



FONDATION POUR LES ÉTUDES ET RECHERCHES
SUR LE DÉVELOPPEMENT INTERNATIONAL

How do earmarked funds change the geographical allocation of multilateral assistance?

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Séminaire sur les canaux d'acheminement de l'aide:
bilatéral, multilatéral et fonds fléchés

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Outline:

I - Geographical allocation of trust funds: Where do we stand?

II - Geographical allocation explained: how the allocation models differ?

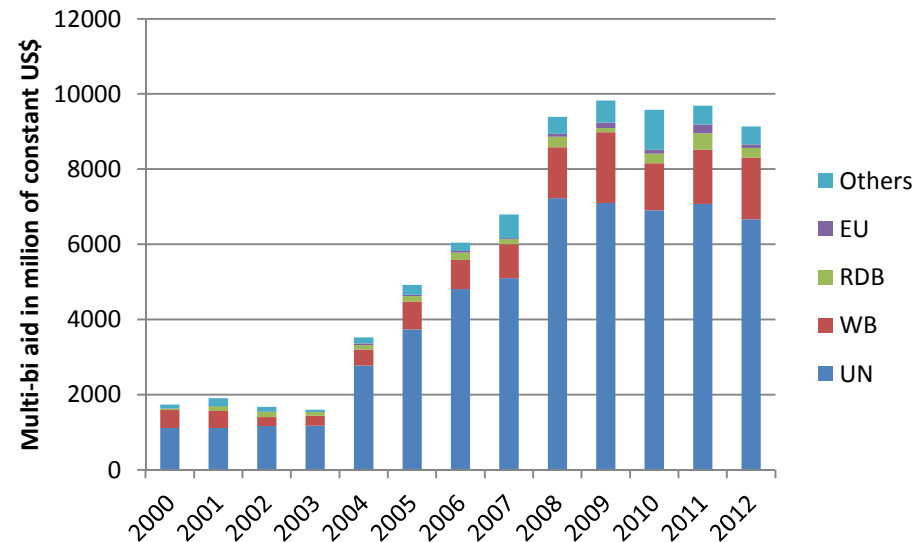
2.1 Multi-bi aid in Multilateral Development Banks

2.2 IDA trust funds vs IDA PBA

I - Geographical allocation of trust funds: Where do we stand?

- The behavior of bilateral donors and international financial institutions has changed over the last 10 years.

Figure 1: Multi-bi aid by multilateral donors between 2000 and 2012



Source : Author's calculation based on Eichenauer and Reinsberg (2015) data

Note: EU=European Union; RDB=Regional development Banks; WB= The World Bank Group; UN=United nations agencies

- While still marginal in the early 2000s, multi-bi aid is now a major cooperation instrument for many donors.

I - Geographical allocation of trust funds: Where do we stand?

- Disbursements in Sub-saharan Africa (48%) and South Asia (24%) represents almost three quarters of total disbursements between 2008 and 2012.

Figure 2: Geographic allocation of multi-bi aid over 2008-2012

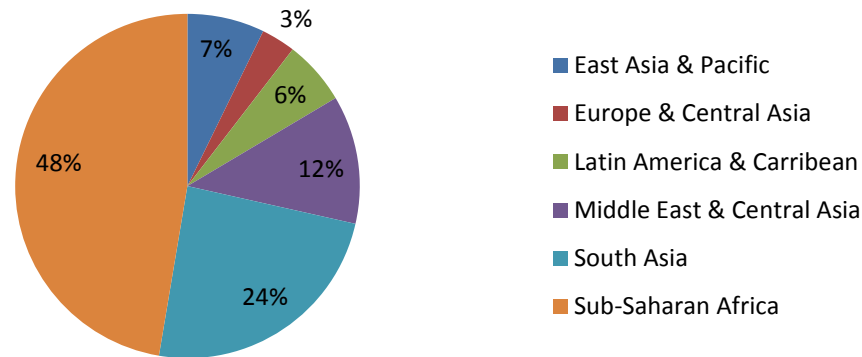
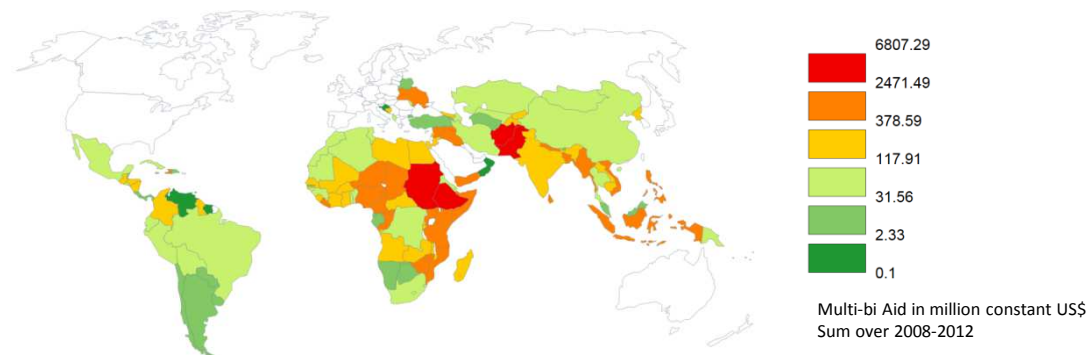


