



National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

HC 594
SESSION 2012-13

19 SEPTEMBER 2012

Department for International Development

The multilateral aid review

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of more than £1 billion in 2011.



National Audit Office

Department for International Development

The multilateral aid review

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 18 September 2012

This report has been prepared under Section 6 of the
National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Amyas Morse
Comptroller and Auditor General
National Audit Office

14 September 2012

This report examines whether the Department is more likely to secure value for money from its core funding of multilateral organisations as a result of its Review.

© National Audit Office 2012

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as National Audit Office copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.

Printed in the UK for the Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

2513605 09/12 PRCS

Contents

Key facts 4

Summary 5

Part One

Why the Department funds
multilateral organisations 13

Part Two

The Department's Review of
multilateral organisations 18

Part Three

The Department's approach to
core funding 30

Part Four

How the Department is
promoting reform 39

Appendix One

Our audit approach 45

Appendix Two

Our evidence base 47

Glossary

Abbreviations for multilateral
organisations 51

The National Audit Office study team
consisted of:

Tim Bryant, Michael Carlyon,
Neil Casey, Andrew Clark,
Richard Clarke, Rory Crew,
Jenny George, Andrew Makin,
Guy Munro, Michael Slater and
Alice White under the direction
of Mark Andrews and Phil Gibby.

This report can be found on the
National Audit Office website at
www.nao.org.uk/dfid-aid-review-2012

For further information about the
National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contactus

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

43

organisations were assessed by the Department as part of its 2010-11 review of multilateral aid

£3.6bn

given by the Department in 2011-12 in 'core funding' to organisations covered by the 2010-11 review of multilateral aid

9

organisations rated by the Department as 'very good' value for money for UK aid

- 47 per cent** of the Department's total aid expenditure in 2011-12 went as core funding to the organisations covered by its review of multilateral aid
- 74 per cent** the proportion of total core funding in 2010-11 going to organisations rated by the Department as 'very good' or 'good' value for money for UK aid
- 77 per cent** the proportion of total core funding currently planned to go to organisations rated by the Department as 'very good' or 'good' value for money in 2014-15
- 4** organisations that the Department has decided to stop funding
- 8** cross-cutting reform priorities the Department has identified for multilateral organisations
- 2013** date of the Department's next update of the multilateral aid review

Summary

- 1** Multilateral organisations, such as the World Bank and United Nations, are usually set up by intergovernmental agreement to enable national governments to work together, including on development and humanitarian issues. These organisations have a number of roles which include the management of programmes, the provision of specialist advice, brokering international agreements and responding to humanitarian crises. Membership of multilateral organisations offers a number of benefits, including enabling national governments to work together on shared goals and to achieve economies of scale, and the ability to operate in politically sensitive contexts, where it is often more difficult for national governments to operate alone.
- 2** The Department for International Development (the Department) works with a range of multilateral organisations to support its development and humanitarian objectives. The Department provides core funding to many of these organisations. Core funding is not earmarked for a specific purpose and, instead, its use is determined by the management and board of the multilateral organisation, within objectives agreed by all members. The UK is usually one of many members, which normally also include other developed countries and developing countries. It typically provides between 3 and 15 per cent of an organisation's core funding.
- 3** The UK government has committed to increasing international aid to 0.7 per cent of gross national income from 2013, which means that the Department's total expenditure is set to increase in real terms by 27 per cent between 2010-11 and 2014-15. This increase, combined with the reductions in funding for most other government departments, means that it is very important that the Department makes cost-effective spending decisions using high quality information.
- 4** In 2010-11 the Department reviewed its multilateral aid programme, publishing its *Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations* (the Review) in March 2011. The Review covered 43 organisations that received £3,579 million in core funding in 2010-11 (£3,647 million in 2011-12, some 47 per cent of the Department's total aid expenditure). Given the sizeable increase in the Department's budget over the four-year spending review period, the Review aimed to inform the Department's core funding plans and to identify where reform was needed.

5 This report examines whether the Department is more likely to secure value for money from its core funding of multilateral organisations as a result of its Review. As the Department's auditors, we have not sought to validate its assessment ratings for individual multilateral organisations. Rather we examine the Department's processes, in particular whether the Department's approach will lead to improved scrutiny of multilateral organisations, the robustness of the Review assessment process and whether the Review's conclusions will lead to better evidence-based funding decisions and encourage reform within multilateral organisations. Our methods are summarised at Appendix One. We have not examined the Department's bilateral funding of multilateral organisations to deliver specific projects, such as the World Food Programme's humanitarian response to the 2010 floods in Pakistan.

Key findings

Improving the international scrutiny of multilateral organisations

6 The Department's Review (March 2011) is a more thorough and comprehensive process for assessing multilateral organisations than previous assessments.

Previous assessments had largely focused on organisational effectiveness, partly due to the limited information available on costs and results. The assessment framework for the Department's latest Review enhanced earlier assessments through a more explicit focus on cost, accountability and each organisation's fit with UK development objectives. The Review is valuable; both for providing accountability to UK taxpayers, and for promoting reform in multilateral organisations themselves. The Department plans to update the Review in 2013 and to undertake a full follow-up assessment in 2015 (paragraphs 1.11, 2.3, 2.4, 2.22 and 4.2).

7 The Department has shown international leadership in publicly assessing 43 multilateral organisations against a common set of criteria and rating their performance. Although the Review was not the first published assessment of multilateral performance, the number of organisations assessed and the public nature of the comparative ratings were key strengths of the Review, which have increased the focus on the relative performance of multilateral organisations and on the need for reform (paragraphs 1.11 and 2.22).

8 The Department's Review has influenced some other donors' approaches to assessing and reporting on multilateral performance, helping to increase international scrutiny. Since the Review, other donors have used elements of the Department's approach to assessing and rating multilateral performance. For example, Australia has used similar methods and the Netherlands has publicly reported its assessments for the first time (paragraph 2.23).

9 The Department is publicising its new assessment tool to other countries, and is promoting a longer term goal of shared assessments of multilateral performance. The Department is committed to collaborating with other countries to maximise the quality of its international aid. The UK is one of 16 countries in an existing multi-donor network which conducts periodic reviews of some multilateral organisations. The Department's Review is more comprehensive than this shared approach, and it has collaborated with others such as Australia on their own assessments. But separate donor reviews create administrative burdens and costs for multilateral organisations, so should ideally be used as a stepping stone to more rigorous joint assessments. Seventeen of the multilateral organisations we contacted commented on the burden of engaging with a range of separate assessments by individual countries. The Department recognises that a proliferation of separate assessments is not optimal. As well as promoting its new approach with others, the Department has instigated a wider debate on joint approaches to assessing multilateral effectiveness (paragraphs 2.23 and 4.7 to 4.9).

The robustness of the assessment process

10 The Department's assessment framework was logical and covered key factors important to value for money. The assessment framework was a significant step forward, comparing well to recognised models for assessing organisations. The framework had ten components, four centred on the organisation's contribution to UK development objectives, five examined organisational strengths and one considered the likelihood that organisations would change (paragraphs 2.2 to 2.4 and Figure 3).

11 The Department designed the framework to apply to a broad range of organisations but some types of organisation found it difficult to fulfil all the evidence requirements. The focus on demonstrable development impacts was important but organisations involved in setting standards found it more difficult to provide the evidence required to score well. The Department is clarifying its assessment framework for standard-setting agencies for the next review (paragraphs 2.6 to 2.7 and Figure 4).

12 The assessment criteria were broad so that they could be applied to different agencies but the guidance for assessors did not always ensure consistency. The Department tackled this, in part, through a systematic quality assurance process, although the quality of evidence was not scored. Clearer guidance about what constitutes good performance would make the scoring process more consistent and transparent (paragraphs 2.5 and 2.20).

13 It was difficult for the Department to collate reliable, comparable data on costs as organisations do not report on these consistently. In the circumstances, the Department pragmatically examined each multilateral organisation's processes for managing cost and value instead. The Department collected published cost data where it could, but the lack of standardised data available meant that the assessments we examined contained only limited information on the level or trends over time of procurement and administration costs (paragraph 2.15 and Figure 7).

14 The evidence collected on each multilateral organisation varied. Good comparative assessments require a satisfactory evidence base for each organisation. The Department drew on existing evidence sources, such as reporting by multilateral organisations, and, in the limited time-frame, on in-country evidence for those organisations it funded the most. However, it did not obtain detailed first-hand evidence in poor countries for 9 of the 43 multilateral organisations it assessed. Greater explicit consideration of the extent of evidence collected for each assessment would increase the transparency of the rating and identify any key knowledge gaps (paragraphs 2.9, 2.11 to 2.13 and Figure 6).

15 Organisations rated as ‘very good’ value for money for UK aid did not need to meet a minimum set of standards and their cost-effectiveness was not always compared to alternative delivery options. The Review rated nine organisations as ‘very good’ value for money for UK aid, 16 as ‘good’, nine as ‘adequate’ and nine as ‘poor’. Seven of the nine organisations rated as ‘very good’ were assessed as ‘weak’ in at least one of the five components on organisational strengths. Establishing a minimum set of standards for better performing organisations would incentivise further improvements. In addition, the Department only tested the cost-effectiveness of funding three of these seven organisations (and only four organisations in total) against alternative options for delivering the same objectives. Assessing the cost-effectiveness of organisations against other delivery options, wherever applicable, would provide greater assurance on value for money (paragraphs 2.17 to 2.18, Figure 9 and 3.9 to 3.11).

16 In the future, the Department could complement the Review by considering key issues for the multilateral system as a whole. The Review focused on individual agencies and did not systematically address wider issues of coherence, gaps and overlaps in roles. Including more focus on how organisations work together to achieve development results in the next review would enable the Department to demonstrate how the organisations it funds support the multilateral system to meet the UK’s requirements (paragraph 4.5).

Following-up the Review to secure performance improvements

17 The Department has taken account of the Review’s assessments in determining future funding:

- **The Department will cease to fund four of the organisations it rated as ‘poor’ value for money for UK aid.** In March 2011, following the Review, the Department decided to withdraw its funding of four small organisations, to which it contributed £8 million in total in 2010-11. The Department also notified a further four organisations that they needed to improve performance urgently before its next review. The Department has not yet developed contingency plans of how else it might support its development objectives if these organisations do not improve (paragraphs 3.15 to 3.16).

- **The Department is giving larger funding increases to those organisations it rated as better value for money for UK aid.** The Department's current multilateral core funding plans for 2014-15 show a £773 million cash increase over 2010-11 levels. Sixty-nine per cent (£532 million) of the increase is to organisations rated as 'very good'. 'Good' organisations are due to see increases of £145 million, 'adequate' organisations £97 million (of which £84 million at current estimates would be as a result of the UK's treaty obligation to the European Union budget – although budget negotiations are ongoing), and funding of 'poor' organisations is not due to change. The Department's plans will result in the proportion of core funding going to organisations it rated as 'very good' or 'good' value for money, increasing from 74 per cent in 2010-11 to 77 per cent in 2014-15 (paragraphs 3.2 to 3.4 and Figures 11 and 12).

18 The Department has limited scope to reduce funding going to organisations rated as less than 'good' value for money for UK aid. The UK's membership of multilateral organisations is often important to broader objectives not directly addressed by the Department's Review. For example, the UK contributes to European Union development programmes through its treaty obligation to the EU budget. It must also make a minimum payment as a condition of membership of some United Nations organisations it rated as 'poor' value for money to UK aid. These factors will inevitably constrain the potential impact of linking funding to performance. Such constraints increase the importance of promoting reform in multilateral bodies to increase their effectiveness (paragraphs 1.7, 3.4 and 3.6).

19 Improving multilateral effectiveness is key to improving the value for money obtained from the Department's multilateral expenditure, and it has taken a lead role in promoting reform. In addition to altering its funding commitments, the Department has taken a lead role in initiating reform of multilateral organisations to encourage these bodies to improve their value for money. Following the Review, the Department identified eight system-wide reform priorities. The priorities address areas, such as results and cost-effectiveness, where multilateral organisations must improve if they are to raise performance and demonstrate their value. The Department has promoted the findings of the Review with multilateral organisations. A majority of the multilateral organisations we contacted indicated that the Department's Review had increased the focus on, and impetus for, reform. The Department's 2011-12 Annual Report highlights examples where multilateral organisations have instigated reforms in response to the issues it raised in its Review. It is too early, however, for us to assess whether there will be lasting change as reforming multilateral organisations takes time (paragraphs 4.2, 4.15 to 4.16 and Figure 16).

20 In our opinion, the variable quality of the Department's agency-specific engagement strategies could restrict its ability to co-ordinate its reform activities.

The strategies we reviewed generally identified objectives that reflected the Review's findings, and specified some actions. However, engagement strategies could have been developed further, for example, to include more detail on the Department's plans to work with other donors and other member countries, and some were not up-to-date. Such up-to-date plans are important in getting those organisations assessed by the Department as performing relatively poorly to improve (paragraphs 4.12 to 4.14 and Figure 15).

