom's National Audit

9 Dame Margaret J. Anstee, a former UN Under Secretary-General, noted in a letter to the *Financial Times* (10-02-2007): " Indeed, the general thrust of the report echoes the themes of the seminal Report on the Capacity of the UN Development System, prepared in 1968 under the leadership of the late Sir Robert Jackson. Why were those recommendations not implemented 40 years ago? The reason lies in the entrenched vested interests of governments and of UN organizations and agencies, which saw their national, bureaucratic and personal fiefdoms threatened by the proposed changes. Those same forces will militate against the implementation of these latest proposals, and of any major reforms, unless there is a concerted effort by key governments of both developed and developing countries to generate the collective political will and commitment to see them through, including a radical change in the selection of the top management of the UN system".

Table 4: Unclear Institutional Assignment to the MDGs

Selected Multilaterals Working on the Millennium Development Goals		
MDG / Thematic Area	Main Multilaterals	Other Multilaterals with a Role
MDG1: Eradicate extreme poverty and hunger	UNDP, World Bank, AfDB, AsDB, IFAD, EC, FAO, WFP	CGIAR, IADB
MDG 2: Achieve universal primary education	World Bank, UNICEF, UNESCO	UNFPA, UNRWA
MDG 3: Promote gender equality and empower women	UNDP, World Bank, UNIFEM, UNICEF	UNFPA
MDG 4: Reduce child mortality	WHO, UNFPA, UNICEF	World Bank, WFP, UNRWA
MDG 5: Improve maternal health	WHO, UNFPA	World Bank, WFP
MDG 6: Combat HIV/AIDS, malaria, and other diseases	UNAIDS, World Bank, WHO, UNDP, UNFPA, UNICEF	UNIFEM
MDG 7: Ensure environmental sustainability	UN Habitat, World Bank, AsDB, UNDP	CGIAR, UNIDO
MDG 8: Develop a global partnership for development	World Bank, EU, UNDP, UNIDO, ILO, UNCTAD	UNDP
Human rights	OHCHR	UNIFEM
Conflicts and humanitarian emergencies	UNCHR, OCHA, ECHO, WFP, UNICEF, WHO	UNDP

Source: National Audit Office (UK), (2005).

Office (2005) has conducted some simple exercises in an attempt to map the relationship between multilaterals and the MDGs. For each MDG and other thematic areas not covered by the MDGs (human rights, and humanitarian emergencies and conflict), Table 4 shows the key multilateral institutions which have stated objectives for achieving them. This analysis is based on the multilaterals' own corporate information. The multilateral duplication and overlap in serving the MDGs is striking, costly and inefficient. Note also that the table does not reveal duplication and overlap *within* multilaterals, which can be striking[10].

3 Explanations for the Rising Multilateral Donor Profilation

Explanations for the rising multilateral donor proliferation can be grouped as normative and positive. Normative explanations mostly center around the need to supply global public goods (Kaul et al. 2003) such as

- climate change; food, water and energy shortages; global health problems
- terrorism, ethnic conflict, and social fragmentation; and
- the global economic order, financial instability, threat of protectionism, and job insecurity.

The switch from a unipolar world and the proliferation of now sovereign states can be taken as further normative explanations to explain multilateral donor proliferation. The global spillover of diseases, conflict, and financial crises and the inability of single actors to appropriate fully the benefits of remedial actions justify the creation multilateral actors who can help avoid the undersupply of global public goods:

- Unilateral action fails because each country has an incentive to under-reveal demand for a non-excludable good or to reduce expenditures when allies increase theirs (Olson and Zeckhauser 1966);
- Fiscal illusion and majority voting explain inadequate finance for international cooperation (Jones 2006). A public choice analysis of voters' behavior yields

[10] The OECD, for example, although no donor agency, in 2009 had seven independent units or directorates devoted to 'outreach' activities (mostly policy dialogue) with non-member countries; some of these (African Partnership Forum, Heiligendamm Process Unit, Partnership for Democratic Governance) had been created in the wake of G8 summits, whence the nickname "G8 graveyards" used occasionally by staff for these entities.

the prediction that finance for international cooperation will be inadequate to redress failure in the global economy. Voters' perceptions are distorted (fiscal illusion), and reliance on specific voting rules exacerbates the impact of such distortion (through majority voting bias). Voters systematically underestimate the benefits of expenditure on international programs, particularly by comparison with expenditure on domestic programs.