Figure 3: Geographic allocation of multi-bi aid over 2008-2012

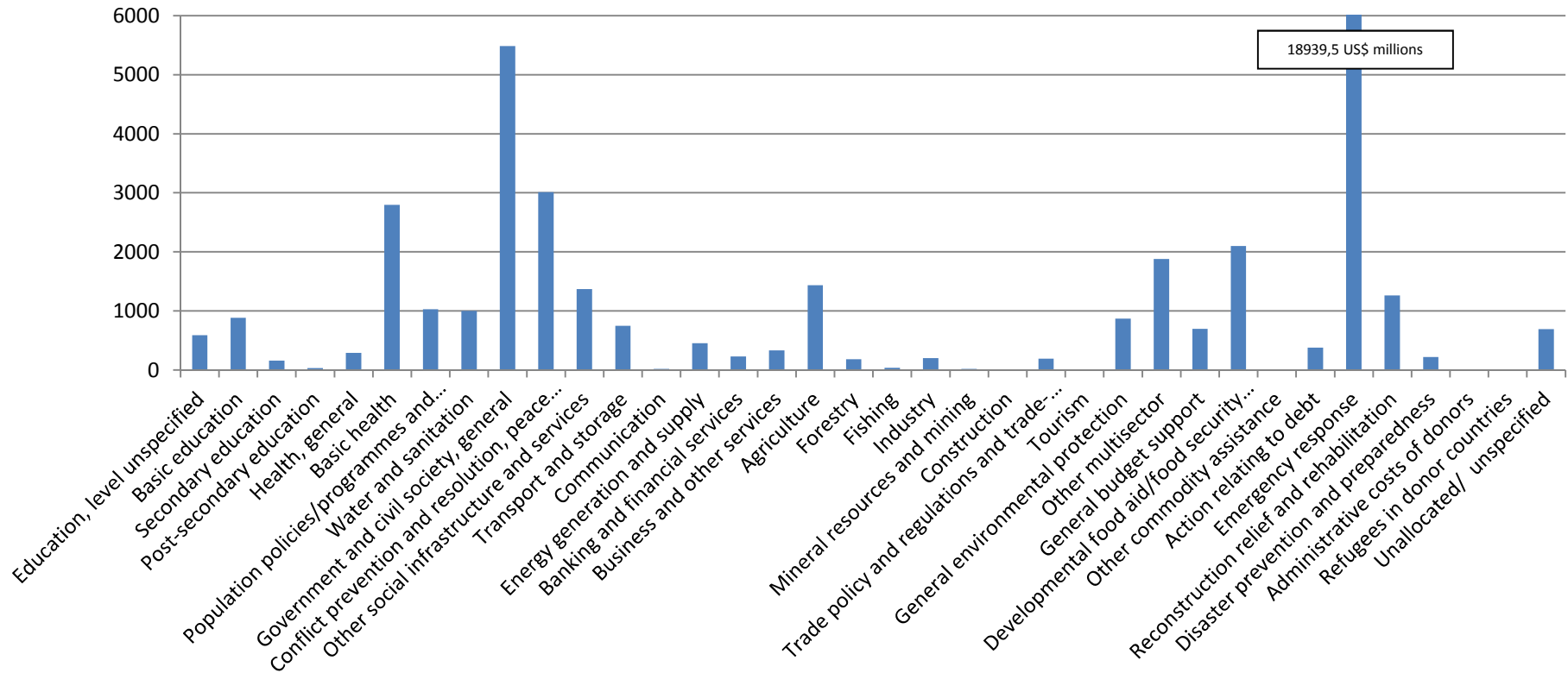


- 12 countries combined receive more than 60% of total multi-bi aid. (Afghanistan, Sudan, Ethiopia, West Bank and Gaza, Pakistan, Congo Republic, Somalia, Kenya, Bangladesh, Iraq, Haiti, Zimbabwe).