21 It is important that any changes in ratings for the next Review can be adequately evidenced. The Committee of Public Accounts has previously noted that the Department must be able to demonstrate that any increase in funding to multilateral organisations will achieve value for money. Multilateral organisations, and to a degree the Department, have an interest in showing improvements in future reviews. When we follow up this examination we would expect the Department to be able to substantiate any reported improvements used to justify a change in an organisation's score (paragraphs 1.10 and 2.20).

Conclusion on value for money

22 Multilateral organisations have a key role in development and humanitarian aid and complement bilateral aid programmes. The Department's multilateral aid review provided a much improved basis for deciding how to allocate funding and for promoting multilateral effectiveness. The Review's public rating increased transparency, and the improved focus on costs and fit with UK development priorities were important innovations. The Review is a significant step towards the Department being able to fully assess the cost-effectiveness of multilateral organisations. As a result, the Department is more likely to get value for money from its core funding in future, but this will depend upon maintaining and building on the progress it has made to date. We expect the Department to further strengthen its assessment framework and the extent of country visits, and to encourage multilateral organisations to improve the evidence available on costs and results. We also expect the Department to continue to promote a more rigorous shared assessment method between donors, and to tighten its approach to promoting and monitoring reform within individual agencies.

Recommendations

23 The following recommendations are designed to help the Department to get better value from future reviews of its multilateral aid programme. We recommend that:

On improving international scrutiny:

- a** **The Department should propose a clear action plan for developing a shared framework and joint data collection for future assessments of multilateral effectiveness.** A shared framework would increase the credibility of findings and strengthen international efforts on key areas for multilateral reform. In addition to its active role in improving the existing multi-donor network, the Department could, as an intermediate step, invite other countries to peer-review its next review, to encourage more joint working and an improved assessment framework.

On the robustness of the assessment process:

- b** **The Department should ensure that the planned refinements to its framework better reflect the varying remits of different multilateral organisations and to ensure organisations assessed as ‘very good’ meet clear absolute standards.** Increasing the robustness of the criteria and associated guidance should reduce the risk of inconsistent assessments and allow assessments to be tailored to reflect different types and remits of multilateral organisations. Setting clear minimum performance standards required when awarding the highest ratings would also provide additional rigour.
- c** **The Department should develop its evidence base for future reviews further to increase consistency in the evidence collected for organisations.** Increased rigour will reduce inconsistencies in the assessments. In particular, the Department should:
- set clear expectations that multilateral organisations should report standard information on their costs, including running costs and those of any delivery partners;
 - make better use of existing evidence on how multilateral organisations are performing;
 - explicitly aim to fill gaps in the Department’s knowledge of multilateral organisations, particularly through visiting countries; and
 - allow time to confirm the factual accuracy of assessments with multilateral organisations before publication.

- d The Department should work to tackle the barriers to making comparisons within and between multilateral and bilateral aid, where they have similar objectives.** It is important that the Department's funding decisions are based upon an assessment of the best way of achieving its aid objectives. Given the constraints in comparing core funding, a quantified cost–benefit analysis may not be possible for many examples, but the Department should:
- make more systematic comparisons informed by clear criteria and using a full range of quantitative and qualitative information;
 - improve the evidence base in this area, including by working with international partners;
 - continue to press multilateral organisations to provide higher quality data on results and costs; and
 - always compare available information on the delivery costs (including overhead costs) of bilateral and multilateral funding routes to achieving particular objectives.

On using the Review to secure performance improvements:

- e The Department should track and maximise the incentives for multilateral organisations to improve their effectiveness through organisational reform.** By combining reputational and financial incentives, the Department is using a range of different performance levers, but it needs to ensure these are effective for all multilateral organisations. It should:
- plan a review of its current approach of linking future funding to broad reform priorities rather than specific goals. The Department should assess how well this approach incentivises multilateral organisations to reform;
 - develop contingency plans for those organisations it considers weak and which are not making sufficient progress on reform; and
 - improve its approach to planning, tracking and reporting the results of its engagement with individual multilateral organisations, so that it can support performance improvements and evaluate which activities have the greatest impact.

Part One

Why the Department funds multilateral organisations

1.1 This part outlines:

- the role of multilateral organisations;
- why the Department for International Development (the Department) funds multilateral organisations; and
- why we undertook this examination.

The role of multilateral organisations

1.2 Multilateral organisations are usually established by intergovernmental agreement to enable the national governments of developed and developing countries to work together on shared issues. Multilateral organisations with a development or humanitarian role typically fall into four main groups: development banks, global funds, United Nations (UN) bodies, and the development and humanitarian activities of the European Union. **Figure 1** overleaf summarises the roles of these organisations.

1.3 Multilateral organisations set their own policies and have their own governance arrangements. The Department engages with each, often working with other UK government departments. The UK influence is limited as other member countries will have their own priorities and views.

Why the Department funds multilateral organisations

1.4 In 2010-11, the Department reviewed its core funding of multilateral organisations. The multilateral aid review (the Review) covered 43 organisations, listed in the Glossary to this report. The Review focused on organisations regularly receiving over £1 million in funding from, or attributable to, the Department, including the European Union, international financial institutions, and single-sector global funds which receive flexible, un-earmarked funding.¹ It excluded organisations that primarily conduct research or that work in only one country. As a consequence, the multilateral organisations covered by the Review differs from those organisations covered by international definitions of multilateral aid.²

¹ For example the Climate Investment Funds and the Global Fund to Fight Aids, Tuberculosis and Malaria.

² As defined by the Organisation for Economic Cooperation and Development.

Figure 1

The Department's core funding of organisations covered by its Review, 2011-12

The majority of the Department's 2011-12 funding was to the European Union and development banks

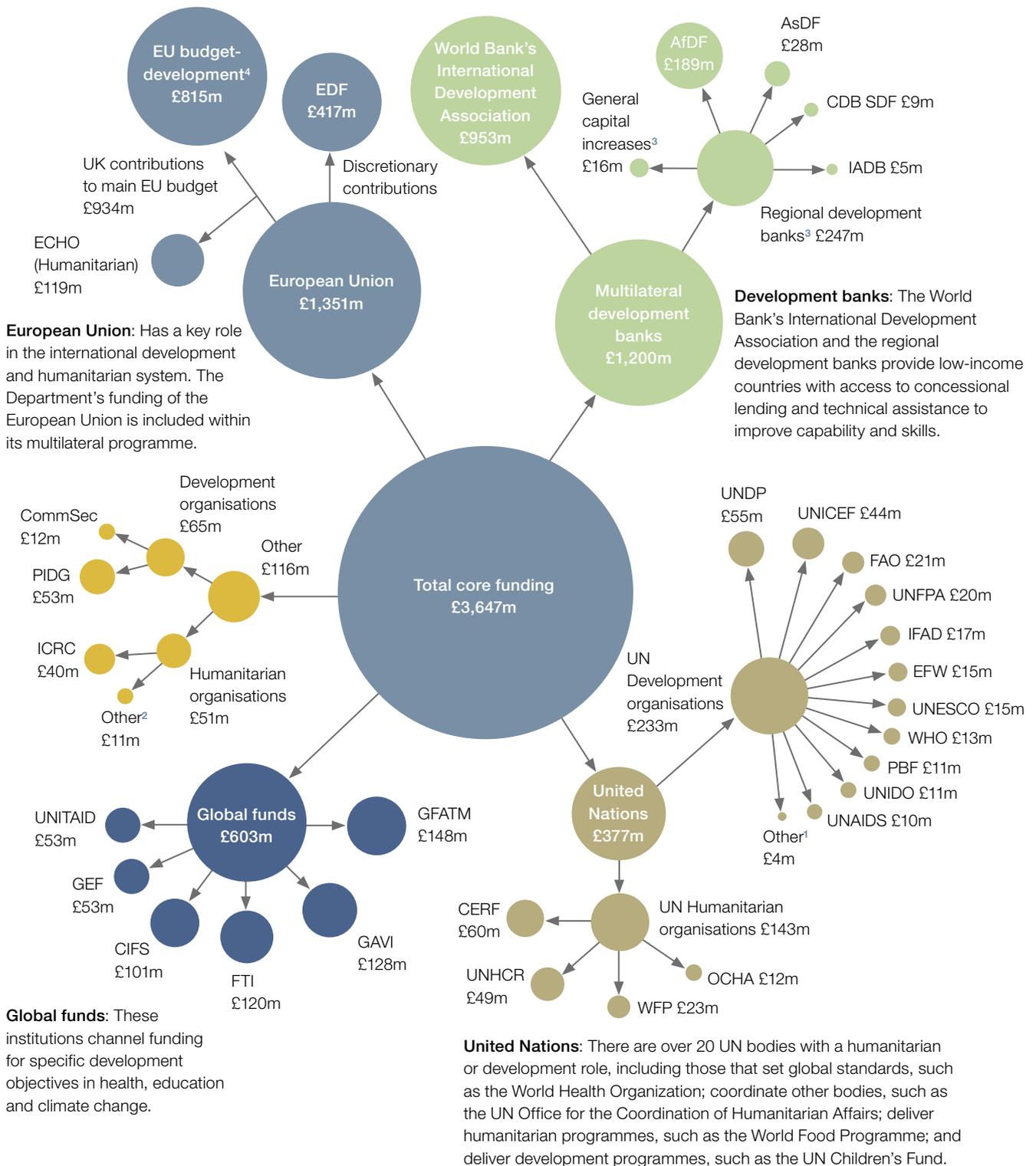


Figure 1 *continued*

The Department's core funding of organisations covered by its Review, 2011-12

NOTES

- 1 UN Development 'Other' consists of Office of the High Commissioner for Human Rights (£3 million) and United Nations Environment Programme (£1 million).
- 2 Humanitarian organisations 'Other' consists of International Federation of Red Cross and Red Crescent Societies (£6 million), Global Facility for Disaster Reduction and Recovery (£4 million) and International Organization for Migration (£1 million).
- 3 The Review primarily focused on those arms of the regional development banks such as the African Development Fund (AfDF) which provide concessional lending to poorer countries. The Department also provides a much smaller amount of funding to increase the general capital (£16 million) of these banks.
- 4 EU budget-development is short for European Union development programmes funded through the EU budget.
- 5 In 2011-12, the Department did not fund all the organisations covered by its 2010-11 Review.
- 6 We have smoothed the financial data between years where figures would otherwise be misleading due to funding patterns.
- 7 Organisations can have a development and humanitarian role and where necessary have been categorised by their main role.
- 8 See the Glossary on pages 51–52 for list of abbreviations.

Source: National Audit Office presentation of departmental data

1.5 The Review set out the reasons why the Department funds multilateral organisations:

- Multilateral organisations allow the UK to support development and humanitarian objectives in a wider range of countries. Multilateral organisations can have the legitimacy to work in politically sensitive contexts where national governments may not be welcome.
- The scale of multilateral organisations' operations can enable them to deliver specialist technical advice, research and financial products at a lower cost.
- For some multilateral organisations, their leadership and coordination activities can generate efficiency savings and reduce costs for countries.
- Multilateral organisations can broker and monitor international agreements which can raise standards across the international system.³

1.6 In 2011-12, the Department provided £3,647 million⁴ (47 per cent of its aid spending) in core funding to the multilateral organisations covered by its Review (Figure 1). Core funding is not earmarked for a specific purpose and, instead, its use is determined by the management and board of the multilateral organisation, within objectives agreed by all members. Of the Department's core multilateral funding in 2011-12, 70 per cent was to the European Union (£1,351 million) and development banks (£1,200 million).

3 Department for International Development, *Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations*, March 2011, p.2.

4 This is the core funding to organisations covered by the Department's 2010-11 Review. It differs from the value in the Department's Annual Report which reflects international definitions of multilateral aid. The Review, for example, included single-sector global funds not covered by international definitions.

1.7 The Department contributes to the European Union's development programme as well as its humanitarian programme (£934 million in 2011-12) through the UK's contribution to the overall EU budget.⁵ The Department has to pay 'assessed contributions'⁶ (totalling £46 million in 2011-12) for the UK to continue membership of a number of UN bodies. To maintain its voting rights in regional development banks the Department must, when required, make contributions to their capital (£16 million in 2011-12). The Department chooses how it allocates the remaining three-quarters of its core funding.⁷

1.8 In addition to the funding shown in Figure 1, the Department also funds multilateral organisations to undertake programmes in a specific country or sector, for example, the World Food Programme's humanitarian response to the 2010 Pakistan floods. In 2010-11 the Department provided £1,883 million in this way.⁸ As the Department places conditions on how this funding is used, it is bilateral aid not core funding and is not covered in this report.

