

# Background report Toward a new multilateralism

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## About the group

Kristina Persson, Minister for Strategic Development and Nordic Cooperation has established three analysis groups to assist the Secretariat for Strategic Development for the Future in its work on future issues for the government. The three analysis groups are Future of Work, Green Transition and Global Cooperation. Each group operates freely under two co-chairs. Their results are continuously communicated to the Government, which channel the proposals into ongoing work at the Government Office.

The groups work independently and their proposals do not necessarily represent the view or position of the Government.

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## Executive summary

This paper identifies some of the key characteristics of the emergence of a “new multilateralism.” It offers a number of practical recommendations on how to get the best out of the multilateral development system (MDS) in an increasingly complex environment.

The MDS is a set of institutions and norms that have guided development cooperation since the second world war. It has been based on a number of underlying principles that can be summarized as follows: doing no harm to others, solidarity with developing countries, and sharing the burden of investing in global public goods. The MDS has used a broad range of instruments but ultimately the test of its effectiveness is that it enables a collective response to solving a particular problem that is preferred to individual country responses.

To be effective, multilateralism must be a choice that is made because it is the most effective or efficient instrument available to a government. Multilateralism should not become a way of abdicating leadership. It must be a way of exercising it. For a new multilateralism to take root, what is needed is a robust approach to the use of multilateralism as an instrument of choice by a large number of member states.

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The MDS has evolved over time and continues to evolve. Initially, it was organized by a small group of like-minded countries with a common vision and principles, and was designed to share the financial burden of development cooperation and to implement programs of support in an effective way. But over the last two decades there have been strong forces reshaping the system. These include shifts in economic size and the emergence of the growth economies, the increasing differentiation among developing countries and the recognition that substantial investment in global public goods is needed to reap the benefits of globalization and reduce the costs. Today, the MDS is continuing to evolve in response to the need to accommodate emerging state powers and non-state actors (business, civil society, and others) as well as the need to broaden responsibility for collective responses.

Agenda 2030, the program for sustainable development endorsed by 193 member states of the United Nations in September 2015, provides important signals for how the MDS institutional landscape should evolve over the next few years. Agenda 2030 is truly multilateral as it underlines the importance of a “goals, targets, and results” framework for every country, against which progress can be transparently monitored. But it also shows where the current MDS falls short. Agenda 2030 is universal in its scope and vision, while the MDS is still mostly organized with a frame that divides the world into developed and developing countries. Agenda 2030 is ambitious and requires solutions at scale, while the MDS today is fragmented and project-oriented. Agenda 2030 argues for integrated solutions extending across development, peace, environment, and humanitarian realms, while the MDS is siloed in its approach. Agenda 2030 calls for contributions from a range of actors, beyond governments, while the MDS, at its core, remains largely intergovernmental. Agenda 2030 requires the mobilization of substantially greater resources from all sources, domestic and external, public and private, while the MDS has focused largely on aid and budgetary contributions from member states. Finally, Agenda 2030 recognizes the importance of investing in global (and regional) public goods and starts to define other means of implementation, highlighting where gaps in the system exist.

If the MDS evolves to become well positioned to deliver on Agenda 2030, it will be because a number of key institutions, in particular in the United Nations development system (UNDS), the World Bank and the international financial institutions (IFIs), and regional and global clubs like the G-20 and regional institutions, also evolve.

With respect to the future positioning and role of the U.N. development system, there seems to be a very clear consensus that one of the U.N.’s most vital tasks relates to its normative agenda. In a rapidly changing world, the web of normative frameworks that lie at the foundation of so many of the processes of an inclusive globalization need to be nurtured,

perhaps adapted, and certainly strengthened. The Sustainable Development Goal (SDG) framework itself is a foremost example of this function.

The adoption of the SDG framework requires considerable strengthening in the capacity of the UNDS to provide integrated programmatic support, rather than fragmented agency projects. The relative decline in the role of official development assistance (ODA) in many middle-income countries requires a constructive dialogue on how to maximize the impact of the UNDS in these countries, and the implications this may have on the deployment of other instruments of the UNDS in these countries.

A key element in the post-2015 development agenda relates to the ability of the U.N. to respond to emerging global public goods, to invest in areas such as climate change and global health surveillance. One of the features of these investments is that, in many respects for the first time, they require a collective response across almost all countries in order for there to be a possibility of successfully finding and implementing solutions. This need for a collective response brings with it a whole range of new organizational requirements for funding, monitoring, surveillance, partnerships, and the like.

Finally, the challenges affecting a number of Least Developed Countries (LDCs) and the intractability of a number of conflict and humanitarian situations require the UNDS to review comprehensively its effectiveness in a select number of these countries.

The multilateral development banks (MDBs) have a particular comparative advantage in policy dialogue with member states, partly because of their apolitical nature. As the *Financial Times* put it, “if the World Bank fades, the alternative is a future of individual countries jockeying for influence via bilateral aid, with less regard for the needs of the poor.” Policy remains the single most important instrument for countries to implement Agenda 2030, but reform efforts are most effective when combined with financial investments. The key lesson drawn from the implementation of the Millennium Development Goals that has been taken up in the design of the SDGs is the need to focus on sustainability, institutions, and the role of the private sector in development, all areas where MDBs have been active, but where they are still searching for scalable interventions.

The MDBs represent perhaps the best hope for leveraging official money with private capital to generate the scale of resource flows that will be needed for the SDGs. It is now commonly agreed that although it is difficult to precisely cost the investments required to achieve the SDGs, a substantial increase over current investment levels will be needed. “From billions to trillions” summarizes the consensus. The problem, however, is that trillions cannot be

mobilized from the ODA budgets of advanced economies. Nor is it forthcoming from purely private sources.

MDBs have the ability to provide significant leverage. The World Bank Group, for example, operates with an equity/loan ratio of 25 percent.<sup>i</sup> Further leverage could be achieved by using risk management instruments, like guarantees or first-loss structures. For many years, major shareholders believed that private capital would be accessed directly by fiscally responsible middle-income countries, and argued that the main focus of MDBs should be to take care of the poorest countries that lack such options. Today, this position seems outdated, amid the pragmatic need for low-cost, long-term debt financing for infrastructure in middle-income countries, in particular, and the growing evidence that blending of public and private finance could be an effective way of mitigating risk.

The MDS needs to be backed by sustained political leadership. From this point of view, the G-20 has emerged as a club with important functions in managing the global development space, starting from the crisis management of the global economy but then more formally tackling development issues following the Seoul G-20 Summit in 2010. The G-20 has not tried to replace the U.N. as a norm-setting body, or to exercise governance over existing multilateral institutions. Instead, the G-20 has sought to give political profile to ongoing global activities. The annual G-20 leaders' summit has provided a "forcing" point for key agenda items that is a useful complement to existing review and follow-up processes of the MDS. For example, the G-20 has been moderately successful in mobilizing collective action in food security, infrastructure finance, and financial inclusion.

The lack of an effective working relationship between the U.N., the MDBs, and clubs like the G-20 and OECD, is a central challenge to the future evolution of the MDS. The G-20 cannot be effective without being seen to implement goals that have been decided on in a legitimate international forum like the U.N. Conversely, the U.N. cannot be effective without the political support of its major members and their willingness and determination to exercise national leadership on the global issues of the day. The MDBs have their own vision and goals, but should also be held responsible for scaling their contributions to the SDGs adequately.

There is likewise a tension and ambiguity in the relationship between the MDS and regional institutions and forms of cooperation. The relationship goes from close complementarity and, in some cases, delegation of authority (peacekeeping) to being competitive and potentially undermining global multilateral principles (regional trade agreements).

The MDS as it currently exists is a hybrid of four distinctive architectural elements. One reflects a division of labor among institutions. A second suggests a MDS based on competitive principles. The third style is a MDS organized as a fulcrum to leverage results. Fourth and last, the MDS accommodates the reality of states' demands for more plurilateralism. While all four styles are likely to persist, the shape of the new multilateralism will be determined by which style dominates. That design should ensure that multilateralism remains the preferred instrument of choice for a large number of countries, thanks to its ability to perform needed functions in an effective and efficient way. Form must follow function.

