



Statistical treatment of multilateral flows

TOSSD Task Force Issues Paper¹

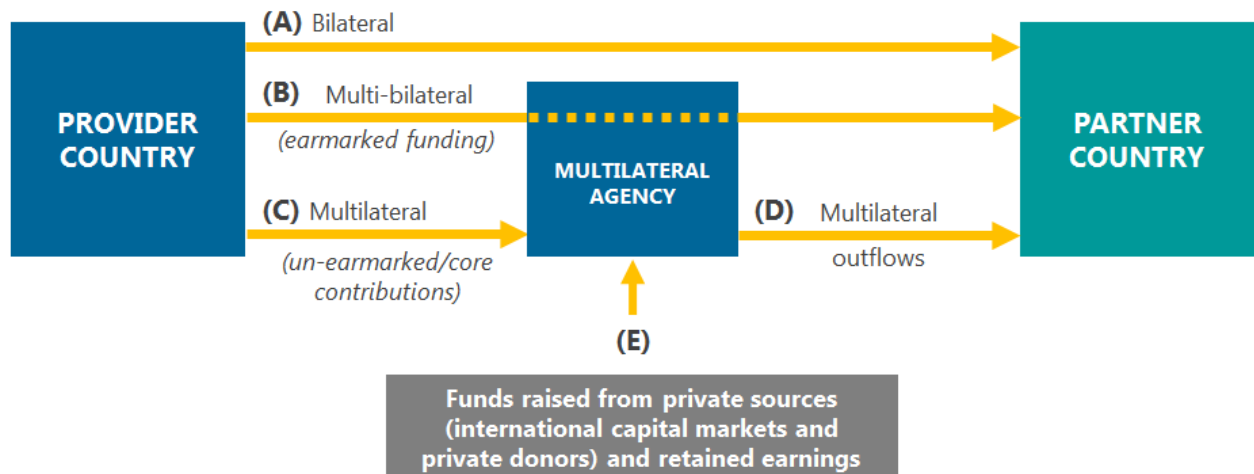
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I. INTRODUCTION

1. In order to provide a complete picture of cross-border flows to developing countries, resources covered in the TOSSD framework will need to include both bilateral resources from provider countries and resources provided by multilateral institutions (referred to as multilateral outflows). (See Figure 1.)

2. Multilateral institutions finance their activities from their regular budgets (which are funded through a mix of bonds issued on international capital markets, retained earnings and/or contributions provided by member countries) or through resources received from provider countries that are expressly allocated, or earmarked, for a particular recipient or purpose (for example, trust funds or special-purpose programmes). Thus, bilateral resources are being provided both to, and through, the multilateral system. Some international statistical systems track both of these types of bilateral flows, but in these systems there is insufficient clarity regarding the direction and the use of the bilateral funding intermediated by multilateral institutions. Accordingly, in developing the TOSSD system it will be important to take stock of the nature of bilateral and multilateral funding and clarify how these resources will be measured as cross-border flows.

Figure 1: Cross-border flows to developing countries



3. This paper provides an overview of how the multilateral system funds its activities and how this funding is currently measured. On this basis, it proposes an approach for measuring multilateral resources in the TOSSD framework, including i) a definition of multilateral agencies, ii) a

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methodology for measuring and collecting data on multilateral institutions' outflows, and iii) the establishment of a TOSSD list of reporting multilateral institutions.

II. DEFINING MULTILATERAL INSTITUTIONS

4. The definition of a multilateral institution is based on the nature of its membership or shareholders. An institution is a multilateral institution when it is an international agency, institution, organisation or fund whose members are governments and who are represented at the highest decision-taking level in the institution by persons acting in an official capacity and not as individuals.

5. Multilateral institutions include i) United Nations agencies, programmes, funds and commissions; ii) the International Monetary Fund; iii) the World Trade Organisation; iv) the World Bank Group; v) regional development banks²; vi) the European Union institutions; and vii) other multilateral funds, partnerships, initiatives and financing facilities.

III. MEASURING AND COLLECTING DATA ON MULTILATERAL OUTFLOWS

6. The TOSSD cross-border pillar aims at providing an accurate picture of resources transferred to developing countries. Cross-border flows comprise bilateral transactions administered directly by the provider country (A in Figure 1), bilateral transactions channelled through multilateral agencies, referred to as multi-bilateral or earmarked resources (B), and multilateral outflows (D). The latter are primarily funded from core contributions received from member countries (C), but multilateral agencies also raise funds from private sources on international capital markets (E) to finance their activities. In particular, multilateral development banks (MDBs) are able to leverage funds on very attractive, low-cost terms thanks to the high-quality AAA classification they obtain from rating agencies (see Box 1). Other multilateral institutions, such as the UN agencies, also secure funds from private donors, such as private individuals or foundations.

7. In order to provide the broadest picture possible of official development finance that is flowing to developing countries as the TOSSD framework aims to do, it would be important to capture all funds flowing through the multilateral system with an adequate level of detail regarding how these funds have been allocated to specific countries or regions and for specific purposes.

Box 1: Official Development Finance provided by MDBs

MDBs traditionally operate two types of financing “windows” – concessional financing for the poorest countries and non-concessional financing on market terms for others. While considerable institutional innovation is taking place, the underlying funding mechanisms can be described as follows:

- Concessional financing is typically funded by provider country contributions, retained earnings from previous lending activity and, in some cases, transfers from sister

² Examples of regional development banks include the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, the Asian Infrastructure Investment Bank, the Islamic Development Bank and the European Bank for Reconstruction and Development.

institutions.