Why we undertook this examination

1.9 The UK government has committed to increasing international aid to 0.7 per cent of gross national income from 2013. As a consequence, the Department's aid programme is due to grow in cash terms from £7,541 million in 2010-11 to £10,530 million in 2014-15 (**Figure 2**). Once adjusted for anticipated inflation, this represents a real terms increase of 27 per cent.

1.10 In October 2011 the Committee of Public Accounts expressed concern about the Department's plan to increase its core funding of multilateral organisations.⁹ The Committee said that the Department has limited visibility over the cost and performance of multilateral organisations. It concluded that the Department must be able to demonstrate that any increase in funding to multilateral organisations will achieve value for money, compared with bilateral alternatives.

1.11 The Department's Review was a positive development, being the first time a country had published a systematic assessment which rated over 40 development and humanitarian multilateral organisations. The Department will update the Review in 2013. It plans a full follow-up assessment in 2015.

5 In addition, the Department also contributes to EU development programmes through funding it opts to provide the European Development Fund (£417 million in 2011-12, taking the Department's total funding to the European Union to £1,351 million in that year).

6 Payments which members of some UN and Commonwealth organisations make as a condition of membership.

7 The figures in this paragraph are taken from the Department's management information on its 2011-12 funding to multilateral organisations.

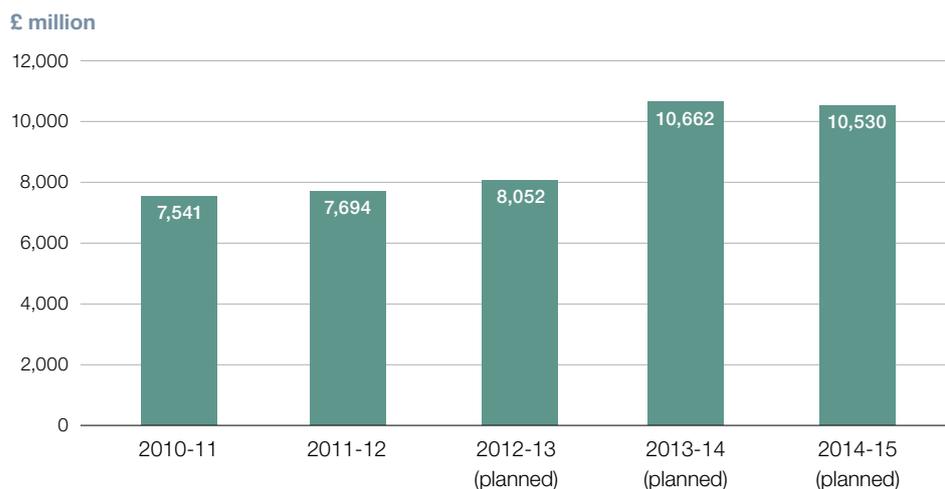
8 Department for International Development, *Statistics on International Development*, October 2011, p.14, paragraph 12.

9 Committee of Public Accounts, *DFID financial management*, Fifty-second Report of Session 2010-12, HC 1398, October 2011.

Figure 2

The size of the Department's aid programme, 2010-11 and 2011-12 and planned 2012-13 to 2014-15 (cash values)

The Department's aid programme is due to grow significantly between 2010-11 and 2014-15

**NOTE**

1 The values comprise resource and capital funding within Departmental Expenditure Limits. They do not include the Conflict Pool, administration costs, and depreciation.

Source: National Audit Office presentation of departmental data

1.12 We examined whether the Department is more likely to secure value for money from its core funding of multilateral organisations in future as a result of its Review. We have not validated its assessment ratings for each multilateral organisation. We examined whether the Department's approach will lead to improved scrutiny of multilateral organisations, the robustness of the Review assessment process and whether the Review's conclusions will lead to better evidence-based funding decisions and encourage reform within multilateral organisations.

1.13 We have set out our findings as follows:

- Part Two examines the robustness of the Department's assessment of multilateral organisations;
- Part Three examines the basis of the Department's decisions on changes to its core funding; and
- Part Four examines how the Department is using its influence to promote reform of multilateral organisations and raise their performance.

Our examination included case studies covering the Department's assessment, funding and engagement with seven multilateral organisations. Appendices One and Two set out our full methods.

Part Two

The Department's Review of multilateral organisations

2.1 This part examines the Department's 2010-11 Review of multilateral organisations. It evaluates:

- the logic and appropriateness of the assessment framework;
- the sufficiency and reliability of the data collected;
- whether the Department reached sound, evidence-based conclusions;
- the adequacy of the Department's quality assurance arrangements; and
- the impact of the Review on international scrutiny of multilateral organisations.

The assessment framework was thorough covering factors important for value for money, but would benefit from some further refinement

2.2 The assessment framework was logical. Nine of its components covered how organisations contributed to UK development objectives and their organisational strengths. Each component was scored on a four point scale from '1' (unsatisfactory) to '4' (strong). The framework's tenth component, 'Likelihood of positive change', did not feed into the final ratings.

2.3 The framework was broader than ones used in previous reviews, which had primarily focused on organisational effectiveness (**Figure 3**). It had a more explicit focus on cost and value consciousness¹⁰ (component 7). It also included new components assessing transparency and accountability (component 9) and each organisation's contribution to gender, fragile states and climate change (component 2). Finally, it had a greater focus on each organisation's fit with UK development objectives. These additions improved the quality and clarity of the framework.

¹⁰ Covers the organisation's focus on value for money, cost-effectiveness, economy in procurement and control over administration costs.

Figure 3

A comparison of the Department's assessment frameworks

The Review focused more on UK development objectives, cost and transparency and accountability than previous frameworks

Multilateral aid review (the Review)	Multilateral resource allocation	Multilateral development effectiveness summaries	Multilateral effectiveness framework	Multilateral Organisation Performance Assessment Network (MOPAN) (The Department is one of 16 contributors)
2010-11	2009	2007	2004	From 2002

Contribution to UK development objectives

1 Critical role in international and UK development and humanitarian objectives	Strategic fit			
2 Attention to cross-cutting issues (gender, fragile states, climate change)				Strategic management: Focus on thematic priorities
3 Focus on poor countries	Geographical fit			
4 Contribution to results	Delivering objectives	Country/global results	Operational management, (country-level results perspective)	Strategic management: Country focus on results

Organisational strengths

5 Strategic performance management	Strategic performance management	Managing resources: Corporate strategy, staff management, evaluation	Corporate governance, corporate strategy, monitoring, evaluation and lesson learning	Strategic management: e.g. Corporate focus on results
6 Financial resource management	Financial resource management	Resource management	Resource management	Operational management: e.g. Aid allocation decisions
7 Cost and value consciousness	Cost-effectiveness	Disbursive administrative efficiency		
8 Partnership behaviour	Partnership behaviour	Partnerships	Partnerships perspective	Relationship management: e.g. Using country systems
9 Transparency and accountability				
10 Likelihood of positive change	Reform scope			

Number of organisations assessed

43	21	14	23	6 planned for 2012 39 assessments covering 17 organisations since 2003
----	----	----	----	---

2.4 The Review's framework built on the 'balanced scorecard' approach of the Multilateral Organisation Performance Assessment Network.¹¹ The components addressed factors that are important for value for money, drawing on proxy measures where direct information on value for money was unavailable or incomplete.

2.5 While the framework was broadly robust, there were a small number of weaknesses:

- There was insufficient guidance for assessors to apply a minority of the criteria consistently. The criteria supporting each component were designed to apply to a broad range of organisations. With little common data available, the criteria consisted of questions to assess the quality of processes, rarely requiring the collection of standard data. The number of criteria (two components had ten or more questions), and the lack of a systematic process for scoring them, resulted in some inconsistency between assessments. The World Food Programme was scored as 'weak' despite commissioning climate change analysis because it did not have a clear policy for its approach, whereas GAVI Alliance was scored as 'satisfactory' although the assessment stated that it had no environment strategy and it has no climate change mandate.¹²
- The financial resource management component did not require an assessment of cash management. The Department is aware that some organisations hold high cash balances and assessed this for four organisations where the Department understood this to be problematic. Including cash management as a criterion would improve consistency of coverage and reinforce its importance to multilateral organisations.

2.6 The Review's framework gave a reasonable basis to assess a diverse set of organisations, despite the intrinsic difficulties associated with doing so. However, the framework needs further development so it is both better suited to assessing different types of organisations and more widely accepted as appropriate and fair. Nearly two-thirds of the multilateral organisations we consulted (24 of 37) felt the framework did not adequately distinguish between organisations with different types and breadths of mandates.

¹¹ This Network, including the UK and 15 other donor countries, carries out perception-based assessments of multilateral organisations on a rolling programme.

¹² GAVI Alliance encourages good practice in waste management including the disposal of needles and syringes.

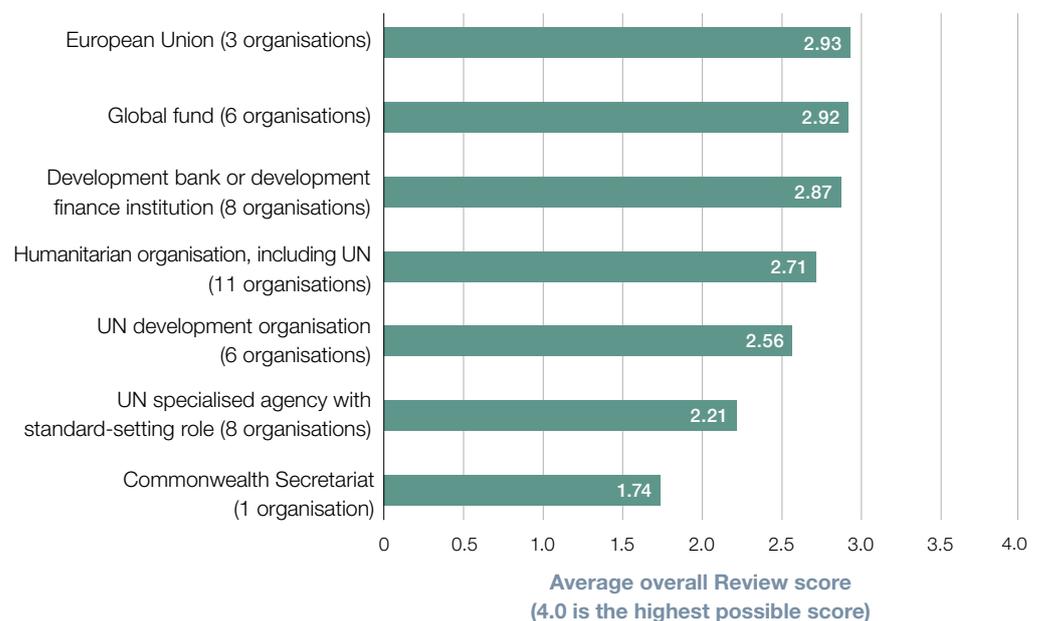
2.7 The Review's framework rightly focused on the measurable impact of multilateral organisations on poor people but this may have disadvantaged some organisations. Organisations like global funds with more easily identifiable outputs such as the number of people immunised tended to score well (**Figure 4**). Others, such as those with a role in setting international standards and brokering international agreements, received lower scores. The complex chain from activities such as setting international food safety standards, to direct poverty reduction can be hard to measure. Specialised agencies involved in setting standards were less able to respond fully to the Department's evidence requirements on demonstrating the impact of their work. The Department is working with some standard-setting agencies to improve their results frameworks. The Department is also clarifying its assessment framework for standard setting agencies before the 2013 review.

Figure 4

The average overall Review score by type of organisation

Specialised agencies with a standard-setting role scored less well, while European Union bodies and single sector global funds scored best

Type and number of organisations



NOTES

- 1 Organisations can have multiple roles and thus have been categorised by their main one.
- 2 The average for the European Union covers its development programmes funded through the EU budget (score 2.5), its humanitarian activities (3.2) and the European Development Fund (3.1).