At present, there is a clear and persistent misalignment between identified functions and financing instruments. In the UNDS, financial incentives often run deeply against policy priorities. What is needed is a broad bargain to be constructed around four types of function, each supported by a different financing model. These functions relate to (i) normative and standard setting activities, (ii) the provision of global public goods, (iii) humanitarian operations and interventions in conflict-affected and post-conflict areas, and (iv) classical anti-poverty programs.

The financing bargain is about who should pay which institution to do what. Burden-sharing for norm-setting must include the newly emerging economies. The U.N. is the natural place to negotiate each country's contribution because norm-setting requires legitimacy and the U.N. remains the most representative institution in the world.

Separately, financing is required for a range of global public goods, including responsibilities for operationalizing norms that may have been set by the U.N. and the burden-sharing for these may be differentiated by country context and domestic national interest.

The same arguments pertain to humanitarian operations for disaster relief and for work in the hardest places, those affected by persistent conflict. Regional, historical, and cultural ties, along with each state's capabilities, will affect the nature of burden-sharing.

For classical anti-poverty programs, scale and leverage have to be increased, especially in lower-middle-income countries. This implies the use of grant resources in new ways, different cross-country allocation models, and the possible use of grants in the form of new risk-sharing instruments that can mobilize incremental private capital. Public-private partnerships offer one important way of scaling up and leveraging official resources.

Finally, the MDS should actively develop the case for prevention and collective risk-sharing in a way that provides political cover for national governments.

How can the necessary adjustments be made to nurture a new and revitalized multilateral development system? In the second half of 2015, the MDS witnessed an extraordinary array of significant developments, which in aggregate present a major challenge for the future direction of the MDS. These include the adoption of Agenda 2030, the adoption of the Paris climate agreement, penetrating reviews of the international community's response to the Ebola outbreak, major U.N. reports on the future of peacekeeping and peacebuilding, preparations for the World Humanitarian Summit, the emergence of major new international financial institutions and the virtual disbandment of the Doha trade framework.

In particular, with the adoption of Agenda 2030 and the Paris Climate Statement, we are seeing the emergence of a new conception of multilateralism that is increasingly basing itself on the establishment of international normative and reporting frameworks that encourage states to act responsibly and to mobilize their whole society—including business, civil society, academia, and science. This is at least in part a recognition of the reality that many of the collective responses required to meet today's challenges are no longer within the power of governments to deliver singlehandedly.

Instead, the theory of change of the new multilateralism is itself changing. The MDS must do more than simply mobilize government actions and public investments through ODA pledges. It must develop standards of government behavior that are acceptable to all countries through establishing global norms. It must also transmit credible market signals that will impact the investments of private business. It must provide transparent information to harness the power and advocacy of civil society and the academic and scientific communities, sometimes preferring this to treaty-based quantitative obligations. For example, countries have moved from the treaty obligations embodied in Kyoto to monitoring and reporting on national commitments voluntarily entered into at the Paris COP 21 conference.

Multilateralism will be much stronger if it is used selectively and strategically and not as a reflex action. It should be used only to solve problems that need to utilize the instruments that a new MDS can deliver—public responsibilities in a globalized world and investments to achieve them, a business climate aligned with global goals, and a transparent process of engagement with citizens.

The MDS is an optional instrument available to governments to deliver on their commitments. Depending on the options available, the challenges being addressed and the solutions being envisaged, the MDS might, or might not, be the best strategic choice. The MDS can be effective in delivering services in fragile and conflict-affected states and for humanitarian purposes. The MDS is recognized as having an important role globally in the establishment of norms and addressing global public goods needs, including in the important

area of knowledge and data. The capacity of the MDS to support monitoring and reporting, and its strength as a voice for evidence-based policy and science, should be central preoccupations of member states.

In low- and middle-income countries, the MDBs have a major role to play in leveraging public financial resources to go to scale, sometimes by providing platforms for partnerships.

But there are other circumstances where multilateral approaches may lead to stalemate and should be avoided in favor of regional or bilateral approaches. Europe's economic problems can be handled by Europe. Many countries have not found it useful to harmonize programs around global standards. For example, most countries prefer to use their own standards to define poverty than to use the global benchmark of \$1.90/day. Similarly, national standards are still used for educational curricula, food safety, professional services accreditation, and the like. If member states can clarify the functions and core purposes of the MDS, they can start to invest in the long-term health of the MDS and shape its design. Investment by member states in multilateral institutions does not refer exclusively to finance, important as that might be. It refers even more to providing for a governance structure that allows those institutions to take initiatives, convene partners, and bring parties together, creating the momentum necessary to generate collective responses. This requires political space, quality financing, and strategic capacity in each institution.

## 1. What is the multilateral development system and what are the forces shaping it?

### 1.1. What is the multilateral development system?

The multilateral development system (MDS) is a set of institutions designed to establish rules-of-the-game for global competition and cooperation.<sup>ii</sup> Certain types of competition, such as exchange rate manipulation and tariffs, have long been recognized as generating beggar-thy-neighbor outcomes that result in everyone losing. Rules, created by the MDS, are needed to proscribe such activities.

One particular feature of the MDS has been the notion that investment opportunities with very high global economic and social returns are available in the poorest countries, but that risk precluded private capital from flowing to these countries. Initially, the MDS evolved in the context of the Cold War, generating development benefits to poor countries alongside (mostly) non-economic returns to rich countries in the West in the form of broader alliances and reduced global security risks. The MDS provided a framework for determining the amounts and allocations of such investments. It became a statement of solidarity among countries, extending to humanitarian assistance in the aftermath of natural disasters or wars.

A third feature of the MDS is its organization of the provision of global public goods, like financial stability, knowledge and learning, and the avoidance of global public bads like fragile states and now climate change. The MDS provides a mechanism for determining the magnitude of investments in global public goods and the burden-sharing among countries.

The MDS, therefore, can be construed as a set of institutions whereby individual countries commit to:

- Do no harm to others (avoid negative spillovers and move toward a level playing field) by setting norms of behavior;
- Do some good for others (help the poorest, build a more prosperous world; express solidarity in the face of natural or other disasters) by transferring resources, knowledge, and capacity; and
- Share the burden of investing in global public goods.

The MDS is in constant flux and evolution. Early on, it was largely comprised of organizations seeking to advance progress in developing countries. But increasingly, the scope and breadth has widened. The adoption of the Sustainable Development Goals (SDGs) signifies another important change in emphasis and scope, with a far broader agenda, now covering security, governance, and climate change, as well as traditional development issues, and also incorporating advanced countries. As the post-2015 High Level Panel report indicates, no country has yet been able to chart a pathway toward sustainable development.<sup>iii</sup> Consensus on the SDGs is, in itself, a deliberate decision to find language to frame a new, integrated and global development framework that can guide the next steps in the evolution of the MDS: steps toward reducing harm to others through climate mitigation and adaptation, toward doing some good through the pursuit of poverty reduction and building prosperity, and toward global public goods, especially on oceans and other global commons. In doing this, it recognizes that many more institutions form part of the evolving MDS.

This new integrated framework also highlights the interconnectedness between the development, security, humanitarian, and environmental spheres. Agenda 2030 explicitly recognizes responsibilities toward refugees, a traditionally humanitarian concern. Through its endorsement of “leave no one behind” it also integrates interventions that relieve suffering and poverty regardless of the cause, with examples like education in refugee camps illustrative of the linkages of humanitarian and development issues. SDG 16 explicitly brings into the agenda the security-related concepts of peaceful and inclusive societies, and providing access to justice to all. SDGs 12 through 15 deal with various aspects of environmental sustainability.

The evolving nature of the MDS is also amplified and corroborated by challenges to much of the language that informs the financing of development cooperation. Organization for Economic Co-operation and Development's Development Assistance Committee (OECD/DAC) is working extensively on a new framing of development cooperation, currently called "total official support for sustainable development" (TOSSD), that recognizes the many contributions that can be made beyond official development assistance (ODA), such as non-concessional multilateral lending, guarantees, public-private partnerships, and other forms of risk-mitigating instruments. Peacekeeping is now referred to as peace operations, peacebuilding to sustaining peace. Humanitarianism is increasingly recognized as overlapping with core development work. In short, the boundaries that separate the multilateral development system from other aspects of multilateralism have become increasingly blurred.

Multilateralism covers a broad range of instruments. A multilateral instrument can be quasi-universal or very selective; it can have legal foundations or be self-selected. It can take an institutional form or simply take a transactional form. Arguably the test of multilateralism is ultimately that it enables a collective response to solving a particular problem that is more effective than individual country responses. What is clear is that over time a number of the core characteristics of multilateralism have evolved.