I - Geographical allocation of trust funds: Where do we stand?

- Emergency response accounted for 40% of total multi-bi aid over the period 2008-2012.

Figure 5: Multi-bi aid by sector between 2008 and 2012 (in millions of constant US\$)

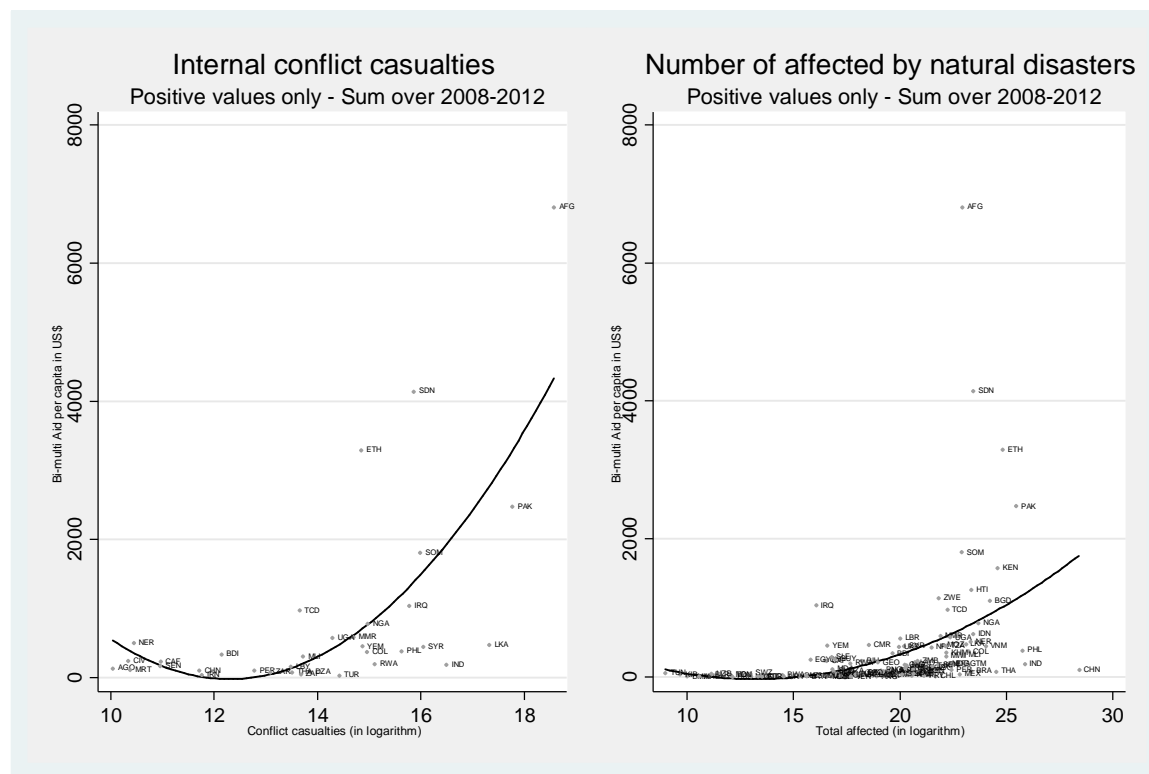


Note: The figure has been cropped for clarity.

I - Geographical allocation of trust funds: Where do we stand?

- Significant correlations between the amounts of multi-bi aid disbursed over the period 2008-2012 and either the number of casualties due to internal conflicts or the number of people affected by natural disasters.