Source: National Audit Office analysis

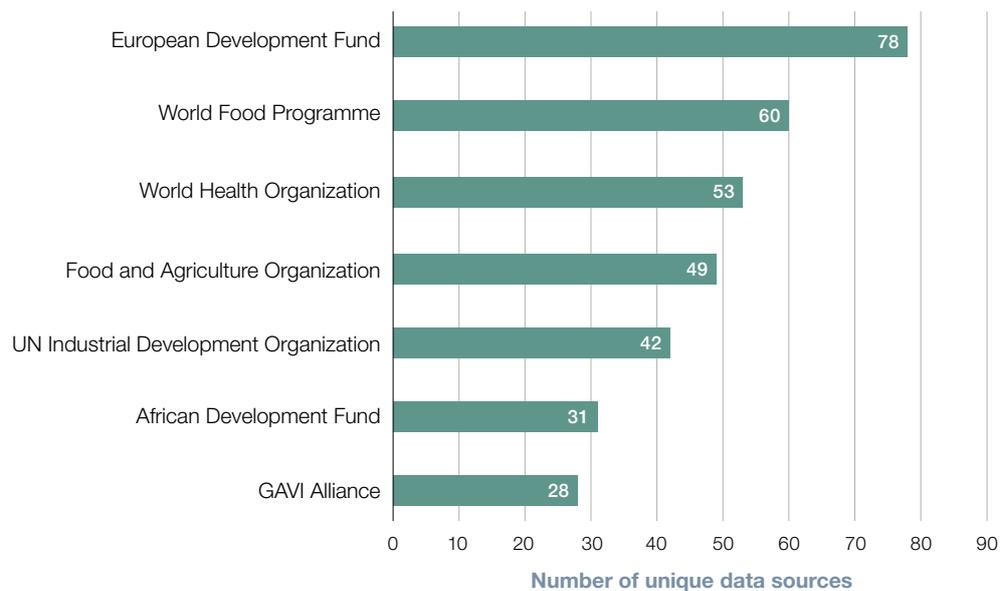
The Review drew on a range of evidence sources but there were some gaps to be addressed in future reviews

2.8 The Department’s staff completed assessments alongside their existing work within a tight timescale, driven partly by the Department’s budgeting schedule. The Department’s staff obtained input from other government departments and UK staff in the countries where multilateral organisations are headquartered. The assessments drew on a good range of documents including reports produced by multilateral organisations, independent external evaluations and reviews previously conducted by the Department.

2.9 We found variation in the number of evidence sources used for our case study organisations, but no formal appraisal of adequacy or the impact of evidence gaps on the robustness of assessments. The number of sources ranged between 28 and 78 for our case study organisations (**Figure 5**). There was also variation in the number of sources used for components. For example, the ‘Critical role in international and UK development objectives’ component had three evidence sources for one case study organisation, compared with 15 for another. Contribution to results was evidenced by an average of eight evidence sources, compared with four sources for gender. A systematic process for appraising evidence could have considered whether these variations reflected factors such as the complexity of organisations or gaps in the evidence base.

Figure 5
Number of evidence sources used in the assessments for seven case study organisations

There was variation in the evidence base underpinning assessments



Source: National Audit Office analysis of departmental working papers

2.10 The Department decided to restrict the multilateral organisations' opportunity to comment on the framework and provide evidence to four written pages plus references to supporting documents. Of 36 organisations who provided us with comments 23 identified areas where the quality of the evidence used by the Department could have been improved. Three of these reported that it was not clear how the Department had used evidence to reach conclusions.

2.11 The Department visited ten countries and did two stakeholder consultations to collect evidence of the impact of multilateral organisations in developing countries. During country visits the Department held discussions with multilateral country teams, government officials and some donor and civil society stakeholders.

2.12 The introduction of country visits and stakeholder consultations were important steps to improving the evidence base but within the tight time frame for the Review the Department was not able to collect information for all multilateral organisations. The visits and consultations were planned to provide information on the organisations receiving most departmental funding rather than to fill gaps in the Department's existing knowledge. The visits and the stakeholder consultations gathered information on 34 of the 43 organisations (accounting for 91 per cent of total core funding in 2010-11). Of 37 organisations who responded 17 raised concerns about the number and quality of country visits.

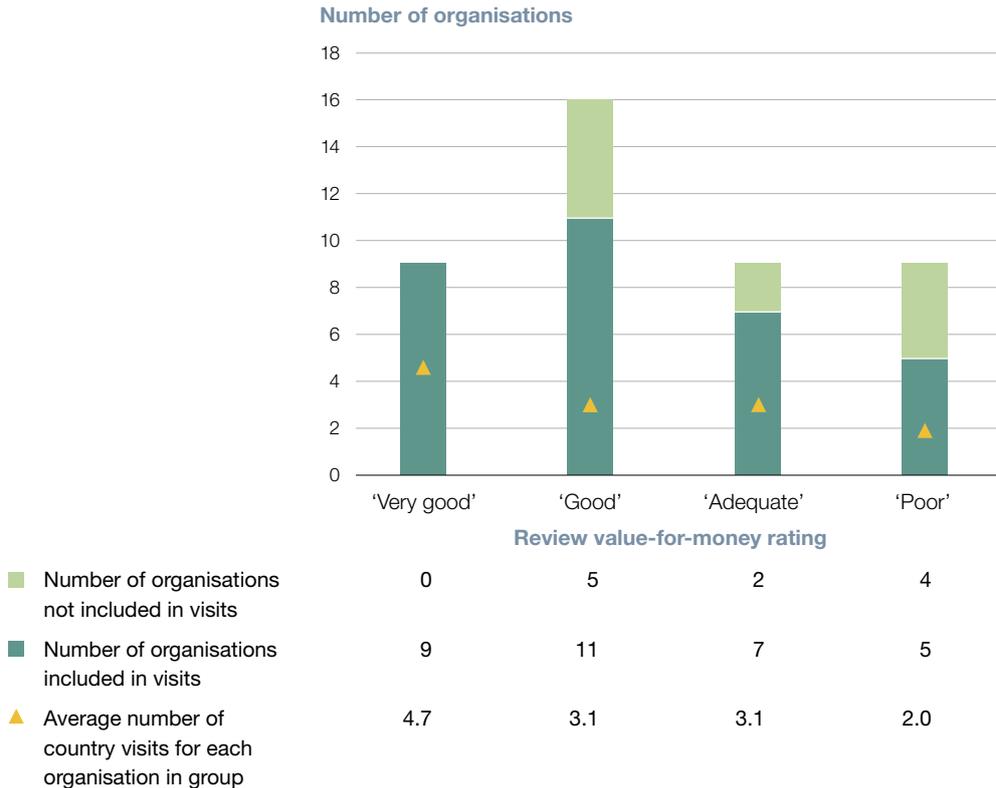
2.13 Gaps in country visits and consultations increase the risk of inconsistency between assessments. The Department's country visits did not include four of the nine organisations it subsequently rated as 'poor' value for money (**Figure 6** overleaf). The Department reported that its country visits were limited when it published its Review. The Independent Commission for Aid Impact suggested that future reviews might examine the capabilities of multilateral organisations across a range of countries and project types.¹³ The Department is improving the evidence for its 2013 update of the Review through a second programme of country visits and enhanced routine feedback from its country offices.

2.14 Reflecting the difficulties in obtaining reliable performance data for some multilateral organisations, the Department's assessments did not include comprehensive information on the development results they had achieved. Assessments included examples of results, such as the number of people with new or improved access to water and sanitation facilities, but their significance was often not clear.

¹³ Independent Commission for Aid Impact, *The effectiveness of DFID's engagement with the Asian Development Bank*, July 2012, p. 1

Figure 6
Comparing Review ratings with country visits

Five of nine organisations rated as ‘poor’ were included in country visits, compared with all nine organisations rated as ‘very good’



NOTE

1 Two organisations rated as ‘adequate’ were covered by stakeholder consultation but not country visits. Nine organisations were not covered by either.

Source: National Audit Office analysis of material from the Department’s Review p. 148–9

2.15 Due to the limited information available on multilateral organisations’ costs, the Department’s assessments pragmatically focused on whether costs and value were important for decision-makers. The assessments covered multilateral organisations’ procedures such as controls over administrative and procurement costs. The Department collected standard data covering actual costs and trends in administration costs where available, but found the data were not standardised or disaggregated enough to provide a sound basis for cost analysis so did not systematically include them in individual assessments. **Figure 7** summarises the limited and varying data on administration and procurement costs provided in the Department’s assessments for each of our case studies.

Figure 7

Data on administration and procurement costs included in assessments

The extent of the data on administration and procurement costs varied

	Administration costs				Procurement costs			
	Cost target	Actual level of cost	Trend in cost over time	Benchmark to other organisations	Cost target	Actual level of cost	Trend in cost over time	Benchmark to other organisations
African Development Fund	✓		✓✓✓	✓✓	✓		✓	✓✓
European Development Fund		✓✓✓	✓✓✓	✓				✓
Food and Agriculture Organization	✓✓	✓✓	✓✓	✓✓	✓			✓
GAVI Alliance	✓	✓✓✓	✓✓	✓✓✓		✓✓	✓✓✓	
UN Industrial Development Organization		✓✓	✓✓✓			✓	✓✓	
World Food Programme	✓	✓✓	✓✓✓			✓✓	✓✓✓	✓✓✓
World Health Organization	✓✓✓	✓✓	✓✓			✓✓✓	✓	✓✓✓

✓✓✓ = Evaluative conclusion largely based on quantitative data as well as qualitative data

✓✓ = Evaluative conclusion based on qualitative data or limited quantitative data

✓ = Brief description

Blank = Not covered in the assessment

Source: National Audit Office analysis of departmental papers

2.16 The Department's assessments for our seven case study organisations included a section on policies and processes for financial accountability. However, the depth of evidence varied. For our case study assessments:

- Two assessments simply described internal and/or external audit processes, three included some discussion of the strength of these processes, and two assessments made full use of audit findings.
- Four assessments drew on specialised assessments of the financial risks faced by the organisation.
- Three assessments described anti-fraud controls without commenting on their effectiveness. Two assessments discussed main areas of control weakness but none quantified details of known frauds or losses. Departmental staff were aware of investigations into potential fraud in some cases.

The Department's overall ratings helped to communicate results although its approach could be refined for future assessments

2.17 The Department combined scores for individual components into an overall absolute value for money rating. Nine organisations were rated as providing 'very good' value for money for UK aid, 16 'good', nine 'adequate' and nine 'poor' (**Figure 8**). The ratings effectively created a league table, helping to communicate results to multilateral organisations, other donors and the UK public.

2.18 The Department's approach to rating organisations meant that organisations it assessed as 'weak' in individual components could still be rated highly overall. Of the nine organisations rated as providing 'very good' value for money, six scored 'weak' for one of the five components for organisational strengths and another scored 'weak' for two components (**Figure 9** on page 28). No minimum standard was required under individual components before they could be rated as 'very good'. In light of this approach, and the absence of good quality data on actual costs and results (paragraphs 2.14 to 2.15), the Department was better placed to have concluded on the relative performance of multilateral organisations rather than on their absolute value for money.

2.19 The Department's overall value-for-money ratings are sensitive to small changes in the scores of individual components. We found that a one mark change for a single component would change the overall rating for 21 of the 43 organisations. Most of the organisations that commented on the Review's conclusions (22 out of 34) considered they were generally fair. However, 19 raised concerns about aspects of the conclusions, including on the appropriateness and reputational impact of the value-for-money labels.

The quality assurance process was systematic but the Department decided against fact checking with multilateral organisations

2.20 The Department had a structured quality assurance process with four layers of review. First, lead assessors peer-reviewed assessments and received comments, where appropriate, from other government departments. Second, the team's directorate reviewed the assessments. Third, the assessments were reviewed between directorates. Lastly, two external experts reviewed each assessment. The quality assurance process reviewed ratings and although it considered evidence the quality of the evidence was not scored. The robustness of quality assurance processes will become more important for subsequent reviews as multilateral organisations, and to some degree the Department, have an interest in showing improvements.

2.21 The Department gave organisations the opportunity to comment on the assessments. The Department put their comments on its website, but did not revise its assessments. The Department chose to publish its assessments without negotiating with organisations. Of 33 organisations who commented on this topic 16 told us they were given limited or no opportunity for discussion or comment before the Review's publication.

Figure 8
How the Department generated value-for-money ratings for UK aid

The Department combined scores into an overall absolute value-for-money rating

Organisational strengths

Index score descriptors



- **Very good** – Average score across both indices is strong (3.0+) above the **green** line – **light green** shaded area.
- **Good** – Average score across both indices is satisfactory (2.5–2.99) and neither index is weak (2.0–2.49) within the **black** and **green** lines – **dark green** shaded area.
- **Adequate** – One index score is satisfactory (2.5–2.99) but the other is weak (2.0–2.49) within the **orange** boxes.
- **Poor** – Both scores are weak (2.0–2.49) or unsatisfactory (below 2.0) – **red** box.

NOTES

- 1 EU budget is short for European Union development programmes funded through the EU budget.
- 2 CIFs and GFDRR had the same the score. PBF and FTI had the same score. UNAIDS and OHCHR had the same score.
- 3 See Glossary on pages 51 and 52 for list of abbreviations.