In some cases, multilateralism needs to embody universality to have legitimacy. In other cases, multilateralism has developed as a selective instrument involving a handful of relevant countries in order to be effective. Adam Roberts has observed that the collective security embraced by the United Nations Charter has in reality usually taken the form of selective security.<sup>iv</sup> For it to be effective, multilateralism must be a choice that is made because it is the most effective instrument available to a state. Multilateralism should not become a way of abdicating leadership. It must be a way of exercising it. For this to be true, what is needed is a robust approach to the use of multilateralism as an instrument of choice. The MDS serves to perform a number of functions as described above. The form the MDS takes in order to perform these functions necessarily changes over time. It is therefore difficult to define the MDS as a system because it has evolved over time as an instrument available to governments. Looking forward, identifying areas of high relevance is the key to an effective MDS strategy.

## 1.2. How has the MDS evolved?

The 70-year history of the multilateral development system is a complex story of an evolution through a number of distinctive phases.<sup>v</sup> For the purposes of this paper, we will contrast two distinct phases: the first one lasting from around 1950 to around 1990, and the current phase, which has been developing over the last 20 years or so.

The phase lasting from 1950 to 1990 was dominated by the twin realities of decolonization and the Cold War. With the acceleration of decolonization, the international development agenda became focused on the fundamental process of national development. International organizations were to play the role of facilitating the transfer of money and technical expertise from advanced states to underdeveloped ones. There was a deep sense that the newly independent countries were entitled to such transfers.

This phase was characterized by a number of important features. It, of course, was taking place in the context of a world divided by the Cold War. The Cold War's division of the world into three camps provided a clear political rationale for development assistance for the Third World. This, in turn, ensured a high level of political support from the western group. It is perhaps not surprising then that ODA levels doubled every decade during this period. It was also a phase in which the intergovernmental character of the arrangements was paramount. Decolonization guaranteed that principles of national sovereignty were held as sacred and this was only further underlined by the logic of Cold War alliance politics.

Responsibility for promoting development was seen as lying with national governments, which in turn needed to be supported by an enabling international environment. By and large, the South emphasized the responsibility of the North to provide a more supportive international environment (e.g., volume of aid and technical cooperation, along with open trade and investment regimes), while the North highlighted the need for the South to pursue good policies. Multilateral institutions facilitated both the resource transfers from the North and the policy dialogue with the South.

It is important to emphasize that this was a concept that differentiated between developed and developing countries. Overall, this constituted a global partnership in which most countries outside the Eastern bloc were either donors or recipients. The multilateral development system was largely understood as an institutional mechanism that used objective criteria to manage this transfer and policy dialogue mechanism. It was led and directed by the G-7 countries, which, after their first Summit in 1975, highlighted their shared beliefs and responsibilities to maintain “an open, democratic society, dedicated to individual liberty and social advancement.”<sup>vi</sup>

This first phase of multilateralism, then, was led by a small, like-minded group of countries, who looked to multilateral organizations as a way of achieving their objectives in a more effective and efficient fashion, with norms around burden-sharing and a shared vision.

During the 1990s, with the acceleration of globalization and the end of the Cold War, multilateralism started to evolve in a different direction. The concept of sovereignty became

more porous. Major powers started to ask more forcefully about value-for-money and results from their development assistance. The World Summit for Children in 1990 started a new trend of setting global goals to achieve a better future.

By the late 1990s, and continuing to the present, a new function of multilateralism has emerged. More emphasis is being placed on accommodating the views and voices of others to reach a consensus on norms of behavior. The MDS is no longer shaped by a like-minded alliance of a few rich countries, but as a set of compromises reached between countries with different global perspectives. Starting with Russia's entry into the G-8 in 1998, continuing with the establishment of the G-20 as the premier group for global economic management, and now with the consensus on the SDGs forged by all U.N. member states, multilateralism has provided a forum for mapping out areas of common interest among countries with otherwise different perspectives through negotiation and compromise. This can be seen as a reflection of the emerging reality that the composition of countries required to deliver effective collective responses is evolving.

Such compromise, however, has inevitably resulted in a tension between global and national interests, as each country gives up something in pursuit of common goals, a tension that did not exist for major powers in the first phase of multilateralism. This tension implies that it might become harder to sustain public support for this second phase of multilateralism. Indeed, in an era in which there is mounting disquiet over the impact of globalization, openness, and diversity, support for minority rights and an appreciation of diversity—a basic tenet of democracy and international multilateralism—is losing ground to movements that promise like-minded majorities control over their own lives.

At the same time as the MDS started to reflect a broader, negotiated consensus on the “what” of development, multilateral development finance also evolved. The 1990s saw the emergence of the concept of development by goals. In the early 1990s, the international development community anticipated enormous growth in aid budgets as a result of the “peace dividend” that would accompany the end of the Cold War. In reality, the end of the primary foreign policy rationale for foreign aid led to its rapid decline—by 2000, global aid in nominal terms (\$58 billion) was even lower than it had been around 1990 (\$61 billion).<sup>vii</sup> This meant a substantial decrease in real terms instead of the doubling during the decades of the Cold War.

Against this background, the mission and rationale for development cooperation had to be radically redefined. The series of global conferences held during the 1990s and culminating in the 2000 Millennium Summit, crystallized the emergence of a new common development agenda. A key document was authored by the OECD DAC, “Shaping the 21st Century: The

Contribution of Development Cooperation.”<sup>viii</sup> The most important element that bound together the conferences in the 1990s was the desire to define clear goals and objectives toward which the international community of states committed itself. But these goals were seen by many as a largely DAC donor-driven process that ensured donor control over the allocation of ODA across topics.

The alignment of the system behind a set of clear goals had radical implications for the way the MDS and, in particular, the U.N. development system, was to be financed, along with its institutional shape. In the mid-1990s, earmarked (non-core) funding began to increase sharply—the logical expression of an aid system that focused on specific global goals and measurable targets. If the case for aid was going to be constructed around achieving specific goals, it was inevitable that the system of financing the achievement of those goals would measure success against the stated goals. Donors used non-core funding to try to impose greater selectivity and purposefulness toward the achievement of goals that they would support.

The explosion of non-core funding has led to the fragmentation of activities within multilateral organizations, which has led, in turn, to a sense of loss of control by these institutions over their overall budgets and a serious decline in the willingness of the international community to invest in the broad purposes of individual organizations.<sup>ix</sup> The financing of operational activities takes priority over the funding of normative activities, which is directly reflected in the performance-measurement systems put in place.

Where does that leave the MDS today? The general consensus is that the system is facing a “bilateralization” of funding through earmarked donations from wealthy countries. Control of the resource allocation process is largely outside the “multilateral framework” and with this, the legitimacy and fairness of the system is questioned. With 75 percent of the income of many U.N. organizations and programs being non-core,<sup>x</sup> the allocation of those resources often lies at the mercy of bilateral negotiations.

On the other hand, the ability of the MDS to define a common set of global goals, endorsed universally by the international community of states could be considered very much compatible with multilateral principles. In short, multilateralism today reflects a hybrid system with major powers still in control of the resource allocation system (implemented via bilateral programs and non-core trust funds administered by multilateral organizations), while broader multilateral negotiations determine the purposes for which the financing is provided, as exemplified by Agenda 2030 and COP21.<sup>xi</sup>

In this hybrid system, the MDS lacks coherence and leadership. The U.N. is in the forefront of the function of building multilateral consensus on the “what,” but is not resourced to effectively implement the goals. Other multilateral financing organizations, too, are starved for funds. The total current equity (paid-in and callable) of the multilateral development banks (MDBs) is about \$665 billion,<sup>xiii</sup> enough to support an annual lending program of roughly \$70 billion, small in comparison with any measures of what is needed to fund the global goals. ODA is larger, but resource allocations continue to reflect the priorities of like-minded individual donors, largely from Europe, the United States, and Japan. Efforts to bring emerging market donors within a multilateral umbrella have largely failed, although China is now a small contributor to the International Development Association (IDA) and the Asian Development Fund (AsDF) and has increased its contributions to U.N. peacekeeping.

