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Department for International Development

The multilateral aid review

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.