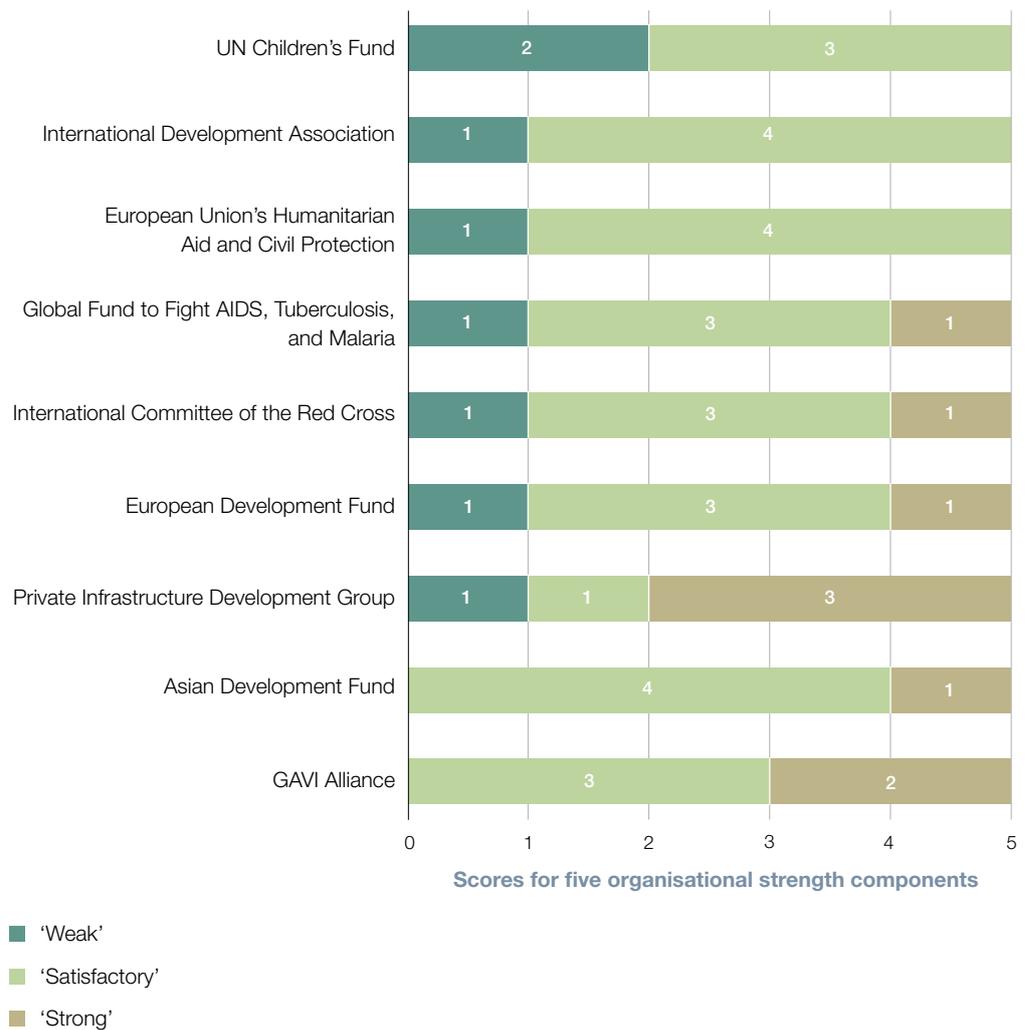
Source: National Audit Office presentation of material from the Department's published Review. Reproduced with permission

Figure 9

The scores for the five organisational strength components for the multilateral organisations rated ‘very good’ value for money

Seven ‘very good’ organisations were assessed as ‘weak’ in one or more of the components for organisational strength, none were given the lowest rating of ‘unsatisfactory’

Organisations rated as ‘very good’ value for money



Source: National Audit Office analysis of Review scores

The Department's review has helped increase scrutiny of multilateral organisations

2.22 The Review clearly displayed the results and comparative ranking of each multilateral organisation by using overall ratings. These ratings were supported by a scatter graph showing each organisation's performance on organisational strengths and contribution to development objectives. Publishing the assessments of such a large number of organisations was a powerful innovation which has clearly highlighted those that the Department judged were in greatest need for organisational reform. It also provides an element of accountability for UK taxpayers in the context of the sizeable increases to the Department's budget. This new approach has been influential among other donors.

2.23 Since the Review, four countries have undertaken their own assessments and ratings of multilateral organisations using similar approaches to the Department. Sweden has continued using its established scorecard system to assess and report on multilateral organisations. The scorecard is similar to the Department's Review as it looks at both relevance to Swedish objectives and organisational strengths. For the Netherlands and Australia it was the first time they had published their assessments of individual multilateral organisations. The Department collaborated with Australia to design its assessment process including through a short-term secondment. Denmark used the Department's review as an evidence source but as at August 2012 it had not published its results. The organisational effectiveness scores of the other three reviews were broadly similar to the Department's findings. Where there were differences other donor scores tended to be higher.

Part Three

The Department's approach to core funding

3.1 This part examines whether the Department:

- reflected the findings of its Review when taking funding decisions;
- considered other factors important for value for money in taking funding decisions;
- plans to reflect performance in future funding decisions; and
- made appropriate plans to exit from organisations it has, or might, stop funding.

The Department's core funding is increasingly going to those organisations it rated as better value for money for UK aid

3.2 Following its Review the Department put funding plans in place up to 2014-15 for 39 of the 43 organisations covered by the Review although these plans are subject to change after the next update.¹⁴ The Department's plans would see annual core funding to these 39 organisations grow in cash terms by £773 million, around a quarter, between 2010-11 and 2014-15. The percentage of the Department's total aid spending going to these organisations is currently set to decline from a peak of 45 per cent in 2011-12, to 38 per cent in 2012-13 and remain around this level to 2014-15 (**Figure 10**).

3.3 The Department is giving larger funding increases to organisations rated as better value for money for UK aid under the Review.¹⁵ Annual funding to 'very good' rated organisations will increase by £532 million (28 per cent) between 2010-11 and 2014-15. Those rated 'good' will see increases of £145 million (31 per cent) (**Figure 11** on page 32).

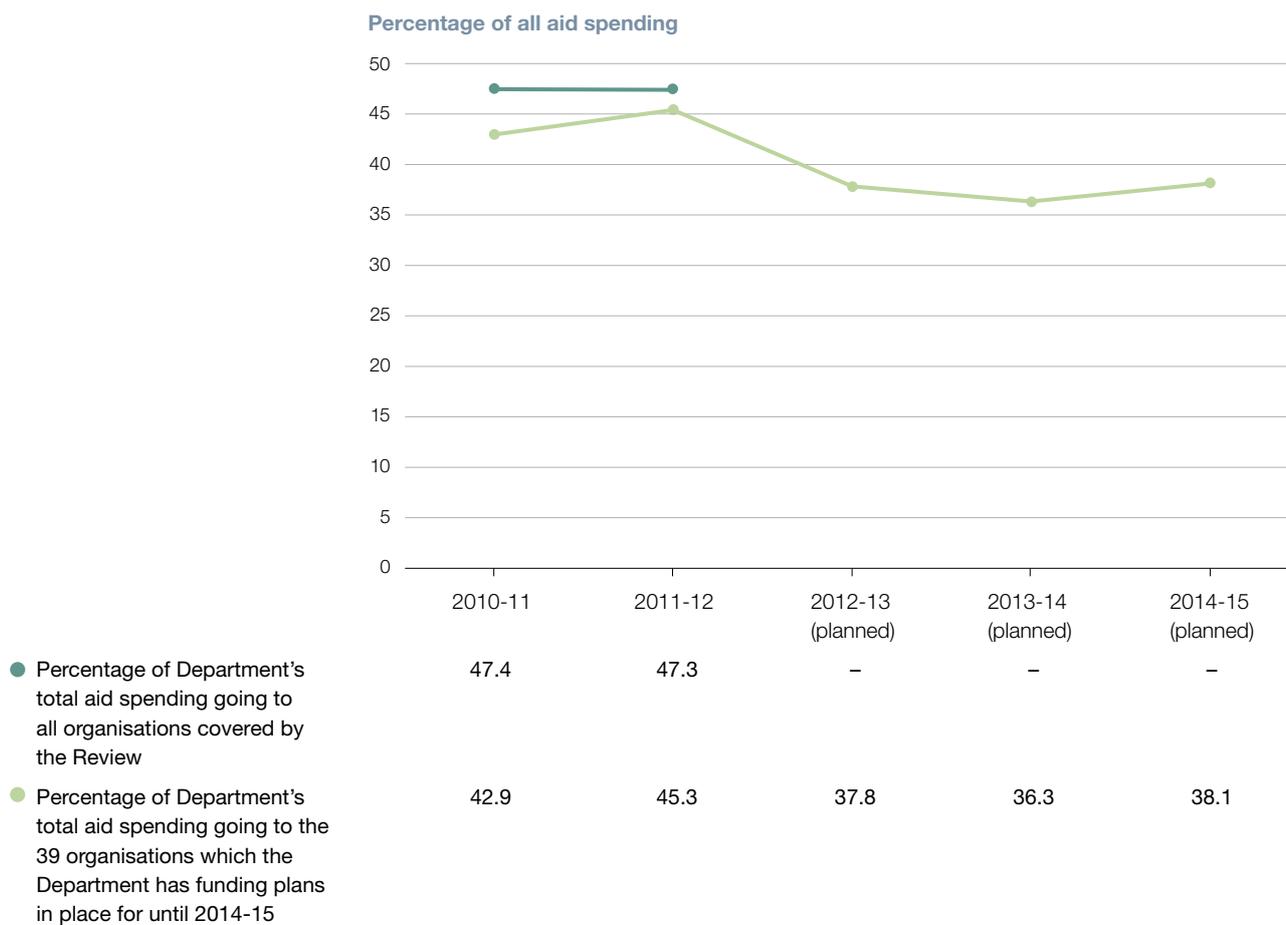
¹⁴ The 39 organisations excludes organisations that the Department has yet to make funding plans for 2014-15 (Climate Investment Funds, Global Environment Facility and UN Environment Programme) and UN Development Fund for Women which was merged into the larger body UN Women in 2011. The Department's plans include stopping funding for 4 of the 39 organisations.

¹⁵ The value of the cash increases to multilateral organisations will depend on movements in exchange rates and movements in costs in the countries where they operate.

Figure 10

Core funding to organisations covered by the Review as a percentage of the Department's total aid spending, actual 2010-11 to 2011-12 and its current plans 2012-13 to 2014-15

The percentage of the Department's total aid spending going as core funding is currently set to decline

**NOTE**

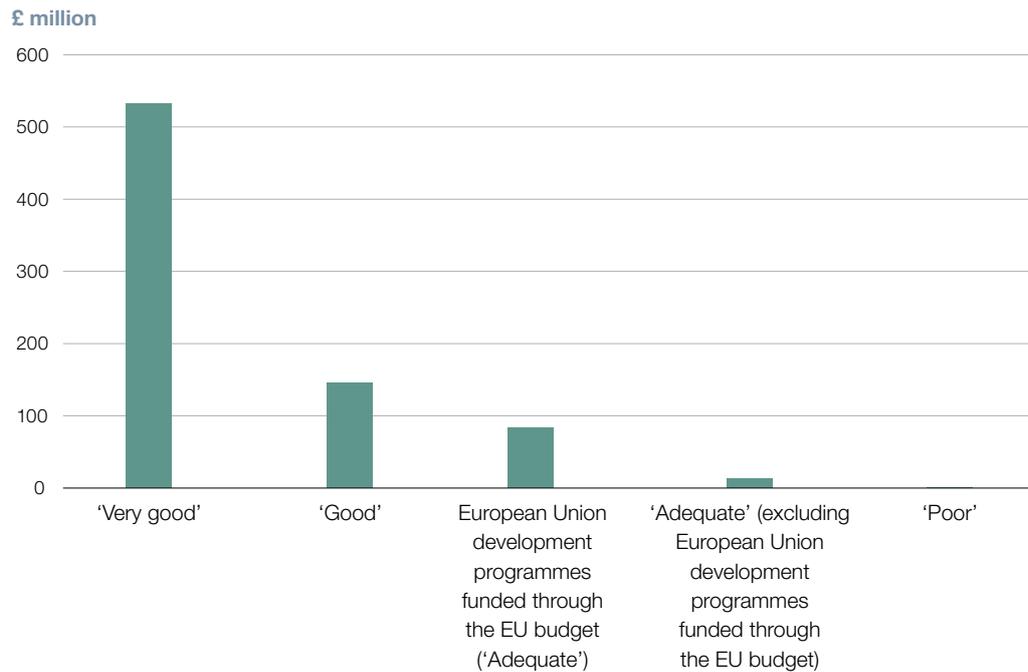
1 See footnote 14 for explanation of the four organisations not included in the light green line.

Source: National Audit Office analysis

Figure 11

Planned increases in annual funding (cash values) between 2010-11 and 2014-15 by Review value-for-money rating of multilateral organisations

Organisations rated 'very good' will receive the large majority of the increase in core funding



	Review value-for-money rating				
	'Very good'	'Good'	European Union development programmes funded through the EU budget ('Adequate')	'Adequate' (excluding European Union development programmes funded through the EU budget)	'Poor'
Planned increase (£m)	532	145	84	13	0
Percentage increase	27.5	30.8	11.5	23.2	0.0

NOTES

- Increases are based on 39 organisations. See footnote 14 for details of the four organisations not included.
- The Department's funding of European Union development programmes through the EU budget has been separated from its funding of the European Union's humanitarian programme and the European Development Fund, both rated 'very good' under the Review.