At the same time, the norm-setting function of multilateralism has also suffered setbacks and has been challenged by “minilateralism” (small clubs), often at a regional level. The reliance on regional trade deals rather than a World Trade Organization (WTO) agreement, the glacial pace of governance reforms at the World Bank and the International Monetary Fund (IMF), the difference in IMF treatment of Asian economies in 1998 and European economies in 2008, and the application of U.S. domestic law to the international use of dollars, have all shown that the major powers are willing to use and adapt the MDS for their own benefit, leading others to form their own clubs.

It is in this context that the SDGs present an example of a new multilateralism, where consensus and compromise among all countries has been forged.

### 1.3. 1995-2015: Two decades of transformation

What are some of the key changes that have impacted the MDS over the last two decades?

#### 1.3.1. Shifts in economic size and the emergence of ‘growth economies’

The size of the global economy has tripled over the last 20 years from around \$25 trillion to over \$75 trillion in nominal prices today. With this wealth, more ambitious global goals can be achieved.

There has been a major shift in the economic weight of different states; after five decades that saw the G-7 account for roughly two-thirds of the global economy (in current dollars), its share has declined since 2000 from 65 percent to 46 percent today (Figure 1). Over 50 percent of global GDP now comes from the South. China on its own has been generating 25 percent of global growth.<sup>xiiii</sup> The new growth economies are increasingly making their voices

heard, not least the BRICS (Brazil, Russia, India, China, and South Africa). When the G-7 was two-thirds of the global economy, free-riding on the financing of global public goods was not a significant problem, but it is today. There is no accepted mechanism in the MDS to share the financial burdens and decision-making responsibilities.

Figure 1. G-7 share of the world economy



The new growth economies want a greater stake in the institutional framework that dominates global policymaking (hence the emergence of the G-20) and are prepared to make the requisite financial contribution, but the G-7 (especially Europe) has been slow to accept the need for a reduced role. This is reflected in pressure on representation in the IMF, the World Bank, and the U.N., and the creation of new institutions such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank of the BRICS.

### 1.3.2. The growing differentiation among developing countries

Developing countries are no longer a relatively homogeneous group but an increasingly diverse group of economies, each with their own distinctive challenges and opportunities.

The number of low-income countries has fallen from 48 in 1990 to 31 today, with a total share in the world economy of only 0.5 percent.<sup>xiv</sup> At the same time, there are 104 middle-income countries, roughly evenly divided between low- and upper-middle-income, and it is these constituencies that seem to have the smallest stake in the MDS.

Excluding China and India, within a decade 70 percent of the poorest people will be concentrated in the Least Developed Countries (LDCs), which do not have the capacity or resources to support themselves.<sup>xv</sup> Within this group are a handful of fragile states that have created major new challenges for the international community. In particular, there has been

an explosion in humanitarian challenges, including the massive displacement of people and unprecedented financial needs. Over the last 10 years, there has been a five-fold increase in U.N. humanitarian appeals from around \$3 billion<sup>xvi</sup> to some \$17 billion in 2014<sup>xvii</sup> and more in 2015. Today, there are some 60 million people experiencing displacement as a result of conflict.<sup>xviii</sup> Humanitarian interagency appeals now last for an average of seven consecutive years.<sup>xix</sup>

For middle income countries (MICs), growth, prosperity, and jobs are central concerns, along with poverty reduction, so accessing a range of financial flows, benefitting from global public goods, leveraging resources, policy coherence of finance, investment, trade, and migration, and managing risks will be major areas of focus. The MDS is not delivering to this group of countries; its profile in the great majority of MICs will need to be very different in 2030 from what it has been in recent decades.

MICs are concerned with urbanization, employment, skills, women's empowerment and inequity. Sixty percent of the global population will live in urban areas by 2030,<sup>xx</sup> making economic management as much the subject of mayors and local governments as national governments. The cities of the future will concentrate wealth and innovation but also represent huge challenges for resource management and the environment. Increasingly, cities are engaging in critically important international initiatives. Yet, for the most part, local authorities can only engage with the MDS if they have full support and engagement from national authorities, something that may not be consistent with decentralization objectives. How the MDS should work with subnational authorities remains an open question. Employment has not recovered from the levels achieved prior to the 2008 financial crisis. By 2050, the global population is expected to be some 9 billion people. Six hundred million new jobs will need to be created over the next decade.<sup>xxi</sup> Youth unemployment will continue to be a major source of political and social tension. Almost 74 million young people were looking for work in 2015. The youth unemployment rate is almost three-times higher than the adult unemployment rate today.<sup>xxii</sup>

Women's empowerment and girls' education will be critical factors in the future. Only 39 percent of young women participate in the labor market.<sup>xxiii</sup> The pay gap remains stuck at some 20-25 percent globally and women continue to face the "glass ceiling" problem across the economy.

Inequality is another striking feature of the evolving global landscape. Today, only 27 percent of the world's population has access to social protection.<sup>xxiv</sup> Forms of child labor and forced labor remain significant issues in large parts of the world.

### 1.3.3. The emergence of global public goods and extensive cross-country spillovers

Thanks to the successes and failures engendered by globalization, there is now growing awareness of the need to address cross-country spillovers and to invest in global public goods. Addressing climate change, anticipating and responding to pandemics, maintaining financial stability, and managing spillovers, including from large emerging economies, are now discussed in the press on a daily basis, and provide material for leaders' summits. They call for collective responses but are testing the scope and robustness of multilateral mechanisms to generate such a response.

The issue of sustainability goes to the heart of current growth models and raises fundamental questions about lifestyle choices and inter-generational responsibility. The concept of planetary boundaries is again being explored. These are issues that link all countries and that are centrally addressed in the 2030 Agenda for Sustainable Development.

Globalization has moved from cross-border flows of trade and capital to now also include cross-border movement of people, with the most rapid increases coming from more-highly educated South to North migrants (excluding refugees). The world is on the move: from poverty-stricken and oppressed countries to rich ones, from failed states to secure ones, from the countryside to cities. There are expected to be some 405 million migrants by 2050.<sup>xxv</sup> Today, the population of Europe is 738 million compared to 1.2 billion in Africa. By 2050, Europe is projected to decline to 707 million compared to 2.5 billion people in Africa.<sup>xxvi</sup> In 2015, 28 countries of the EU have not been able to manage a crisis created by refugees that have come across the Mediterranean. Yet Jordan, Turkey, and Lebanon on their own are accommodating 4.3 million Syrian refugees.<sup>xxvii</sup> Migration poses a striking example of the need for collective solutions.

## 1.4. Major new forces shaping multilateralism

From this overview, we have identified three major forces which will have a determinant influence on the shape of any emerging new multilateralism.

### 1.4.1. Accommodating emerging state powers

A major force reshaping the MDS today is the emergence of new economic powers. This inevitably puts the governance of multilateral institutions at the center of political debate. Accommodation can take place with a combination of elements. The institutions can adapt in a variety of ways—by changing their composition, their voting weights, the way agendas are set, etc. Another form of adaptation is for *status quo* powers to accept that other countries

may choose to follow or promote alternative paths to those specified in the rules and norms of the current MDS (provided these do not have negative spillovers on the activities of existing powers). Yet another form of accommodation is the growth of new institutions that better represent, and are sensitive to, the interests of emerging powers. The emergence of alternatives to existing institutions is a growing feature of the global architecture.

Providing leadership and managing the process by which the rules are adapted and different institutions will compete will determine the future of the multilateral development system as we know it. And historically the success rate of *status quo* and emerging powers accommodating each other is very poor. It should be noted that a number of commentators have already written off the chance that the existing multilateral system will survive in its present form.

Ian Bremmer has written: “Perhaps the most obvious loser in a G-Zero world is a group we might call the referees, the institutions built to serve those who once dominated the international system but that cannot be reformed quickly enough to remain effective.”<sup>xxviii</sup>

For his part, Philip Bobbitt, in the context of his distinction between what he refers to as nation-states and market-states, argues that “the challenges nation states are unable to cope with are precisely those global institutions might resolve but because these institutions create global governance of, by, and for nation states, they are disabled almost by definition from adopting the global perspectives such challenges require.”<sup>xxix</sup>

It is important to note that newly emerging powers may at their core be very “status quo.” They may be looking for entry into the existing club rather than wanting to revise the rules. They believe they have earned the right to be the beneficiaries of a system that rewards great powers. The debate over the composition of the U.N. Security Council in part is about the rules and in part simply about who gets to play in the game.