Figure 4: Correlates of the geographical allocation of multi-bi aid over 2008-2012



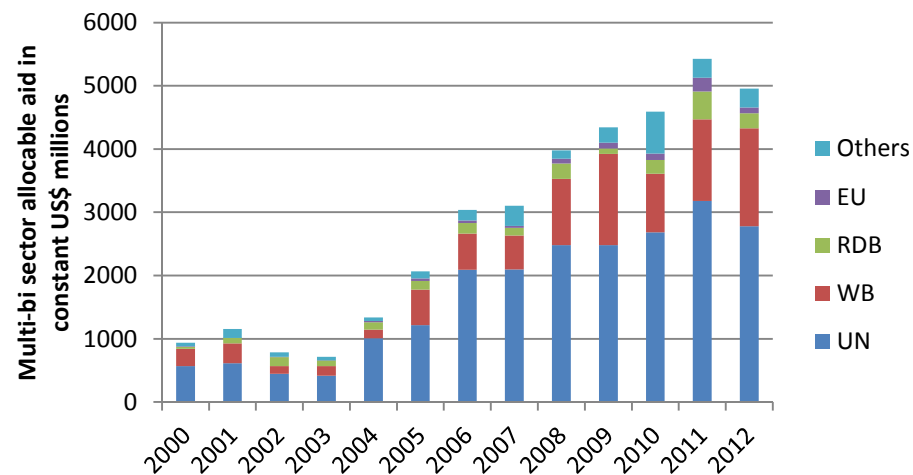
Notes: West Bank Gaza and Republic of Congo were dropped for clarity sakes

Source : Author's calculation based on Eichenauer and Reinsberg (2015) data, Prio and EM-DAT

I - Geographical allocation of trust funds: Where do we stand?

- While allocations rules for non-sector allocable multi-bi aid in many organization is certainly dominated by emergency response mostly disregarding classic aid allocation criteria, the same shouldn't apply to sector allocable multi-bi aid.

Figure 7: Evolution of Multi-bi sector allocable aid between 2000 and 2012

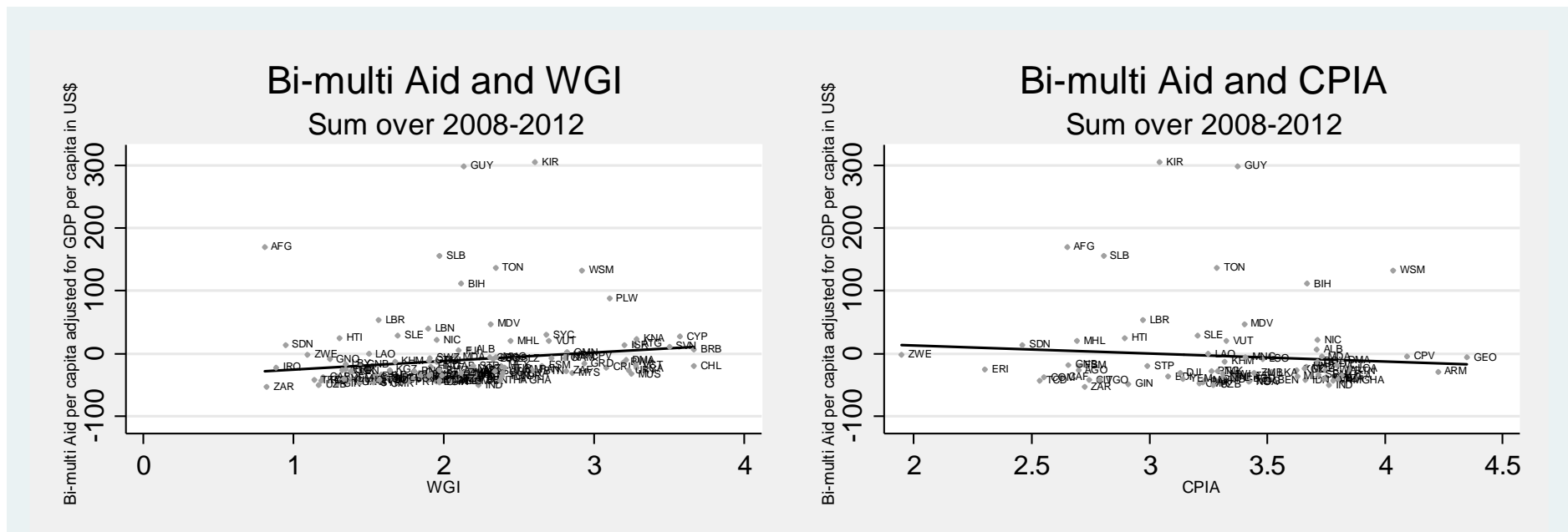


- Since 2000 sector allocable multi-bi aid has grown very fast and it represents today more than 5 times what it was 10 years ago. This growth has been particularly impressive for the World Bank.