Source: National Audit Office presentation of departmental data

3.4 The Department's funding plans will lead to a small increase in the percentage of core funding that it gives to higher rated organisations. In 2010-11, 74 per cent of the Department's core funding went to organisations it rated as 'very good' or 'good' value for money (**Figure 12** overleaf). A further 22 per cent of 2010-11 funding went as the UK's obligatory contribution to development activities within the European Union's budget. Given this profile, the Department had limited scope to further improve the efficiency of how it allocates core funding. Its current plans will see core funding going to organisations rated as 'very good' or 'good' rise by three percentage points to 77 per cent, in the four years to 2014-15. This rise largely reflects that the Department's contribution to European Union development programmes funded through the EU budget (rated as 'adequate'), on current plans, may grow more slowly than its total core funding of multilateral organisations over the spending review period.

Funding decisions reflected factors important to value for money but few cases included comparisons with alternatives

3.5 We examined whether, when making funding decisions, the Department had:

- reflected the UK's wider interests in multilateral organisations and existing funding levels; and
- tested the value for money of core multilateral funding against alternative delivery routes where applicable.

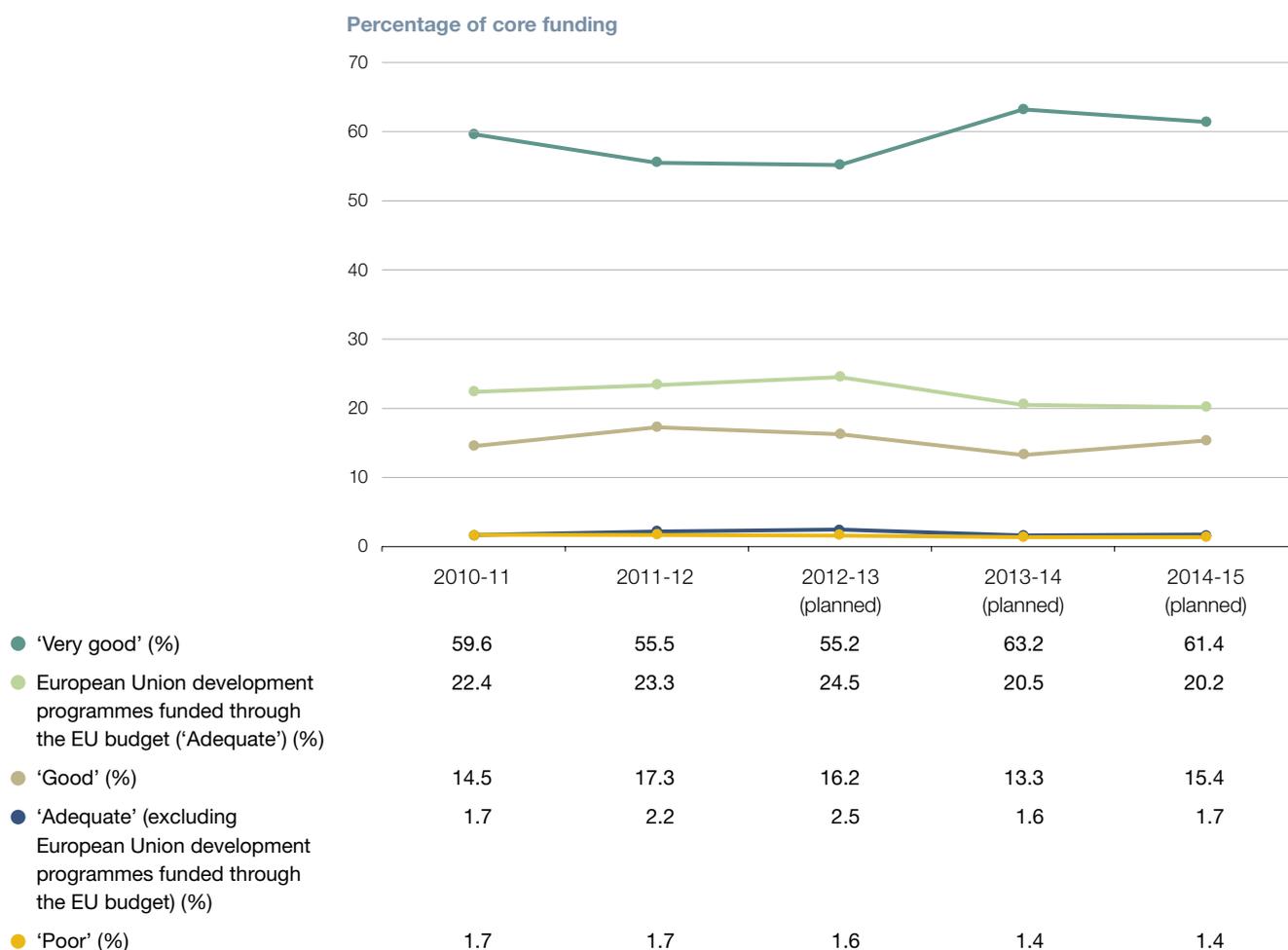
Funding decisions reflected UK interests and existing contribution levels

3.6 For those multilateral organisations with a mandate broader than development, such as the World Health Organization, the Department considered the interests of other government departments in addition to its own interests. As most organisations rated as 'poor' value for money for UK aid were UN bodies, the Department also took into account the risk that any decision to exit from these bodies could be seen as a reduced UK commitment to the UN.

Figure 12

Core funding by rating of multilateral organisations, actual 2010-11 to 2011-12 and current plans 2012-13 to 2014-15

The percentage of the Department's core funding to organisations it rated as 'very good' and 'good' will rise by three percentage points to 77 per cent by 2014-15 under current plans

**NOTES**

- Increases are based on 39 organisations. See footnote 14 for details of the four organisations not included.
- The Department's funding of European Union development programmes through the EU budget has been separated from its funding of the European Union's humanitarian programme and the European Development Fund, both rated 'very good' under the Review.

Source: National Audit Office presentation of departmental data

3.7 Increasing UK funding to better-performing organisations should increase results, especially if the UK’s contributions help lever in rather than replace funding from other donors. Larger contributions can also increase the UK’s influence. In the period prior to the Review, the UK had, on average, provided around eleven per cent of multilateral organisations’ core funding, but contributions to individual organisations had varied significantly (**Figure 13** overleaf). The Department has made higher contributions to those organisations:

- it had played a key role in establishing, such as the Education for All Fast-track Initiative and the Climate Investment Funds;
- it has considered to be particularly effective, such as GAVI Alliance and the Private Infrastructure Development Group;
- focusing on regions with strong ties to the UK, such as the Caribbean Development Bank Special Development Fund and the Commonwealth Secretariat; and
- with restricted membership such as the European Union.

3.8 Relatively high UK contributions to organisations the Department has given lower ratings to bring risks to value for money. The UK has made above average contributions (in excess of 11 per cent) to four organisations rated ‘poor’ or ‘adequate’ value for money for UK aid. The Department is planning to stop funding one of these organisations, the UN Expanded Delivering as One Funding Window.¹⁶ It is not increasing its funding to the Commonwealth Secretariat’s development programmes or the Caribbean Development Bank’s Special Development Fund. Reflecting UK treaty obligations, funding to European Union development programmes funded through the EU budget may increase as part of the UK’s assessed contribution to the overall EU budget (subject to the outcome of ongoing budget negotiations).

The Department faces barriers in comparing the cost-effectiveness of multilateral organisations with alternatives

3.9 Comparing the cost-effectiveness of the aid delivered through multilateral organisations with alternatives would enable the Department to reach definitive conclusions on the value for money of its core funding. In practice, however, such comparisons are very difficult. The roles and work of multilateral organisations are often unique, so there are no direct comparators. In addition, multiple functions and broad, cross-cutting remits make identifying and measuring their impact more difficult.

¹⁶ Provides funding to UN country programmes to support joined-up delivery by UN agencies.

Figure 13

The UK's percentage funding contribution (in the period prior to its Review) and Review value-for-money rating for each multilateral organisation

The UK's contributions have varied significantly, and were above the 11 per cent average for four organisations rated as 'poor' or 'adequate'

Organisations ranked by Review score, the highest at the top

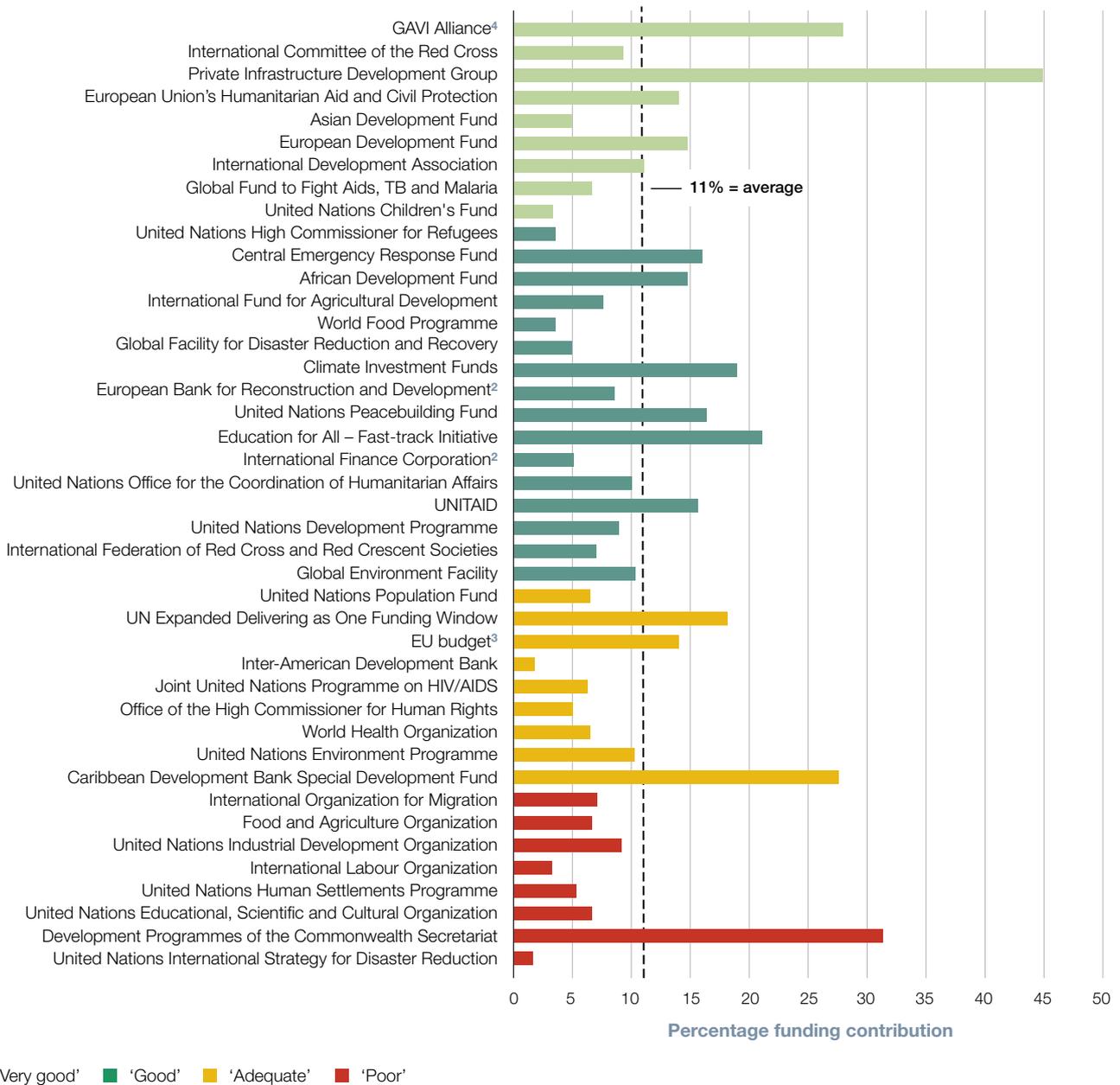


Figure 13 *continued*

The UK's percentage funding contribution (in the period prior to its Review) and Review value-for-money rating for each multilateral organisation

NOTES

- 1 For most organisations the average covers the period 2008 to 2010. Where data for this period are not available best available alternatives have been used.
- 2 The funding contribution for the International Finance Corporation and the European Bank for Reconstruction and Development are the Department's share of these organisations' capital.
- 3 EU budget is short for European Union development programmes funded through the EU budget.
- 4 Some of the UK's contributions to GAVI Alliance are through an innovative finance mechanism that raises funds on capital markets. Through these front loaded funds, and direct contributions to GAVI, the UK provided 28 per cent of GAVI's total funding for 2006-10. The UK's direct contributions accounted for 9 per cent of GAVI's total funding during 2008-2010.