#### 1.4.2. Accommodating new non-state actors

A second force reshaping multilateralism is the growth of non-state actors, principally large corporations and international NGOs that have become adept at influencing political opinions. The acceleration of globalization has led to a tripling of global GDP which in turn has led to a transformation in the relationship of states to markets, the private sector and civil society. Many of today’s most pressing challenges require commitment and action by the non-state sector; in turn this requires new forms of governance, both nationally and globally. The proliferation of new multi-stakeholder partnerships as an increasingly important component of the multilateral development landscape is a reflection of the realities on the ground.

Implementing Agenda 2030 will require new ways of thinking and partnering. The U.N. stands at a crossroads. In charting the way forward, it is important for the U.N. to build on the deep experience it has of working with these emerging non-state actors. It has been particularly successful in bringing NGOs into inclusive dialogues. Indeed, inclusion of a diversity of voices is one of the hallmarks of Agenda 2030. But the U.N. also faces a catch; many NGOs, especially those from the South, have arisen out of protest movements in opposition to their governments, who, in turn, have started to clamp down on various freedoms, sometimes using the excuse of counterterrorism to justify the assertion of greater government controls. These government-civil society fights pose awkward problems for the U.N.'s efforts to become a more inclusive forum.

Efforts to partner with big business to improve the effectiveness of implementation have also faced challenges. Businesses in developed countries use their engagement with governments to shape the norm-setting process (for example, around procurement guidelines). But business is wary of slow processes of dialogue and consensus-building, and strives to avoid further regulatory constraints. Public-private partnerships (PPPs) steered by U.N. processes have a mixed track record.

Embracing new and inclusive forms of governance has a long tradition in the U.N., both constitutionally and in practice. The U.N. needs to build on these foundations to strengthen its engagement with new networked governance models.<sup>xxx</sup>

Beyond the U.N., the challenge of inclusive governance models confronts the MDS as a whole. The critical roles to be played by the private sector and civil society are referenced throughout the paper. The role of the scientific community has been instrumental in the development of evidence-based policymaking. The experience of the Intergovernmental Panel on Climate Change is testimony to this. The internet and data revolutions have transformed the functioning of networks. Trade unions remain critical in the articulation of social policy. In short, the MDS of today and tomorrow, if it is to be a viable instrument of policy, must go beyond the limits of the state centrism it has inherited.

The sense that the world economy is going through a period of deep transformation is reflected both in the policy debates and the academic literature. Most would agree that national interests and the capacity of states remain at the core of any viable or foreseeable international system. But state power needs to work in different ways and it needs to work in partnership with a wide range of partners.

Against this background it is perhaps not surprising that the U.S. National Intelligence Council in its study, "Global Trends 2025," states that, "we see the next 15-20 years as one of

those great historical turning points where multiple factors are likely to play.” It goes on: “Existing multilateral institutions—which are large and cumbersome and were designed for a different geopolitical order—will have difficulty adapting quickly to undertake new missions, accommodate changing memberships and augment resources.” The study concludes that “by 2025, nation-states will no longer be the only—and often not the most important—actors on the world stage and the international system will have morphed to accommodate the new reality.”<sup>xxxix</sup>

The World Economic Forum in its Global Redesign project concludes that what is needed is a new stakeholder paradigm of international governance. “The revolution that is required is our conception of the international system—in our understanding of the additional modes of cooperation and sources of capability available in a more interconnected and interdependent world.” “We can start,” the WEF’s report goes on, “by embedding our intergovernmental institutions and processes in wider processes and networks that permit... continuous interaction among all stakeholders and sources of expertise in global society in the search for better solutions.”<sup>xxxix</sup> The Global Redesign project stresses that governments will continue to play a central role in any evolving global architecture. But the creation of public value on global issues—be they related to security, human rights, development, or climate—will no longer be the exclusive preserve of intergovernmental arrangements.

What these analyses have in common is that they point to the fact that the acceleration of globalization has led to a transformation in the relationship of states to markets, the private sector, and civil society, and this requires new forms of governance, both nationally and globally.

#### 1.4.3. The need for collective responses

The third force relates to the growing importance of specific development challenges that require a collective response in order for a solution to be achieved. In some instances, there is a narrow, time-bound opportunity. For example, Nicholas Stern has argued that there is a short window of opportunity now to keep temperature increases to the 2 degrees C over preindustrial times that is broadly accepted as the ceiling to avoid climate catastrophe.<sup>xxxix</sup> The long-term impact of the stock of greenhouse gases that is accumulating in the atmosphere means the window of opportunity to achieve this goal is very limited. Furthermore, the many trillions of dollars that will be invested over the next two decades in energy, cities, and land use means that decisions impacting on climate will get locked in over the next two decades. Beyond climate, the idea that planetary boundaries of sustainability are being breached in a broad range of areas is getting increasing attention.<sup>xxxix</sup>

Terrorism and migration have joined climate as currently presenting some of the most widely recognized challenges to global stability. The threat of terrorism led to one of the most invasive resolutions ever adopted by the U.N. Security Council—resolution 1373 in 2001, which imposed significant binding obligations on all states to enhance national legislation and strengthen controls and coordination.<sup>xxxv</sup> All three of these challenges, while very different in many respects, do share one common feature—they all require collective responses if solutions are to be found.

The characteristic of needing a collective response means that the concept of global public goods has a key contribution to make to current debates about the future positioning of the U.N. development system. Financing the provision of a global public good has a distinctive rationale. The rationale is that there is an objective being pursued for reasons of national interest that can only be achieved through collective effort. Much of the discussion around development financing continues to assume that foreign assistance is a single pot of resources that gets allocated to the portion of a country's budget dedicated to foreign affairs. The concept of global public goods suggests a very different approach, as indeed does Agenda 2030. In a globalized world, national line ministries have to cope with both national and international dimensions in their areas of responsibility as a matter of effective national policymaking. The challenge is no longer funding external relations or providing aid in the traditional sense but the international dimension of dealing effectively with a national issue.

Birdsall and Diofasi (2015) argue that “given their importance for continued positive development outcomes, our estimates suggest that GPGs are severely underfunded.”<sup>xxxvi</sup> They estimate that around \$14 billion per year is spent on development-related global public goods, with the majority of this comprised of peacekeeping operations. Various estimates point to high returns from investing more in global public goods. Hecht and Jamison (2011) point to the large returns to researching an AIDS vaccine.<sup>xxxvii</sup> Ramos-Horta et al. (2015) comment “there is a clear sense of a widening gap between what is being asked of United Nations peace operations today and what they are able to deliver.”<sup>xxxviii</sup> Sanghi et al. (2010) argue that “governments can appreciably increase prevention” if they want to reduce the cost of natural disasters.<sup>xxxix</sup>

Free riders are the biggest obstacle to a credible political narrative around the reality of new emerging challenges that require collective action. Free riders pose a challenge to the basic design of collective response mechanisms. For the U.N., they raise questions as to the best ways to create the political space that will bring key parties together. A core vocation of multilateralism is to provide the mechanisms for an effective collective response, including providing credible processes that enable responsibility to be equitably apportioned. A key

measure of the relevance of multilateralism as an instrument is its capacity to provide this function.

Multilateralism is facing difficulties in adapting to each of these forces. Emerging economies have chosen to establish their own multilateral development institutions, a clear sign of the dissatisfaction they feel with the services provided by existing MDBs. The U.N. and others have struggled to build effective partnerships with business or with civil society. And investment in collective action—be it peacekeeping, agricultural research, knowledge, or other global public goods—seems sub-optimal. Even more disturbing is the fact that this seems to be well accepted, but has not generated action.

1.5. Evolving core characteristics of the MDS

These three forces—the emergence of new economic powers, the growth of non-state actors, and the prominence of global public goods that require a collective response in order for a solution to be achieved—are reshaping the MDS. This can be understood in terms of the evolution of the core matrix of thematic issues that has been used to frame the international development system.

A National	B International
C Public	D Private

Prior to and through most of the 1990’s the action plans of the final outcome documents of major international conferences essentially divided responsibility for follow up between A and B in the quadrant depicted above. As discussed earlier, primary responsibility lay with national governments and the international community would provide support.