Positive political economy, in contrast, explains the growth of international organizations without justifying it. The growth of international organizations can be attributed to the self interested utility-maximizing behavior of rational politicians and civil servants, including international bureaucrats who have a vested interest in the expansion of their organization (Vaubel et al. 2007). A seasoned observers of the multilateral aid scene has expressed a similar perception. To quote Andrew Rogerson (2004, p. 3):

"In 50 years of aid no major institution has exited the market through closure or merger, with considerably more in existence today than when the share of aid in GDP was a third larger. They overlap in many ways under a rhetoric of 'harmonisation', (prevalent since Monterrey in 2002) and which is, doubtless coincidentally, selfpreserving. The creation of some institutions was deliberate, as a result of perceived deficiencies in existing ones. The latter were nonetheless allowed to continue, and even grow in parallel. Yet others are often seen as having little impact but struggle on in a diminished form through patronage ties, inertia, non-transparent funding formulas, and by eschewing any controversy that could tip political opinion towards outright closure."

To be sure, staff numbers have declined over recent years in the FAO, ICAO, ILO, UNESCO and WHO (Vaubel et al. 2007). Still, Rogerson's view is supported by principal-agent theory as multilateral agencies pose a variety of two-stage principal-agent problems. Just as governments are supposed to be agents of their (median) voters, international organizations are appointed as agents of their member governments. Since both agents are only imperfectly controlled by their principals, there is a two-stage principal-agent problem. The principal-agent problem may have intensified over recent decades with repect to multilateral donors.

Nielson and Tierney (2003) propose an agency theory of international organizations, addressing two persistent problems at international organizations:

i) long delegation chains from member governments (the principals) to the officers (so-called errant or runaway agents) who follow their own interests in maximising budget control and power; and ii) the common agency problem as member governments of an IO typically comprise a *collective principal*, and they must overcome a host of familiar collective-action problems before and while they delegate authority to an agent.

Moreover, the number of countries has risen in the wake of the breakdown of the former Soviet bloc, hence the common agency problem has intensified. As noted by Olson (1965) in his seminal study, agency slippage has a tendency to increase with the number of principals. Thus, bureaucratic inefficiency in international organizations is likely to rise with the number of member states. As the number of member states grows, the financing share of each member state and hence its share in the revenue from controlling the international bureaucracy decline. The governments, the media and the citizens of the member states lose interest in monitoring the performance of the international agent.

As the asymmetric information problem has increased with the number of countries and top-level development commitments, bureaucrats have taken advantage in requesting greater annual budgets, as suggested by the economic theory of bureaucracy; such budget appropriation is facilitated when there is no accountability in terms of clearly quantifiable and attributable results.

The average percentage ratio of salary to development financing is 2 for bilateral aid agencies, while it is 8 for multilateral donor agencies (Easterly and Putze 2008). The rise of staff in multilateral agencies makes it increasingly difficult, if not impossible, for bilateral agencies to monitor and control the biggest multilaterals, such as the World Bank. Vaubel, et al. (2007) analyse 27 international organizations in the years 1950–2001. During that period, staff increased at a compound average rate of 3.2% per annum, while the number of member states rose by only 2.5%. This may indicate a rise in bureaucratic inefficiency which takes the form of excess inputs, especially staff, as rising monitoring cost for the principals—the donor governments—have encouraged agency slippage by multilateral donors.

Much of the economic literature aims at rationalizing multilateral institutions relative to bilateral donors. Bulow et al. (1992) had explained a supposed superior enforcement capacity by multilateral development banks with *de jure* seniority (preferred creditor status), at the expense of bilateral creditors. The hypothesis was based on evidence that IFIs extracted repayments better than bilaterals during the 1980s debt crisis. Note that the emrgence of Petro lenders and of China as new donors may have undermined discipline and reduced recipients' demand for multilateral lending. Cohen, Jacquet and Reisen (2006) find more *defensive lending* during the 1990s with multilateral than with bilateral lenders. This finding undermines the tale of the better extraction technology of multilateral donors.

Rodrik (1995) postulates two multilateral advantages. First, since information on the quality of investment environments in different countries is in many ways a collective good, multilateral agencies are in a better position to internalize the externalities that may arise. Second, as long as multilateral agencies retain some degree of autonomy from the governments that own them, their interaction with recipient countries, while official in nature, can remain less politicized than inter-governmental links. This in turn endows multilateral agencies with an advantage in the exercise of conditionality. However, the collective-action/monitoring argument advanced by Rodrik would militate for concentration of multilateral financing mechanisms and organizations, not for the multilateral sprawl we are witnessing.

So it it does not surprise that Rajan and Subramanian (2005) find that multilateral aid is not more or less effective than bilateral, despite the presumption that multilateral aid is less tied, less explicitly "political", and better supported by conditionality than bilateral aid and should therefore have a different impact.