Source: National Audit Office presentation of departmental data

3.10 The Department recognises the value of more specific comparisons of individual activities by multilateral organisations. Progress depends upon mapping the different activities of each multilateral organisation and determining those that are fundamental to the cost-effectiveness of the organisation. This would include activities that use a sizeable proportion of core funding and those that are critical to the role and purpose of the organisation. Comparisons of cost-effectiveness then depend upon isolating the impact of these critical activities and attributing the costs incurred in delivery.

3.11 During the 2010 spending review the Department compared the value for money of proposed funding increases to three multilateral organisations it rated 'very good' and one it rated 'good' against bilateral alternatives for delivering the same objectives.¹⁷ The comparisons examined factors important to value for money, such as which option would best enable the Department to reach countries or groups in greatest need. The comparisons also included some quantification of costs but full cost-benefit analyses were not possible.

3.12 In 2012, the Department examined the costs and results of its interventions to improve water, sanitation and hygiene in developing countries. Its review was unable to conclude on the relative cost-effectiveness of multilateral aid to alternatives for achieving the Department's objectives.

The Department's future funding will take account of multilateral organisations' progress on reform

3.13 The Department intends that its future funding for most organisations will take account of their progress against the broad reform priorities it identified during the Review, rather than against specific targets or actions. Our experience from other environments indicates that performance payments are normally linked to outputs or outcomes, rather than organisational reform. As a consequence, it is too early to assess whether the Department's approach will be successful.

¹⁷ 'Very good' organisations were GAVI Alliance, the Private Infrastructure Development Group and the Global Fund to Fight AIDS, Tuberculosis and Malaria. The 'good' organisation was The Education for All – Fast-track Initiative.

3.14 For most multilateral organisations the Department provides between 3 and 15 per cent of total core funding, limiting the influence it can have through performance funding alone. The Department is building alliances with other countries, and has used its published Review to increase its influence with multilateral organisations. The Department must also ensure that multilateral organisations accept the reforms and are clear about the Department's view of success, despite it not setting specific targets.

The Department has exited from four organisations but any further exits would require careful planning

3.15 In 2011, the Department told four organisations it rated as 'poor' value for money that it would stop their core funding.¹⁸ In 2010-11, the Department gave these organisations £8 million (0.2 per cent of total core funding). Although the withdrawals will not significantly alter the composition of the Department's multilateral programme, they reinforce its message that future funding will take account of performance. One of these four organisations commented to us that it did not have a clear understanding of if, and how, the Department would cover the organisation in future reviews and thus consider it for future funding.

3.16 The Department has not withdrawn from four other organisations it rated as 'poor' value for money.¹⁹ Instead it told these organisations they must improve performance urgently or their core funding – £48 million in 2010-11 – could be reduced or stopped. The Department judges these organisations could have a critical role that is not well covered elsewhere internationally, or make an important contribution to objectives of other government departments. At the time of our fieldwork the Department had not prepared written contingency plans in case performance did not improve by the next review, although it began to make plans for one organisation in June 2012. Such plans should include how to manage withdrawal and how the Department might seek from other sources the development benefits the organisations currently provide. The Department has so far chosen to focus instead on promoting reform. The Department plans to review the progress of these organisations during its 2013 update.

18 These are the United Nations Human Settlements Programme; the United Nations International Strategy for Disaster Reduction; the International Labour Organization; and the United Nations Industrial Development Organization.

19 The four organisations are the Food and Agriculture Organization; the International Organization for Migration; the Commonwealth Secretariat; and the United Nations Educational, Scientific and Cultural Organization. One further organisation that the Department rated as 'poor', the United Nations Development Fund for Women, no longer exists as a separate body as it has been merged into a new organisation, UN Women.

Part Four

How the Department is promoting reform

4.1 This part covers:

- the robustness of Department's engagement on system-wide reform;
- its approach to engaging with other donors;
- its approach to promoting agency-specific reforms; and
- the impact of the Review so far.

The Department has clear priorities for system-wide reform but would benefit from an overall plan for its engagement

4.2 The high profile and comparative nature of the Review has increased scrutiny on value for money and created incentives for organisations to reform. To focus its engagement with organisations, the Department has identified eight system-wide reform priorities:²⁰

- Accountability for results
- Delivery of efficiency savings and value for money in programming
- Human resource management
- Transparency and accountability
- Delivering for women and girls
- Delivering in fragile contexts
- Partnership behaviour
- Anti-corruption.

²⁰ The first seven system-wide priorities are set out in the Department's Review. The anti-corruption reform priority was added in 2012.

4.3 The Department's approach to reform has strengths but also some weaknesses. The Department fully met one of the six good practice criteria we assessed it against and partially met the others (**Figure 14**). The Department drew on the evidence collected during its Review to establish its system-wide priorities. In March 2011 it made a plan of the initial actions it would take to follow-up its Review. It has decided not to make further over-arching plans as it considers a single document had proved too inflexible given the changing agenda it faces, the breadth of action it is undertaking and the need to respond quickly to emerging opportunities. It has therefore decided to focus on separately planning its engagement with individual multilateral organisations and other donor countries.

4.4 In our view a documented and co-ordinated approach would help the Department maximise the impact of the Review. The absence of a core set of activities risks inconsistency, duplication and gaps in approach. We consider that it also makes it more difficult for the Department to be sure that its decisions on staff allocation are optimal for focusing on the reform priorities and multilateral organisations where it can have greatest traction, or which are most important to its aid objectives.

Figure 14

The Department's approach to system-wide reform

The Department's approach meets aspects of good practice but lacks a core set of activities and detailed framework to monitor progress

Good practice criteria	NAO assessment
Clear objectives, based on evidence	✓✓
Stakeholder mapping identifies key opportunities for collaborating and engaging with others	✓
Plan of activities	✓
Plan includes key risks and mitigating actions	✓
Appropriate resources	✓
Arrangements to measure success in place	✓
✓✓ = Comprehensive	
✓ = Partial	

Source: National Audit Office

4.5 The Department's current priorities largely focus on reforms which aim to improve the performance of individual organisations. The Department has not stated its view on wider issues that are important to the effectiveness of the multilateral system such as fragmentation, complexity and overlaps in roles and mandates. While important, such issues are difficult for individual donors to influence and the Department told us that it had reduced the time it spends on them. However, it is important that the Department keeps in mind these wider issues and considers whether the actions it is taking are supportive of the overall multilateral system.

The Department is taking a lead role among donors in promoting reform of multilateral organisations and approaches to multilateral assessments

4.6 The Department cannot, by itself, bring about multilateral reform as it is only one of many stakeholders in each organisation. The Department has promoted the findings of its Review with other donors. It has taken a lead role in the debate on improving the effectiveness of multilateral organisations, and is seeking consensus on the issues it considers important for reform.

4.7 In February 2012, the Department organised an event attended by 18 other donor countries. The donors agreed some specific actions, collectively and individually, for results-based management, cost-effectiveness and anti-corruption. They also identified the need to develop shared donor plans for key reform areas.

4.8 The donors also discussed the increasing number of published assessments of multilateral organisations since the Department's Review. The donors considered the scope for greater collaboration on the design of assessment frameworks and the collection of data. Options they identified included developing the existing multi-donor supported network for assessing multilateral organisations (see paragraph 2.4). A joint approach would be consistent with the commitments made by the Department and other donors in the Paris declaration and Accra agenda for action to improve the quality of aid through better collaboration.²¹

4.9 The number of separate donor assessments has been of concern to multilateral organisations. Seventeen organisations had commented to us on the increased burden of engaging with donor assessments. They noted that costs could be reduced for multilateral organisations and donors if greater reliance was placed on multilateral organisations' own scrutiny arrangements and if countries shared evidence and did joint assessments.

4.10 In addition to the donor event in February 2012, the Department has also engaged on a one to one basis with other countries, such as Australia and France, on multilateral reform. The national governments we consulted during our examination considered that the Department's actions had made a positive impact on others.

²¹ These agreements on effective aid were made at high-level forums by aid officials and representatives of donor and recipient governments, and organised by the Organisation for Economic Co-operation and Development.

The Department's engagement with multilateral organisations on reform varies

4.11 The Department set out its reform priorities for each organisation in 2011. The priorities are important to encourage multilateral organisations to improve the information they collect on their costs and results. The Department has, at a high level, stressed the importance of improved cost-effectiveness to all multilateral organisations. For those it continues to fund, the Department's specific reform priorities covered cost for the one organisation rated as 'unsatisfactory' under this component. However, they did not cover cost for 4 of the 15 rated as 'weak'.

4.12 The Department engages with multilateral organisations through its formal governance role, less formal communication with officials and through contact with other member countries. For six of our case studies, we assessed the Department's documented approach to engagement.²² Our assessment criteria drew on departmental guidance and on standard management practice (**Figure 15**).

4.13 At the time of our review, the quality of the Department's documented engagement approaches was variable. Variations did, in part, reflect individual circumstances but did not reflect differences in the importance of the multilateral organisation to the Department or the level of reform the Department was seeking. Its strategy for the World Health Organization was of a high standard including good stakeholder analysis and the support it was planning to provide. In contrast, the Department did not have an extant engagement strategy for GAVI Alliance. We did, however, see evidence that it had produced plans setting objectives covering reform priorities before key meetings of the GAVI Board. In general, the Department was good at identifying objectives and some specific actions. Areas for improvement included:

- stakeholder analyses were often set out over several different documents, which bring risks of inconsistency;
- engagement strategies could have included more detail on the actions the Department would take with donors and other member countries to further reform priorities; and
- most plans had not been regularly updated during 2011-12, although the Department subsequently revised plans during the first quarter of 2012-13.

4.14 At the time of our examination, the Department had made little formal assessment of its progress on engagement. Teams had not recorded progress on engagement strategies. It will not be until the end of 2012 that most teams will prepare their first annual reviews against milestones for reform set out in business cases, which were introduced for core funding in 2011.

²² The Department decided to stop funding the seventh case study organisation, the United Nations Industrial Development Organization so it does not have an engagement strategy.

Figure 15

Comparison of the Department's documented engagement approaches for six multilateral organisations

Engagement approaches vary in quality

	African Development Fund	European Development Fund	Food and Agriculture Organization	GAVI Alliance	World Food Programme	World Health Organization
Are the objectives of engagement clear?	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓
Are the individuals or bodies who are the focus of engagement identified and are the reasons clear?	✓	✓	✓	✓	✓	✓✓
Is the theory of how influencing activities will deliver desired change explained?	✓	✓	✓✓	✓	✓	✓
Is there a clear list of planned activities?	✓	✓✓	✓✓	✓	✓✓	✓✓
Does the plan explain how the Department plans to work with other stakeholders, e.g. donors, other member countries?	✓	✓✓	✓	✓	✓	✓✓
Does the plan set out the resources and costs required for the planned engagement?	✓	✓	✓	✓	✓	✓
Is the Department's documented strategy kept up to date and does it reflect lessons learnt?			✓			✓

✓✓ = Comprehensive

✓ = Includes aspects of best practice, but not sufficient detail

Blank = No evidence of this

Source: National Audit Office review of Department documentation: includes all relevant engagement strategies, plans and business cases available at the time of our review

The Review has increased the attention given to multilateral reform but it is too early to assess whether there will be lasting change

4.15 Reforming multilateral organisations takes time and thus it will be several years before the full impact of the Department's Review can be assessed. Thirty-five multilateral organisations told us they had already identified the need for many of the Department's reform priorities, but 27 indicated that the Review had increased the focus on, and impetus for, reform. We consulted representatives from other countries to our case study organisations. Most supported the picture of the Review adding impetus to existing reforms.

4.16 The Department makes six-monthly assessments of progress against its system-wide reform priorities. The rigour of the Department's assessments would be improved if it established agreed milestones or targets across the system to supplement those it has for individual multilateral organisations. As at June 2012 the Department judged that multilateral organisations had made particular progress on results and transparency. It also reported a new interest from donors on cost-effectiveness and human resource management. Less progress had been made on girls and women, operating in fragile states and partnership behaviour (**Figure 16**). The 2013 review will enable the Department to make a fuller assessment of progress.

Figure 16

The Department's assessment of progress against its system-wide reforms at June 2012

The Department has reported progress on some but not all of its reform priorities

Accountability for results	Progress has been made on results and the remaining agencies (the European Union and some UN agencies) are responding to pressure. However, there are still many institutional obstacles. Results are a priority for other donors but there is not yet enough consensus in all agencies.
Delivery of efficiency savings and value for money	Encouraging interest from other donors. But there is considerable resistance in the boards of multilateral organisations and far to go to achieve consensus on where to focus efforts.
Human resource management	Some traction with other donors. Some action taken by multilateral organisations but not yet possible to judge whether this will lead to concrete progress.
Transparency and accountability	Increasing international consensus on this issue since 2011, catalysing activity among multilateral organisations.
Delivering for girls and women	Progress across agencies mixed.
Working in fragile states	There has been some progress but many difficult challenges remain.
Partnership behaviour	While some multilateral organisations are addressing the issue it is too early to see substantive change.