In the 2000s, follow up was identified with all four boxes in the quadrant. This represented a significant advance and was the signal achievement of the Monterrey Consensus adopted in 2002. Commitment and action was required at both the national and international levels as well as in both public and private spheres. But it was clear to all that international support should not infringe on sovereignty and the private sector should not be allowed to influence public sector engagement. In short, it was made clear that the boxes needed to be firewalled.

It is only in the last decade or less that with commitments like those entered into with Agenda 2030 and the Addis Ababa Action Agenda, the challenge has become to build bridges between all corners of this quadrant. Emerging challenges that demand collective responses do not stop at borders, so the national/international divide has blurred. And public resources need to leverage private flows—blending has become the challenge, not firewalling.

Another core characteristic of the new emerging MDS is that it is no longer the case that the great majority of countries are either donors or recipients. Financial resources like ODA and instruments like IDA are increasingly of significance to a diminishing group of countries—LDCs and fragile states. They no longer constitute the heart of the multilateral development architecture.

Against this background, how have some of the key functions of the MDS evolved?

#### 1.6. Evolution of key functions

Arguably, the test of multilateralism is ultimately that collective responses lead to better outcomes for all countries. In this respect, multilateralism solves specific problems.

The first set of problems has to do with negative spillovers onto other countries. In the economic sphere, this has required setting norms of behavior and hence proscription of certain national actions in the areas of financial stability, trade, foreign investment and dispute settlement, and exchange rates. A multilateral framework both provides a forum for debating and establishing rules, and also can help police and enforce them, although norm-setting has proven easier than enforcement, as seen by the very limited impact of the IMF's efforts to have stronger surveillance over exchange rate manipulation, or other spillover consequences.

Increasingly, in important domains, it appears that this function of the multilateral system is being challenged by plurilateral solutions. The G-20 now manages its own spillover discussions. The Financial Stability Board (with limited membership) deals with major rules for large banks. Regional trade agreements have more momentum than global trade talks. New areas where plurilateral discussions seem to have more momentum than multilateral ones are on cybercrime, openness of the Internet, and privacy and security of data. On the other hand, Agenda 2030 highlights the role the U.N. development system (UNDS) can still play in setting normative agendas.

The second set of problems has to do with cooperation and harmonization in development assistance. Multilateral solutions offer the promise of implementation at scale, a greater technical orientation toward problems and less politicization in country and sector allocations, reduced administrative costs, easier coordination with country programs, and the

ability to accumulate and apply a critical mass of knowledge and learning. All these factors can, in theory, improve effectiveness. Yet in practice, multilateral solutions have added to fragmentation of aid, led to a proliferation of agencies including vertical funds to address siloed problems, and multiplied the number of standards and procedures that recipients must comply with. Rather than solving a problem, the establishment of a new multilateral agency is sometimes seen as a bureaucratic response that simply postpones real action. Many countries are voicing their concerns that excessive competition among multilateral development agencies creates confusion, duplication, and waste. For many U.N. agencies, resources get stretched thinly over many countries, resulting in fragmented and small-scale service delivery to clients.

The third set of problems has to do with the provision of global public goods, most notably climate change, but also including biodiversity, the global commons (healthy oceans, forest preservation, desertification reversal), peacekeeping, and monitoring and prevention of pandemic disease. Multilateral programs offer a mechanism for determining a fair burden-sharing for the financing of these public goods.

In each of these cases, the current system faces significant challenges and pressures. In the first case, member states have slowed, and sometimes blocked, agreement on the relevant norms of behavior being debated at the U.N. and representative multilateral agencies like the IMF and WTO. Instead, they have chosen to pursue such norms in smaller, plurilateral groupings that are topic specific. (For example, the accord addressing Iranian nuclear activity was not brokered by the U.N.) It remains to be seen whether these will amount to stepping stones toward greater multilateralism (as was perhaps the case with the various bilateral agreements that underpinned and preceded COP21), with others free-riding on the solutions that are generated, or prove to be further sources of inequity, where rules designed by a small group of rule-makers benefit themselves at the expense of others.

In the second case, the striking feature of multilateralism is how much it has declined in relative size over the last 20 years. As an example, consider trends in World Bank lending. In constant 2005 dollars, International Bank for Reconstruction and Development (IBRD) commitments in 2013 were \$11.7 billion; 37 years earlier, in 1976, they were actually higher, at \$12.2 billion.<sup>xi</sup> Net flows from the IBRD were \$7.5 billion in 2013; in 1981, they were slightly higher at \$7.8 billion.<sup>xii</sup> IBRD as a financing institution has stood still in absolute terms for over 40 years. Meanwhile, the development financing landscape has changed beyond recognition. There are fewer and fewer places where multilateral interventions actually deliver solutions at scale.

A significant exception is in fragile states where multilateral solutions, often using pooled funding arrangements, have proven quite useful. Such multi-donor trust funds, however, are not full multilateral solutions. They depend on a small group of donors who jockey for influence in the funds' governance structures. On occasion, such jockeying can lead to important partners excusing themselves, (the U.S. did not participate meaningfully in the Aceh and Nias Reconstruction Trust Fund), or taking on too much responsibility (e.g., donor control of Haiti Trust Fund). Importantly, multi-donor funds have not yet expanded to include major emerging economies such as China. Yet in Africa, for example, China is more heavily engaged in fragile states (OECD definition) than Western donors and its approach is quite different.

Perhaps more significantly, multilateral, intergovernmental solutions to development at scale are no longer seen as the only, or even the most important, approaches to development. Private solutions, whether through business or household remittances, have come to dominate development financing in most countries, even those with low income. Business investments are seen as key to the creation of jobs, growth, innovation, and structural change. New technologies with much lower costs of reaching a customer imply that business solutions can penetrate almost all segments of the population. Connectivity of people through smartphones, access to the internet, roads and electricity, and urbanization is expanding the scope of markets, including for the bottom-of-the-pyramid customers.

This set of problems around sharing the burden of financing global public goods is also not effectively executed through existing multilateral processes. Almost all global public goods have seen a significant degree of underinvestment, despite ample research findings testifying to the high returns they enjoy. Western advanced economies have their own budget difficulties and are reluctant to contribute further. Another key issue is the difficulty in finding an appropriate way to bring emerging economies into the process. China still barely contributes to international development agencies, and has been eager to differentiate its responsibilities from those of developed countries on issues such as climate change.

Faced with these pressures, it is useful to ask which parts of the MDS are fit for purpose, where does the comparative advantage of different organizations lie, and what should they prioritize, as they will not be able to provide the whole suite of multilateral development services as in the past.

## 2. What is the impact of Agenda 2030 on the MDS institutional landscape?

The 2030 Agenda for Sustainable Development states that “we are setting out a supremely ambitious and transformational vision.” It is complemented by the vision laid out in the Addis Ababa Action Agenda. For the MDS, the 2030 Agenda provides important signals:

- It encompasses a universal vision. It underlines the value of a “goals, targets, and results” framework for every country against which progress can be monitored, while leaving intact the supremacy of national interest and sovereignty, thereby positioning the MDS in a support role, not a leading role;
- It is ambitious and requires solutions at scale to meet that level of ambition;
- It argues for integrated solutions extending across development, peace, environment, and humanitarian realms;
- It calls for contributions from a range of actors, beyond governments;
- It requires the mobilization of substantially greater resources from all sources, domestic and external, public and private;
- It recognizes the importance of investing in global (and regional) public goods; and,
- It starts to define means of implementation.

On the one hand, this agenda appears to provide a new unifying framework in which the traditional multilateral development institutions have a major role to play. On the other hand, it also points to the limited role of the MDS in its current state. There is little to appeal to middle-income countries in the way of access to new resources. One exception may be in the area of large infrastructure, where considerable experimentation with new platforms, new risk mitigation instruments, and new efforts to harmonize and standardize documents, approaches, contracts, and the like could result in important innovations in delivery.

Both the World Bank and the U.N. are positioning themselves to claim a range of unique assets in coordinating and bringing key partners together. To take two examples, the agenda is seen as reinforcing the unique role of the UNDS in the spheres of norm-generation and standard-setting while the World Bank Group has the capability to leverage a wide range of different types of finance. The goal of a revitalized and enhanced global partnership is an invitation to the MDS to provide leadership and demonstrate its value.