I - Geographical allocation of trust funds: Where do we stand?

- What is troubling is the apparent lack of correlation between sector allocable multi-bi aid and two traditional measures of performance, the Country Policy and Institutional Assessment (CPIA) and the Worldwide Governance Indicators (WGI).
- This could indicate that performance isn't the main factor or at least a factor explaining multi-bi aid allocation but we need more precise estimates.

Figure 10: Correlates of the geographical allocation of multi-bi sector allocable aid over 2008-2012



2.1 Multi-bi aid in Multilateral Development Banks

- For the main Multilateral Development Banks (MDBs) the principles determining the allocation of aid among eligible countries are governed by a formula, called “Performance Based Allocation” (PBA).
- This formula which has been used since 1977 by the World Bank for the International Development Association (IDA) has been modified several times.
- It is also used by the main Multilateral Development Banks, namely African Development Bank (AfDF), Asian Development Bank (AsDB), Inter-American Development Bank (IDB), Caribbean Development Bank (CDB), with minor differences in application between the institutions.
- The PBA formula is intended to determine the amount of aid to be received by a country according to two main indicators, income per capita and performance and where roughly the amount of aid allocated to a country i is:

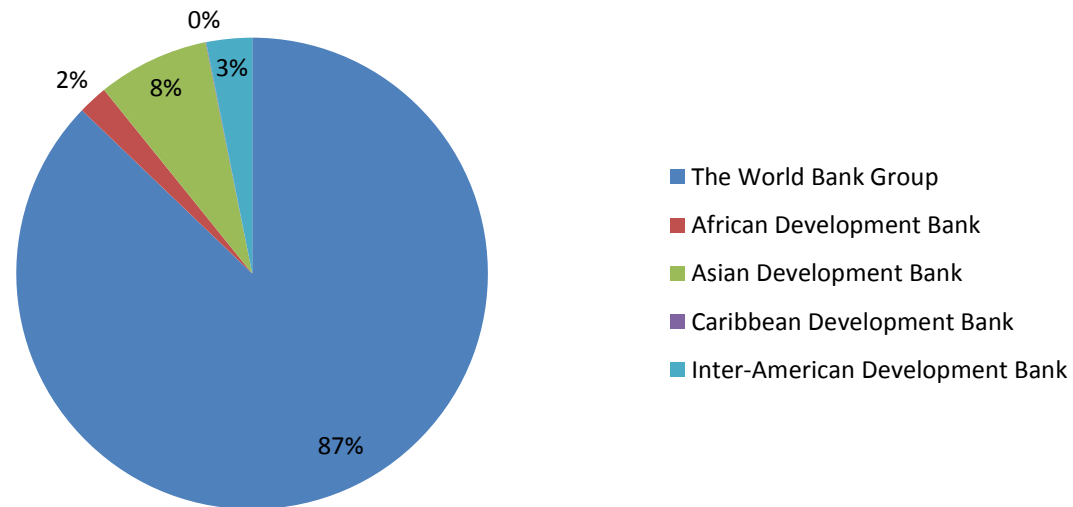
$$A_i = f(\text{Performance, income per capita, population})$$

- Performance has an overwhelming weight.

2.1 Multi-bi aid in Multilateral Development Banks

- Multi-bi aid doesn't have the same weight in every MDBs.
- The World Bank Group as a whole represent more than 80% of total multi-bi aid transiting through MDBs over the period 2006-2012.

Figure 11: Multi-bi aid in major MDBs, 2006-2012.



2.1 Multi-bi aid in Multilateral Development Banks

- Using the most disaggregated data at the project level, we estimate the following equation:

$$\ln TF_{ijdk t} = \ln Pop_{it} + \ln GDPpc_{it} + \ln Performance_{it} + \gamma_i + \delta_j + \rho_d + \pi_k + \mu_t + \varepsilon_{ijdk t}$$

- With TF the total multi-bi aid disbursed in recipient country i (in millions of constant US\$), from bilateral donor j , transiting through the multilateral institution d , in sector k , in year t . Population is the total population of recipient country i in year t and GDPpc is the GDP per capita of recipient country i in year t .
- Performance is approximated by alternatively by the CPIA and the WGI.
- All variables are expressed in logarithm. The remaining variables are a set of dummy variables controlling respectively for specific characteristics of recipients countries, bilateral donors, multilateral institutions, sectors and years.