- Non-concessional financing leverages money from global capital markets on the basis of the MDBs' capital, which is typically composed of "paid-in" capital, "callable" capital and "reserves" built up over the years through income from operations. Paid-in capital is actual cash contributed by member country shareholders (core contributions). Together with reserves, it constitutes the bank's equity. Callable capital is a contingent liability, payable in the event that the bank is not able to meet its financial obligations. Member countries have an obligation to pay when capital contributions are agreed among members.

a) Issues with measuring multilateral flows

8. There are two challenges related to the measurement of multilateral cross-border flows to developing countries:

- Avoiding double-counting of bilateral resources that are provided to and through the multilateral system; and
- Ensuring that all cross-border flows are captured.

9. In OECD ODA statistics, reporting is primarily organised by provider country (the origin of funds). The ODA measure includes funding to multilateral institutions (core contributions) and through multilateral institutions (earmarked funding for programmes and projects managed by the multilateral).³ The outflows from multilateral institutions (cross-border flows to developing countries) are not recorded in the OECD ODA reporting system to avoid double-counting. They are collected and published in a separate data series detailing developing countries' resource receipts. While this approach ensures the integrity of measuring provider countries' support to the multilateral system, it does not provide a complete picture about what multilateral resources are funding in the developing world. Moreover, the creation of numerous multilateral trust funds, pooled funding mechanisms and special purpose programmes in recent years has created some data obscurity regarding where the resources managed by these entities are allocated in terms of recipient countries and sectors, since the bilateral providers who are reporting these statistics do not always have this information. In 2015, in DAC statistics, 11.6% of all earmarked contributions to multilateral organisations were reported as "unallocated" by recipient, which represents more than USD 5 billion.

b) Linking the TOSSD reporting system to cross-border flows

10. TOSSD reporting could be conceptually organised by the cross-border flow (not by origin of funds). Accordingly, multilateral institutions would report information on all finance they provide to developing countries, including outflows they have funded themselves (e.g. through leveraging operations, retained earnings) and outflows they have received from provider countries (e.g. earmarked funding). This approach would avoid the risk of double-counting and greatly improve the granularity of information provided regarding the direction and use of SDG-relevant finance.

³ The same applies to officially-supported international NGOs. The OECD ODA reporting system measures bilateral contributions to these organisations, not their operations in developing countries.

11. For example, the Global Partnership for Education (GPE) disbursed about USD 400 million in 2016. The Partnership functions as a pooled funding mechanism. After pooling contributions that are received from bilateral providers, the GPE decides how the funds will be allocated in collaboration with education experts based in developing countries who work with local governments to develop national educational curricula and materials. Then the GPE identifies implementing partners, who are often other multilateral institutions such as UNICEF or the World Bank. At the time they make their contributions, bilateral providers do not have all the information about how their funds will be ultimately used. This information needs to be obtained from the Partnership itself. The GPE is ready to work closely with the international community to share information about how its funding is allocated. This will greatly enhance transparency regarding official development finance targeting the education sector.

Non-cross-border flows

12. Administrative expenditures of multilateral institutions do not constitute cross-border flows, and accordingly they would be excluded from TOSSD reporting on multilateral outflows. Some institutions may also receive contributions from recipient countries for use domestically (in the United Nations system these are variously termed self-supporting, local, cost-sharing or co-financing contributions). For the same reasons, these types of flows would not be recorded in TOSSD statistics.

13. Finally, multilateral institutions may also transfer funds to other multilateral institutions. As the purpose of TOSSD data collection from multilateral institutions is to measure resources received by developing countries, these transfers would not be recorded.

IV. ESTABLISHING A TOSSD LIST OF REPORTING MULTILATERAL INSTITUTIONS

14. For operational purposes, a list of multilateral institutions from which outflow data may be collected will need to be established. Only institutions that conduct all or part of their activities in favour of sustainable development and developing countries should be included. Accordingly, it will be necessary to establish criteria for including multilateral institutions in the list. As set out in section I above, the general criteria should be based on:

- The multilateral character of the institution, i.e. inter-governmental membership,
- The institution conducting all or part of its activities in favour of sustainable development and developing countries.⁴

15. Given the large number of multilateral institutions that currently exist and the costs of data collection, it might be necessary to establish a minimum budget threshold as a condition for the inclusion of multilateral institutions in the list.

16. In an operational sense, the list of TOSSD-eligible multilateral institutions could be reviewed annually on the basis of proposals made by members. The Development Assistance Committee (DAC) has developed a similar list of ODA-eligible international organisations (referred to as “Annex 2”). This list includes many of the multilateral agencies that will be involved in TOSSD operations.

⁴ The definition of sustainable development and developing countries will be discussed in the framework of the paper “Clarifying key concepts embedded in the TOSSD definition”.

Therefore, the Secretariat proposes that the list of ODA-eligible international organisations be used as a starting point for the list of TOSSD-eligible reporting multilateral institutions. The Secretariat also proposes that further development of the TOSSD list be undertaken with representatives of multilateral institutions from each region in order to have as broad a coverage of existing organisations as possible.

Issues for discussion

Is the definition of multilateral agencies as set out in the paper acceptable?

Should TOSSD-eligible resources from the multilateral system be measured as multilateral outflows?

Should there be a minimum budget threshold for the inclusion of a multilateral institution in the TOSSD-eligible list? What would be the appropriate budget threshold?

Could the “List of ODA-eligible international organisations” be a starting point for developing a list of TOSSD-eligible reporting multilateral institutions? Are there any volunteers who would be willing to work with the Secretariat on the further development of the list?

Are the proposed criteria and procedure for the including new agencies in the list of TOSSD-eligible multilateral agencies appropriate?