Source: National Audit Office summary of departmental papers and its 2011-12 Annual Report

Appendix One

Our audit approach

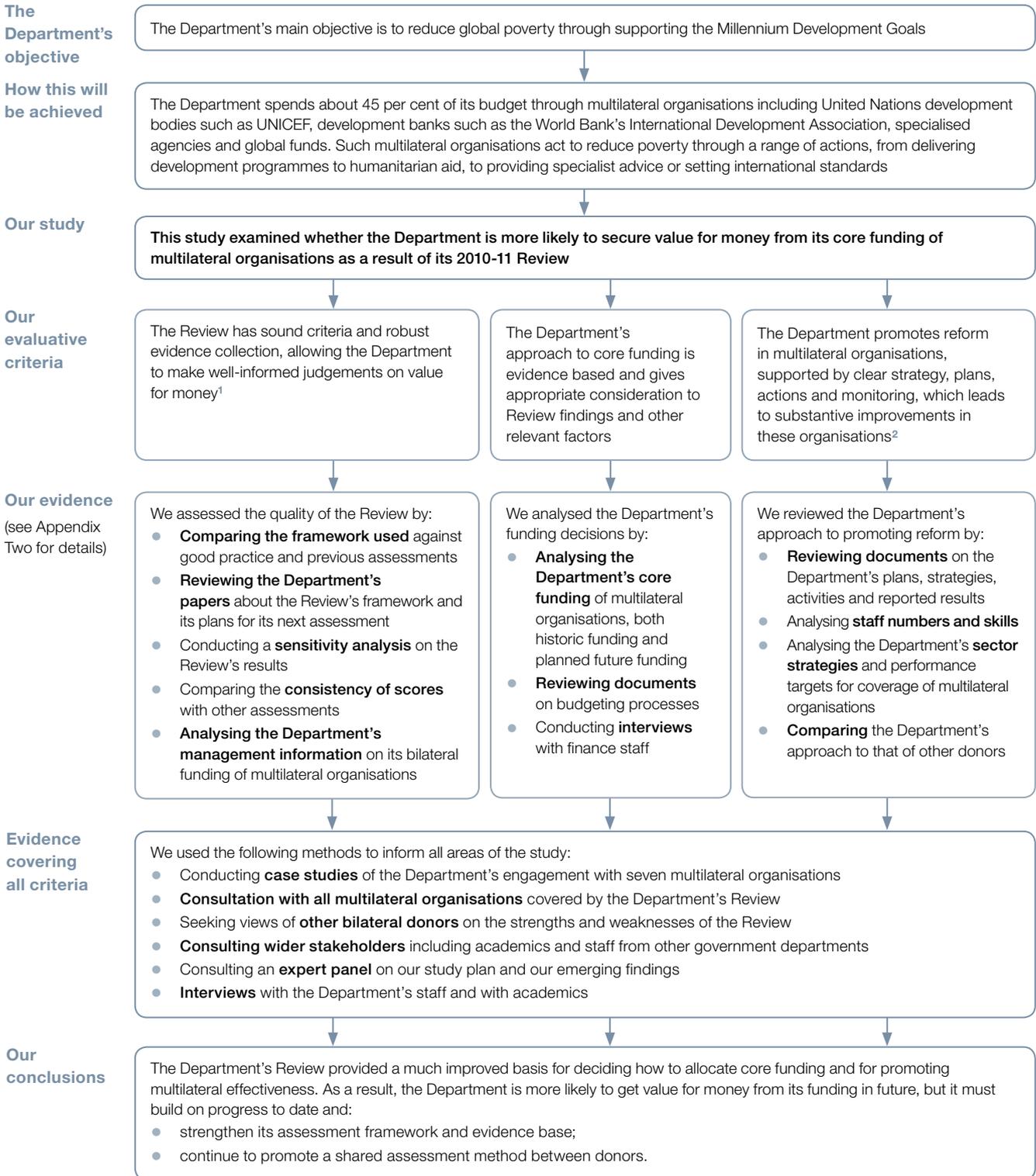
1 We examined whether the Department for International Development (the Department) is more likely to secure value for money from its core funding of multilateral organisations as a result of its 2010-11 multilateral aid review (the Review), by considering whether:

- its Review robustly assessed multilateral organisations;
- the Department has a sound approach to decide the core funding it gives to multilateral organisations; and
- the Department is best using its influence to promote reform in multilateral organisations and thus raise their performance.

2 We developed our own analytical framework to assess value for money, supported by evaluative criteria based on good practice. Our assessment of value for money was restricted by a lack of available data on the actual costs and results achieved by multilateral organisations. However, as set out in the Summary, we assessed whether the Department's approach will lead to improved scrutiny of multilateral organisations, the robustness of the Review assessment process and whether the Review's conclusions will lead to better evidence-based funding decisions and encourage reform within multilateral organisations.

3 Our audit approach is summarised in **Figure 17** overleaf. Our evidence base is described in Appendix Two.

Figure 17
Our audit approach



NOTES

1 Evaluative criteria derived from good practice in performance assessment.
2 Evaluative criteria derived from NAO core management cycle and DFID guidance on influencing multilateral organisations.

Appendix Two

Our evidence base

1 We formed our independent conclusions on whether the Department for International Development (the Department) is more likely to secure value for money from its core funding of multilateral organisations as a result of its 2010-11 multilateral aid review (the Review). Our conclusions were based on the Department's Review and the evidence we collected. Our fieldwork took place between January and May 2012.

2 We applied an evaluative framework to consider how the Department could best gain optimal value for money from the multilateral organisations it funds. Our audit approach is outlined in Appendix One.

3 We assessed the quality of the Review:

- We **compared the framework used against good practice** and against previous assessments. We compared the multilateral aid review framework with good practice such as the European Foundation for Quality Management's business excellence model, the NAO's analytical framework, for assessing value for money and previous departmental approaches to assessing multilateral performance.
- We **reviewed department papers** about the framework and process used to conduct the assessment, and plans for its next assessment.
- We **conducted a sensitivity analysis** on the Review's results to assess robustness. We tested the sensitivity of final assessment scores to small changes in the scoring rules or to the individual component scores.
- We **compared the scores** with those of other assessments of multilateral organisations for consistency. We compared the scores and relative rankings of organisations covered in several of the recently published donor reviews. We looked at the relative ranking of each organisation and the assigned rating for each to determine differences.
- We **analysed the Department's management information** on its country-level funding of multilateral organisations and their performance. We collected information from the Department's internal management information system. We analysed what the data said about the level of funding for multilateral organisations through the bilateral programme, and about their performance in-country. We also analysed the extent of gaps in the data.

4 We analysed the Department's core funding decisions:

- We **analysed data on core funding** of multilateral organisations. We analysed the Department's data on actual funding up to 2010-11 to identify the number of organisations funded and distribution of this funding, by type of body and performance of organisation. We also analysed planned funding to determine the intended levels of funding to organisations within the four value-for-money ratings the Department used in its Review.
- We **reviewed documents on budgeting processes**. We reviewed documents relating to the 2010 spending review, including submissions to ministers.
- We **interviewed the Department's finance staff** to discuss how the Department took decisions on core funding.

5 We reviewed the Department's approach to promoting reform:

- We **reviewed the Department's plans, strategies, activities and reported results** of engaging with multilateral organisations. We analysed the Department's previous strategies for engaging with multilateral organisations; its guidance; its strategies to engage with individual organisations; and its reported results. We assessed the Department's approach against its own guidance on influencing and against standard management practice.
- We reviewed the information available on **staff numbers and skills** for those staff involved with engaging with multilateral organisations, both in the Department's operational plans and in other documents. We supplemented our understanding by discussions with key staff to assess skills and roles.
- We **analysed sector strategies and performance targets** for their coverage of multilateral organisations. We identified all of the Department's current sector strategies and analysed their coverage of multilateral institutions. We analysed the role set out for multilateral organisations, their objectives in contributing to the wider strategy, and the level and type of funding.
- We **compared the Department's approach to that of other donors**.

6 We used the following methods to inform all areas of the study:

- We **conducted case studies** of how the Department engaged with seven multilateral organisations: African Development Fund (AfDF), European Development Fund (EDF), Food and Agriculture Organization (FAO), GAVI Alliance (GAVI), UN Industrial Development Organization (UNIDO), World Food Programme (WFP) and World Health Organization (WHO). For each case study we: reviewed relevant documents; interviewed multilateral representatives, the Department's staff and those in other government departments; and collected funding information. We used these methods to assess: how the Department engaged with multilateral organisations before its Review; the quality and robustness of the Review itself; and the Department's subsequent approach to funding and influencing the multilateral organisation. Where possible, we triangulated evidence collected against other evidence sources.
- We **consulted with the multilateral organisations** covered by the Department's Review but not included as case studies, through a written invitation to comment. We received an 86 per cent response rate. We received 28 written comments (one covered two organisations) and met one other organisation. We used a standard template to promote consistency. We summarised and analysed the comments made. We also made checks to ensure that our findings represented all responses and were not unduly influenced by the comments of those who were particularly unhappy with the assessment outcome.
- We **held interviews with the agencies of four other countries** that are responsible for multilateral aid. We spoke to agencies responsible for aid in Australia, the Netherlands and Sweden, and to the United States Department of the Treasury which is responsible for support given to multilateral development banks. We sought their views on the strengths and weaknesses of the Department's Review and particularly its influence and how far it has been effective in promoting reform.
- We **consulted wider stakeholders** including staff from other government departments (including the Foreign and Commonwealth Office and the Department of Health), academics and non-governmental organisations. We sought their views on the strengths and weaknesses of the Department's Review and on their involvement in the Review where applicable. We sent an invitation to comment out to non-governmental organisations through BOND – the UK membership body for non-governmental organisations working in international development. We also interviewed the two development experts who were engaged by the Department to assist with the Review: Alison Evans, (Director, Overseas Development Institute) and Lawrence Haddad (Director, Institute of Development Studies).

- We **established a small expert panel** consisting of: Simon Maxwell (consultant, previously Director of the Overseas Development Institute), Owen Barder (Senior Fellow and Director for Europe at the Center for Global Development), Duncan Green (Senior Strategic Adviser, Oxfam GB). We consulted with the panel in February 2012 as we developed the study plan, and shared a presentation on our emerging audit findings with available members of the panel in June 2012.
- We **interviewed a range of Department staff**, including staff responsible for setting its approach to multilateral organisations, policy staff, sector specialists, and programme staff.

Glossary

Abbreviations for multilateral organisations

AfDF	The African Development Fund, an arm of the African Development Bank Group
AsDF	The Asian Development Fund, an arm of the Asian Development Bank
CDB SDF	The Caribbean Development Bank Special Development Fund
CERF	Central Emergency Response Fund
CIFs	The Climate Investment Funds
CommSec	The Development Programmes of the Commonwealth Secretariat
EBRD	European Bank for Reconstruction and Development
ECHO	European Commission's Humanitarian Aid and Civil Protection
EDF	European Development Fund
EFW	UN Expanded Delivering as One Funding Window
EU budget	European Union development programmes funded through the EU budget
FAO	Food and Agriculture Organization
FTI	The Education for All – Fast-track Initiative now, Global Partnership for Education
GAVI	The GAVI Alliance – formerly the Global Alliance for Vaccines and Immunisation
GEF	Global Environment Facility
GFATM	The Global Fund to Fight AIDS, Tuberculosis and Malaria
GFDRR	Global Facility for Disaster Reduction and Recovery
HABITAT	United Nations Human Settlements Programme
IADB	Inter-American Development Bank

ICRC	International Committee of the Red Cross
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFRC	International Federation of Red Cross and Red Crescent Societies
ILO	International Labour Organization
IOM	International Organization for Migration
ISDR	The United Nations International Strategy for Disaster Reduction
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
OHCHR	Office of the High Commissioner for Human Rights
PBF	United Nations Peacebuilding Fund
PIDG	The Private Infrastructure Development Group
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNIFEM	United Nations Development Fund for Women, now part of UN Women
UNITAID	UNITAID
WFP	World Food Programme
WHO	World Health Organization



Design and Production by
NAO Communications
DP Ref: 009982-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.



National Audit Office

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, telephone, fax and email

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/general enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

£16.00

The Houses of Parliament Shop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/general enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: shop@parliament.uk

Internet: <http://www.shop.parliament.uk>

TSO@Blackwell and other accredited agents

ISBN 978-0-10-297727-1



9 780102 977271