An unresolved issue of Agenda 2030 is the nature of the obligations of different countries. Previous constructs, like the Millennium Development Goals, were framed around a clear “bargain”: Western, advanced countries would provide more aid, while developing countries would undertake to focus on basic human development services. This “North-South” differentiation has been overthrown in Agenda 2030, but not yet replaced by a clear

alternative. Universality is seen as one of the major achievements of the 2030 Agenda. The 2030 Agenda is “universal” in the sense that all countries now have obligations on a range of development policies. All countries have also agreed to contribute financially, mostly through raising domestic taxes, but implicitly also many will provide cross-border assistance, albeit in a different form as South-South Cooperation. Yet how responsibilities will be defined or monitored has been left unclear. Developing countries sought hard to introduce language of “common but differentiated responsibilities” into Agenda 2030. Developed countries opposed this. In the event, the phrase is used, but only in reference to the Rio Declaration where precedence was already established. A similar fight had threatened the Busan Partnership Agreement in 2011. The solution there: an agreement that the new global partnership would be founded on shared principles, common goals, and differential commitments. Agenda 2030 goes a long way to providing the shared principles and common goals, but not the differential commitments.

The need for recognizing the interconnectedness between the economic, social, and environmental issues and hence for breaking down the predominance of silos in the way the multilateral development system organizes itself is another major feature of the agenda. In important respects, practice on the ground is flying in a different direction. Financing of vertical funds continues to increase and a number of these funds are held in general to be relatively effective, albeit in narrow areas; there are calls for new global funds, including the elevation of the Global Partnership for Education into a full-blown global fund, or the creation of a new Global Fund for Justice.

The World Bank reforms initiated by Jim Yong Kim reflect the trend toward topical specialization. There is a close correspondence (deliberately designed) between the World Bank’s new global practice structure and the SDGs. Its initiatives like the Global Financing Facility, or the Global Infrastructure Facility, show that sectoral-based financing still dominates the system. The same is true in the U.N. As long as financing is organized in this way, it is difficult to imagine that the fragmentation into sectoral silos that lies deep in the structure, history, and culture of the U.N. development system will be overcome.

Fragmentation into siloes is not only a concern in how international cooperation is organized, but also within national governments. Agenda 2030 has 169 targets that are “integrated and indivisible.” Yet many interpret the sheer number of targets as an invitation for individual countries to select their own priorities. This could be a weak link in the implementation of new agenda items, such as Goal 16 (the “governance goal”) that is viewed by some countries as intrusive into national political decision-making.

The MDS has compartmentalized four important areas that may now need to work more closely together: peacekeeping, humanitarian assistance, development assistance, and climate change. Institutionally, however, these continue to operate with separate processes, both within governments and globally. Implementation experiences, budgets, local knowledge and relationships, and building local capacities are not shared or optimized. Efforts to collaborate have as often resulted in greater bureaucracy and jostling for institutional leadership as in improved results. Only the G-20 has had some moderate success in getting multilateral institutions to work more closely together on specific reports.

The necessity for collective action to respond effectively to many of the SDG targets does not feature that boldly in the 2030 Agenda; rather, it is more assumed to be integral to the fabric. Paragraph 18 does state that “we are setting out together on the path toward sustainable development, devoting ourselves collectively to the pursuit of global development and of win-win cooperation, which can bring huge gains to all countries and all parts of the world.” Indeed, there are 62 targets in the SDGs related to means of implementation, of which 19 are in the last goal on the global partnership and 43 are embedded in the other goals. Of these, roughly half contain language encouraging international cooperation, while the remainder guide domestic action by individual countries.

Most multilateral organizations are looking to Agenda 2030 as an opportunity to re-energize their mandates. For example, the World Bank Group is using it as the basis for a sizeable capital increase. Others, however, are using it for advocacy, and are embarking on a range of “cost assessment” exercises to determine how much it would cost to achieve “their” goal. Such cost exercises have three principal difficulties: (i) in very few cases is it straightforward to identify the impact of greater spending on the outcome in question; (ii) where evidence of impact does exist it is often highly context and policy specific, so costs cannot be determined independently of policy change; and (iii) costs invariably depend on what is happening with other goals (i.e., each goal is not independent of progress on the others). Indeed, the spread of these costing exercises shows the weakness in the current structuring of the MDS; each individual agency looks to increase their share of aid, but collectively there is little to encourage a larger aggregate volume of aid or other resources. Scale, effectiveness, the ability to innovate and find cross-sectoral solutions, and the ability to bring together nongovernmental partners, are all challenges for the MDS in the new context.

### 3. The challenges of Agenda 2030: The changing development landscape for the multilateral development institutions

#### 3.1. UN development system

The transformation we have witnessed in so many elements of the global economy has presented the U.N. system with major challenges.<sup>xliii</sup> These have variously been characterized as a discussion around being fit for purpose. This underestimates the dimensions of the change underway. The critical issues going forward relate to purpose in a changing world and not only fitness. This explains the plethora of major conferences, declarations and reports that are coming out during the course of 2015/16 that raise fundamental questions about how to ensure the U.N.'s relevance in a changing world.

The 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda, and the Paris climate summit are the centerpiece of the U.N. response. It is important to note the broader process of questioning around the purposes of the U.N. system that is currently underway. The High Level Panel reports on both peacekeeping and peacebuilding raise fundamental questions about the U.N.'s use of force on the one hand, and its commitment to securing peace on the other. The High Level Panel on Women, Peace and Security raises key challenges on the implementation of Security Council resolution 1325. Preparations for the World Humanitarian Summit in 2016 point to deep-rooted challenges to the current role of the U.N. in the humanitarian field.

In all of these spheres, fundamental questions are being raised about the future role of the U.N., its value added, and future sources of financing. It is noteworthy that in each of these areas, the need to revisit the current state of financing arrangements features prominently. It is important to recognize that the role of the UNDS is much less clearly defined, and is characterized by a much greater number of players, than the role of the U.N. in other spheres.

What are the functions that the UNDS is best qualified to perform over the next decade? In order to frame some of the answers to this question, it is important first to take note of the fundamental characteristics of what we know as the U.N. development system.

By most accounts, the UNDS barely qualifies as a system. It is made up of a total of 34 U.N. departments, agencies, programs, and funds, almost all of which are governed by separate intergovernmental bodies. Many of the agencies have their own constitutions and their own General Conferences. Total income to the U.N. system amounted in 2013 to some \$44.6 billion. Of this only \$2.6 billion is provided for the U.N. regular budget.<sup>xliiii</sup> Almost all of this

is tightly controlled by the 5th committee of the U.N. General Assembly. The secretary-general does not have any authority over the Specialized Agencies of the system. There is virtually no system-wide strategic capacity and almost no ability to leverage system-wide assets for defined purposes. It is with this in mind that reform prospects need to be weighed.

In identifying changing functions, it is critical to differentiate sharply between different types of countries. The enormous expansion of the global economy is changing the role of operational activities in many emerging middle-income countries. For the LDCs, with a population of almost 950 million<sup>xliv</sup> that have limited access to external resources as well as very limited capacity, both the role of ODA in volume terms and the role of the UNDS will remain highly significant.

In a global economy where the great majority of countries have access—as well as being vulnerable—to the volatility of a wide variety of resource flows, the capacity to identify opportunities to leverage solutions becomes a critical function. It is the ability of the UNDS to leverage, rather than the disbursement function, which becomes the key driver of functional relevance in many emerging economies. Supporting policy coherence and breaking down traditional silos becomes a critically important function.

#### 3.1.1. Strengthening of normative / standard-setting work

With respect to the future positioning and role of the U.N. development system, there seems to be a very clear consensus that one of the U.N.'s most vital tasks relates to its normative agenda. In a rapidly changing world, the web of normative frameworks that lie at the foundation of so many of the processes of an inclusive globalization need to be nurtured, perhaps adapted, and certainly strengthened. Repeatedly, in many different fora, the international community has stressed the unique role the U.N. has to play in this sphere. The SDG framework itself is a foremost example of this function.

The normative agenda should lie at the core of a focused operational program. Nowhere has that become more apparent than in the case of the failed response of the international community, and in particular the World Health Organization (WHO), to respond effectively to the outbreak of Ebola (see Report of the Independent Panel). The huge gap between the normative framework encompassed in the International Health Regulations and the capacity on the ground is one of the root causes of the deeply flawed response system.