4 Towards Accountability and Efficient Assignment

Multilateral development finance has become too complex for both donor budgets and recipients' administrations. The proliferation of donors on the ground entails high transaction costs for all recipient countries[11]. Recipient-country administrations suffer from this complex system, overburdened by the number of interlocutors. Knack and Rahman (2007) analyse the impact of donor fragmentation on the quality of government bureaucracy in aid-recipient countries

[11] To be sure, some overlap between multilaterals may be useful. A degree of competition may create diversity in policy advice and service delivery and may add to the stability of aid flows. That said, however, a more harmonised approach will have a major role to play in raising the standards of aid delivery.

and find that donor fragmentation leads to an erosion of bureaucratic quality. Competition among multilateral aid donors is therefore no solution for the supply and delivery of aid, a global public good with important externalities that tend to create natural monopolies.

Several steps are required to make progress *toward* a more accountable and efficient system of multilateral aid:

- A prerequisite for effective ownership and efficient aid delivery, at the core of the *Paris Declaration on Aid Effectiveness*, is to map the rising complexity of multilateral development finance, to help identify areas for consolidation, address fragmentation and poor co-ordination at country level, and help identify comparative advantages for institutional role assignments among multilateral agencies. Such mapping identifies overlaps—leading to reduction of multilateral remit or proposals for consolidation; rivalries—leading to clarification of roles; and absences of co-ordination—leading to the design and implementation of co-ordinating structure. The OECD secretariat has made an important step toward mapping the multilateral donors (OECD/DAC 2008), but it will need to better informed about full staff numbers, administrative cost and aid allocation—by the multilateral agencies themselves[12]. Only few multilateral agencies presently report activity level data to the DAC secretariat, though not the all important UN and World Bank.
- Many multilaterals claim to be working on the MDGs, but will they be held accountable when the MDGs go unmet?[13] Developing quantitative and qualitiative measures of multilaterals' contributions would be a useful step in promoting accountability. This would provide a basis to specialise multilateral

[12] The OECD (2008) finds the greatest opportunities for the multilateral agencies to concentrate their aid is in the 35 countries, where 9 or more multilateral agencies are in the long tail providing cumulatively less than 10% of a country's total aid.

[13] Interactions between MDGs and responsabilities are highly complex so that traceability will be a hard problem to come by. Add to this the accountability that lies with the recipient countries themselves. However, both these arguments render any success claims by development agencies and multilateral donors pointless. And as long as these organisations continue to claim success, we must instill some degree of accountability. The MDGs at least have the advantage to break down into targets so that may actually facilitate traceability; moreover, they are timebound which opens the opportunity to try different organisational responsabilities over long time spans.

agencies in line with the *Tinbergen Rule*[14] along the MDGs (i.e. goals and/or targets). As shown recently by Bourgignon et al. (2008), the correlation across MGD achievements is close to zero. On what basis would the MDG assignment to the various multilateral agencies be made? Formally, in a two-target two-instrument (agency) context, we ask how the two instruments (agencies) must be varied conceptually to achieve the same change in one of the MDG targets. Then, given the required changes in the instruments, we need to determine how the other target responds to those same changes in the instruments. The agency that produces the largest absolute change in the other target is the one that ought to be assigned to that MDG target.

To be sure, these recommendations are far from producing *operational instruments* that would foster division of labour and accountability among the multilateral donor organisations. Staff selection, monitoring, procedural checks, and incentive-compatible contracts with managers of multilateral donors remain important workhorses toward less redundancy and more concentration in aid delivery.

Realistically, reform must start from outside, as vested interests in agency survival are strong. To make advances in streamlining the current (non-) system, existing circles of institutional patronage need to be broken. This requires a summit-level initiative that goes beyond the level of ministers (who are likely to defend 'their' international organisation). The many global tasks confronting world political leaders today—such as poverty reduction, global health, education for all, a clean environment—cannot be solved when yesterday's institutions duplicate with new players. New approaches to global governance do not only require a more inclusive and representative, but also a simplified and accountable system of multilateral development finance.

---

[14] Tinbergen (1952) advanced the important principle that if governments aimed at n independent targets of policy they should also have n effective and unbounded instruments of policy if the targets are all to be met. If governments had three targets but four instruments, one instrument would be 'redundant' since only three need to be manipulated to achieve the targets.

Acknowledgement The author thanks Winfried von Urff, Kurt von Rabenau and two anonymous commentators for very helpful comments. The views expressed here are those of the author alone, without implicating commentators or the OECD.

References

Babb, S,, and A. Buira (2005). Mission Creep, Mission Push and Discretion: The Case of IMF Conditionality. In A. Buira (ed.), *The IMF and the World Bank at Sixty*. London: Anthem Press.

Boughton, J., and C. Bradford (2007). Global Governance: New Players, New Rules. *Finance & Development*,.44 (4), 10.