2.2 IDA trust funds vs IDA PBA

- The performance-based allocation formula used by the World Bank for IDA during the IDA15 and IDA16 periods (2008-2014) was the following :

$$PBA_i = (CPR_i)^5 * (GNI/P)^{-0.125} * P_i$$

- PBA_i is the share of country i allocation based on performance, GNI/P the gross national income per capita (in U.S. dollars), P_i the population. The evaluation of the Country Performance Rating (CPR_i) is itself the sum of three indicators:

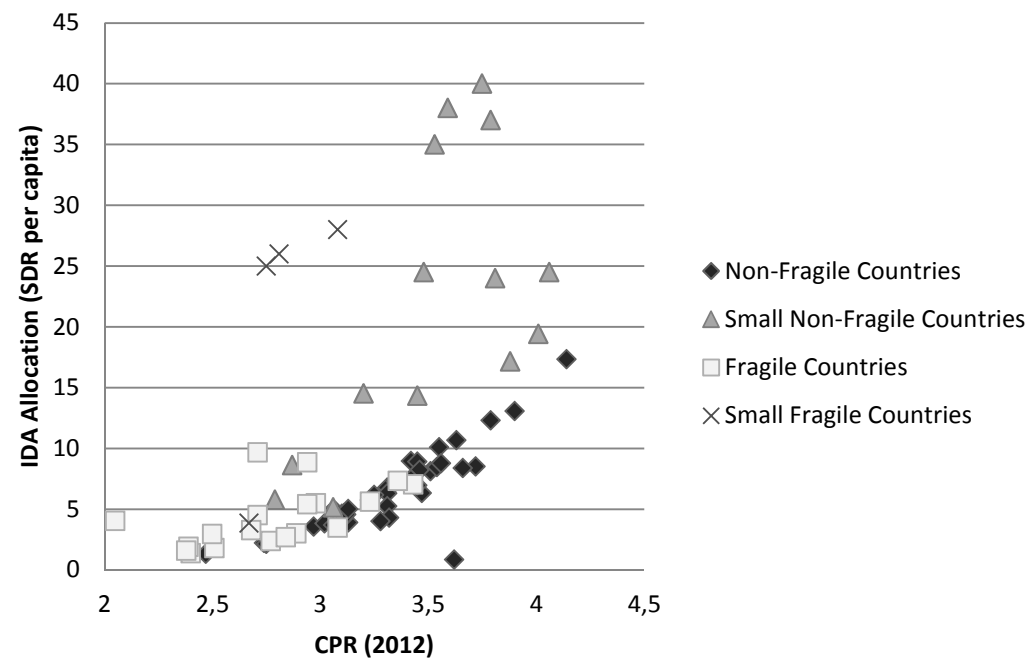
$$CPR = 0.24 CPLA_{AtC} + 0.68 CPLA_D + 0.08 ARPP$$

- Note: The exponent of CPR for IDA17 has been lowered from 5 to 4.

2.2 IDA trust funds vs IDA PBA

- The heterogeneous situations faced by IDA members made the strict implementation of the PBA not feasible and MDBs such as the World Bank quickly had to implement a series of exceptions and special procedures to adapt the PBA and make it workable.

Figure 13 - IDA aid allocation per capita as a function of CPR in 2014



2.2 IDA trust funds vs IDA PBA

- World Bank administered trusts funds are divided in three categories: Financial Intermediary Funds (FIFs), Bank Executed Trust Funds (BETFs) and Recipient Executed Trust Funds (RETFs).
- FIFs are customized funds for which the Bank provides specified administrative, financial, or operational services but does not have authority over the use of funds, such as the Global Fund for AIDS, Tuberculosis and Malaria, the Global Environment Facility. According to IEG (2011), over the period 2002-2010, FIFs accounted for about 50% of trust fund grants.
- BETFs are funds that support the Bank's own work program, providing analytic and advisory supporting services.
- RETFs are funds that the Bank passes on to a third party and for which the Bank plays an operational role in appraising and supervising funded activities. They are administered under the operational policies and procedures that apply to IBRD and IDA financing. RETFs commitments accounted for 18% of total IDA commitments for FY09 and represent today more than a quarter of total IDA commitments.

2.2 IDA trust funds vs IDA PBA

- As expected, the three indicators included in the PBA strongly significant in explaining the geographic allocation of RETF in IDA countries.
- This higher coefficient of GNI per capita in column 2 might be indicative of a stronger emphasis on needs.
- More importantly, the R-squared in column 2 is low (0.31) which indicates that less than a third of the variance of total RETF geographical allocation is explained by the criteria of the PBA.

Table 4: IDA and RETF commitments, pooled OLS, Fiscal years 2009-2013

	(1)	(2)	(3)
	IDA commitments (in logarithm)	RETF Commitments (in logarithm)	IDA+RETF Commitments (in logarithm)
Lagged CPR (in logarithm)	2.768*** (0.441)	3.001*** (0.933)	6.091*** (1.217)
Lagged Population (in logarithm)	0.822*** (0.042)	0.389*** (0.083)	1.181*** (0.114)
Lagged GNI per capita (in logarithm)	-0.252*** (0.073)	-1.111*** (0.162)	-1.375*** (0.202)
Constant	-10.382*** (0.961)	6.434*** (2.642)	-9.424*** (2.711)
Observations	210	210	197
R2	0.78	0.31	0.59

2.2 IDA trust funds vs IDA PBA

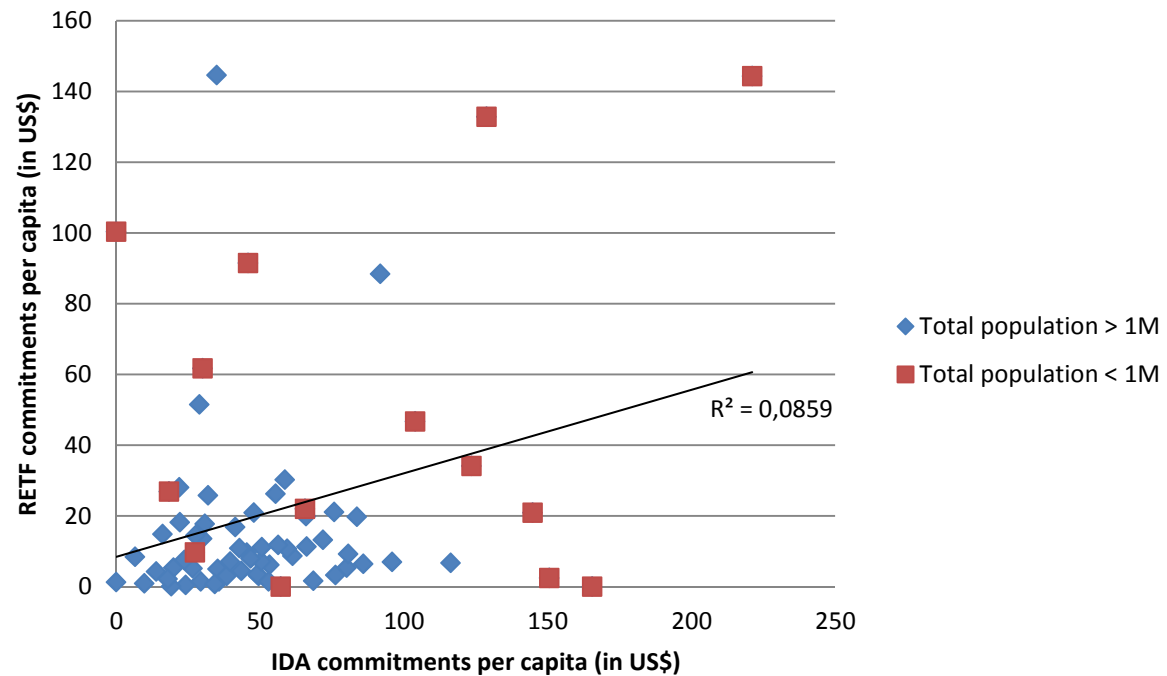
- We simulate, using the IDA 16 PBA formula presented earlier, the virtual RETF geographic allocation that follows strictly the PBA.
- As for IDA PBA allocation, few exceptions and special treatments had to be introduced:
 - We kept the same minimal allocation floor as in IDA 16 PBA formula of 1.5 million of SDR per annum (equivalent to 10.5 million US\$ over the period 2009-2013).
 - Second, we capped India and Pakistan maximum allocation at respectively 11% and 7% of the total envelop.
 - Finally, we ran simulations by alternatively including or dropping Afghanistan to take into account its very large share of total RETF (30%).