Bourguignon, F., A. Bénassy-Quéré, S. Dercon, A. Estache, J. W. Gunning, R. Kanbur, S. Klasen, S. Maxwell, J.-P. Platteau, and A. Spadaro (2008). Millennium Development Goals at Midpoint: Where Do We Stand and Where Do We Need to Go? Paper written for the Department for International Development, UK and the DG Development of the European Commission. Brussels.

Bulow, J., K. Rogoff, and A. Bevilaqua (1992). Official Creditor Seniority and Burden-Sharing in the Former Soviet Bloc. *Brookings Papers on Economic Activity*, (1), 195–222.

Chataîgnier, J.-M. (2008). Réformer l'ONU: Mission Impossible? *Revue française d'administration publique,* 2 (126), 359–372.

Cohen, D., P. Jacquet, and H. Reisen (2006). After Gleneagles: What Role for Loans in ODA? Policy Brief No.31. OECD Development Centre, Paris.

Corden, W. M. (1983). The Logic of the International Monetary Non-System. In F. Machlup, G. Fels and H. Mueller-Groeling (eds.), *Reflections for a Troubled World Economy: Essays in Honour of Herbert Giersch*. New York: St. Martins.

Easterly, W., and T. Pfutze (2008). Where Does the Money Go? Best and Worst Practices in Foreign Aid. *Journal of Economic Perspectives* 22(2): 29–52.

Jones, P. (2006). Taking Self-Interest into Account: A Public Choice Analysis of International Cooperation. In I. Kaul and P. Conceicao (eds.), *The New Public Finance: Responding to Global Challenges.* Oxford: Oxford University Press.

Kaul, I., P. Conceicao, K.L. Goulven, and R.U. Mendoza, (eds.) (2003). *Providing Global Public Goods: Managing Globalization*. Oxford: Oxford University Press.

Knack, S., and A. Rahman (2007). Donor Fragmentation and Bureaucratic Quality in Aid Recipients. *Journal of Development Economics* 83, 176–197.

IMF (2007), *Report of the Final Review Committee on Bank-Fund Collaboration (Malan Report),* Washington, D.C.: IMF.

Narlikar, A., and D. Tussie (2004). The G20 at the Cancun Ministerial: Developing Countries and Their Evolving Coalitions in the WTO. *The World Economy* 27(7), 947–966.

National Audit Office (2005). *Department for International Development: Engaging with Multilaterals*. London: NAO.

Nielson, D.L. and M. J. Tierney (2003). Delegation to International Organizations: Agency Theory and World Bank Environmental Reform. *International Organization* 57(2), 241–276.

Obser, A. (2007). Multilateral Organisations Performance Assessment: Opportunities and Limitations for Harmonisations among Development Agencies. Discussion Paper 19. Deutsches Institut für Entwicklungspolitik/German Development Institute, Bonn: DIE.

OECD/DAC (2005). Room Document 6: Towards a Redesign of the UN Development Architecture. (Contributed by the Delegation of Belgium), DCD/DAC/RD(2005)17/RD6.

OECD/DAC (2008). Report on Multilateral Aid. DCD/DAC(2008)58/REV1, 26th Nov 2008. Paris.

OECD/DAC (2009). 2009 Report on Division of Labour: Addressing Fragmentation and Concentration of Aid across Countries. Advance Copy. www.oecd.org/dac/scalingup.

Olson, M. (1965). *The Logic of Collective Action.* Cambridge, MA: Harvard University Press.

Olson, M., Jr., and R. Zeckhauser (1966). An Economic Theory of Alliances. *Review of Economics and Statistics,* 48(3), 266–279.

Paulo, S., and H. Reisen (2010). Eastern Donors and Western Soft Law: Towards a DAC Donor Peer Review of China and India? Development Policy Review 28. Overseas Development Institute, London.

Rajan, R., and A. Subramaniam (2005). Aid and Growth: What Does the Cross-Country Evidence Really Show? IMF Working Paper 05(127). Washington, DC.

Rodrik, D. (1995). Why Is There Multilateral Lending? In M. Bruno and B. Pleskovic, (eds.), *Annual World Bank Conference on Development Economics 1995*. Whashington, DC.

Rogerson, A., A.Hewitt, and D. Waldenberg (2004). The International Aid System 2005–2010: Forces For and Against Change. ODI Working Paper 235. London: Overseas Development Institute.

Tinbergen, J. (1952). *On the Theory of Economic Policy*. Amsterdam: North-Holland.

Vatterodt, M. (2008). The Implementation of the Paris Declaration on Aid Effectiveness by the United Nations: Progress to Date and Need for Further Reforms. Studies 35/2008. Deutsches Institut für Entwicklungspolitik/German Development Institute, Bonn.

Vaubel, R., A. Dreher, and U. Soylu (2007). Staff Growth in International Organizations: A Principal-Agent Problem? An Empirical Analysis. *Public Choice* 133: 275–295.