2.2 IDA trust funds vs IDA PBA

Table 5: IDA and RETF commitments, simple correlations, Fiscal years 2009-2013

Simple correlations	IDA commitments	RETF commitments	Simulated RETF commitments
IDA commitments	100%	-	-
RETF commitments	51%	100%	-
Simulated RETF commitments	99%	47%	100%

Figure 14 - RETF commitments per capita as a function of IDA commitments per capita, Fiscal years 2009-2013



2.2 IDA trust funds vs IDA PBA

- It appears very clearly that RETF allocation is more focused on the needs than it is on performance. Sub-Saharan Africa, Low income countries, LDCs and Fragile States receive a larger share under the current allocation than it would be the case if the stricter PBA was applied.
- Those groups are the ones presenting the lowest level of GNI per capita as well as other indicators of needs.

Table 6: IDA and RETF commitments, simulations by income group and region, Fiscal years 2009-2013

	IDA commitments	RETF commitments	Simulated RETF commitments
Income groups			
Low Income	30%	59%	30%
Lower Middle Income	68%	39%	68%
Upper Middle Income	1%	2%	1%
Least Developed Countries	44%	75%	43%
Fragile States	13%	26%	9%
Regions			
Sub-Saharan Africa	48%	64%	46%
Europe & Central Asia	4%	4%	3%
Middle East & North Africa	1%	1%	1%
East Asia & Pacific	11%	11%	11%
South Asia	34%	17%	36%
Latin American & Caribbean	3%	4%	2%

2.2 IDA trust funds vs IDA PBA

- Evidence from IDA clearly shows that performance and GNI per capita tend not to be used as the only criteria for allocation.
- As the share of concessional financing channelled through earmarked funds rises, the share of aid allocated through the strict application of the PBA decreases.
- During the 2009-2013, 30 out of 81 IDA countries received at least 25% more aid from the World Bank thanks to RETF compared to a situation where only IDA PBA would exist.
- As many of them are fragile states (Liberia, Central African Republic, Burundi, Sierra Leone, etc.) they have already access within the PBA to the special window for turn-around countries implying that their IDA allocations are already largely disconnected from their performance level.
- For countries such as Timor-Leste, Liberia, The Gambia, Solomon Islands, Central African Republic, Guinea, Sierra Leone, and Cambodia more than a third of their total ODA flows received from the World Bank escape the pure application of the PBA.

2.2 IDA trust funds vs IDA PBA

Table A1: RETF commitments official and simulated (in million US\$), Fiscal years 2009-2013

Countries	IDA commitments (1)	RETF commitments (2)	Simulated RETF commitments (3)	Gap between actual and simulated RETF (2) / (3)	Share of total ODA escaping the PBA $\{(2)-(3)\}/\{(1)+(2)\}$
Timor-Leste	32	57	10	547%	52%
Liberia	350	337	13	2588%	47%
Gambia. The	36	46	8	568%	46%
Solomon Islands	15	32	10	304%	45%
Central African Republic	95	78	8	938%	40%
Guinea	171	159	26	611%	40%
Sierra Leone	180	146	24	618%	37%
Cambodia	93	119	49	242%	33%
Togo	189	109	13	872%	32%
Guyana	14	21	10	200%	30%
Mongolia	157	81	18	438%	26%
Kiribati	44	29	10	281%	26%

- Our econometric results suggest that performance tends to guide the allocation of earmarked funds in most MDBs, and more particularly the World Bank, we also find that this influence is limited.
- Total ODA received from the World Bank by many countries, notably the most fragile, seems clearly disconnected from their performance levels.
- This could mean more discretionary aid allocations by country, which are harder to predict.
- The interest for trust funds may reflect some doubts from bilateral donors about the general allocation rules they are supposed to support.
- It may also highlight increasing concerns from bilateral donors about the peace and security issues, which are difficult to address within the framework of the PBA, notably in a preventive way.



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