#### 3.1.2. Integrated programmatic and policy support

The adoption of the SDG framework requires considerable strengthening in the capacity of the UNDS to provide integrated programmatic support, rather than fragmented agency

projects. The relative decline in the role of ODA in many middle-income countries requires a constructive dialogue on how to maximize its impact, and the implications this may have on the future role and profile of the UNDS in these countries. The UNDS needs a new model to enable it to provide integrated policy support in middle-income countries that do not have access to significant volumes of ODA resources, or should consider exit mechanisms. As developing countries become richer, “fee-for-service” type arrangements with effective service delivery providers are likely to replace grant-based arrangements.

### 3.1.3. Responding to global challenges

A key element in the post-2015 development agenda relates to the ability of the U.N. to respond to emerging global challenges, issues such as climate change and global health risks, but also those related to oceans and forests, and to the global collection of data to guide decision-making. One of the features of these challenges is that in many respects for the first time they require a collective response, which brings with it a whole range of new organizational requirements. In particular, generating a collective response requires reaching agreement on the allocation of responsibility for providing the solution. And this, in turn, can only be done if there is a common understanding of the issues and the values that will underpin the agreements to be reached.

### 3.1.4. Convening, partnering, and leveraging

We have discussed above the evolving role of multi-stakeholder partnerships. The U.N. has a particular role to play in providing the space and the convening power to bring many of these partners together. But it should not be assumed that the U.N. will play a central coordinating role in all phases of the development of such partnerships. In a world where the changing relationship between states and markets is impacting on the role of different actors, leveraging becomes a crucial driver of relevance and function. The multilateral development system increasingly has to demonstrate its capacity to exercise leverage. In the U.N. that leverage is not expressed principally in the form of finance. Rather, leverage is expressed through the generation and operationalization of norms and standards and the creation of space to convene partnerships and facilitate collective responses.

### 3.1.5. Monitoring and accountability

Strengthening monitoring and accountability mechanisms follows from the implementation of a normative agenda. Agenda 2030 represents a major challenge in this respect. This is all the more evident in the case of actions that require a collective response by the international

community. This is because burden-sharing is integral to delivering solutions, and it requires monitoring to certify compliance with the responsibilities agreed.

Another dimension of monitoring relates to the implementation of norms. The 2014 Ebola outbreak provides an excellent example. The approval by the World Health Assembly of International Health Regulations has to be accompanied with surveillance mechanisms to allow those regulations to materialize on the ground. The surveillance function is what gives practical meaning to the adoption of the norm. Moreover, the application of the norm takes place in each country; global health security requires surveillance within countries, not just quarantine facilities at the borders.

#### 3.1.6. Full delivery service

The challenges affecting a number of LDCs and the intractability of a number of conflict and humanitarian situations require the UNDS to review comprehensively its effectiveness in a number of these countries. There is a very broad consensus that the U.N. development system has a critical role to play in virtually every aspect of service delivery in some 30 or so countries, either LDCs or crisis-affected countries. We are witnessing situations where humanitarian crises and conflict situations are becoming a new normal. The question arises as to whether they require a qualitatively different type of response, with a much more integrated and agile U.N. capacity as has been recommended by the Office for the Coordination of Humanitarian Affairs.

#### 3.1.7. Data and science

A critical function that is intimately linked with the elements identified above is for the UNDS to champion evidence-based policy. UNDS needs to provide leadership in the collection and use of government data. This requires an analysis of the optimal configuration and financing of the multiple databases that the UNDS generates. As recommended by the secretary-general, there is a need to establish a comprehensive program of action on data under the auspices of the U.N. Statistical Commission. The World Bank Group has also made data collection, especially household surveys, a priority in its response to Agenda 2030. But already, there are concerns that a slow-moving U.N. may not give sufficient emphasis to the kind of disaggregation of data that “leave no one behind” demands.<sup>xlv</sup>

At the same time, the U.N. must recognize that increasing amounts of data will be collected from non-governmental sources: crowd-sourced from civil society, inferred from mobile and social media use, or extracted from geospatial observations. This data must be integrated with official data in order to champion evidence-based policy as a priority strategic instrument.

The post-2015 development agenda also provides real opportunities for the secretary-general to harness the voice of science to inform the policy choices that need to be made.

### 3.2. World Bank and international financial institutions

Agenda 2030 plays to the strengths of the MDBs in important ways. Perhaps most significantly, and driven by the rapid rise in domestic resource mobilization in many countries over the past couple of decades, the slogan of “countries in the driver’s seat” is starting to become a more realistic paradigm. With this shift, international financial institutions (IFIs) have been tasked with “[providing] support, in line with their mandates, [for] the policy space of each country.” Those IFIs that have a strong on-the-ground presence can more easily play a supportive role, compared to agencies where strategies and allocations are made largely at headquarters.

In this regard, the investments made by IFIs to build a strong field presence may pay off despite the high costs associated with this. The field offices, and decentralized staffing structures, are a platform for engagement with countries that can be built upon.

In fact, the MDBs have already started to move toward implementing Agenda2030. For example, the Asian Development Bank has bolstered its balance sheet by merging its Asian Development Fund assets into its ordinary capital resources, permitting a potential doubling of its lending capacity. The World Bank, too, has launched a reform designed to better position it to implement the SDGs. It had already purposefully reorganized its operational structure two years ago to create global thematic practices that match the SDGs to a considerable degree.<sup>xlvi</sup> Its “twin goals” of eliminating extreme poverty and promoting shared prosperity resonate with the anti-poverty zero goals of the SDGs and the new concern with inequality. The African Development Bank is also changing, giving more emphasis to food security as well as to climate change and low-carbon power generation.

The MDBs have a particular comparative advantage in policy dialogue with member states, partly because of their apolitical nature. As the *Financial Times* put it, “if the World Bank fades, the alternative is a future of individual countries jockeying for influence via bilateral aid, with less regard for the needs of the poor.”<sup>xlvi</sup> Policy remains the single most important instrument for countries to implement Agenda 2030, but it is most effective when combined with financial investments.<sup>xlvi</sup> Evaluation reports confirm this.<sup>xlvi</sup> One key lesson drawn from the implementation of the Millennium Development Goals (MDGs) that has been taken up in the design of the SDGs is the need to focus on sustainability, institutions, and the role of the private sector in development.

Policy should be driven by evidence, and it is for this reason that the World Bank has made data collection, especially of household surveys, one of its priority interventions (the other two being finance and implementation). The World Bank has found that 29 countries have no poverty data at all and a further 28 countries have only one data point between 2002 and today, making it impossible to derive trends; this is a major constraint in the fight against poverty.<sup>i</sup>

The areas where MDBs have further comparative advantage, and where a suitable division of labor with the UNDS and bilateral development agencies could be strengthened, are summarized by Kharas (2015).<sup>ii</sup> He argues that the World Bank (and by extension several other MDBs) should focus on the provision of infrastructure (including at municipal levels), support for food and nutrition security, climate mitigation and adaptation (especially in agriculture, forestry, power, and transport), safety nets and social service provision, managing vulnerability and shocks (including countercyclical lending, access to financial services, and access to remittances), support to fragile states, better governance and domestic resource mobilization, and investment climate improvement.

In carrying out this agenda, however, there are gaps in financing that need to be addressed. The first gap is in the volume of finance that can be mobilized for infrastructure, in particular. The MDBs together only provide roughly \$60 billion in lending for all purposes each year, insufficient to meet core needs. Furthermore, guarantee programs only run around \$3 billion per year, suggesting more can be done to mobilize private capital.<sup>iii</sup>

A second gap is in crisis-finance for low-income countries. While MICs have been able to borrow significant amounts for counter-cyclical purposes, low-income countries are restricted by the small size of the IDA crisis finance window. This window is in any event inefficient as it requires valuable IDA resources to be set aside *ex ante*. It therefore places the burden of smoothing and risk-sharing on other LICs.

A third financing gap is in building resilience to the shock of large influxes of refugees into middle-income countries. The instruments available for support in these countries—non-concessional sovereign loans—place the full burden on host countries. They do not allow the multilateral system to provide an equitable burden-sharing arrangement without extraordinary measures. These are now being contemplated for some countries in the region, both through EU programs as well as in the new World Bank Middle East strategy.

The fourth and last financing gap is for climate change and, more broadly, for the provision of global public goods. In the past, the World Bank would cross-subsidize many of these activities from its profits, but as these have declined so has the ability to fund global public

goods. In fact, contributions to global agricultural research or to learning organizations like the Global Development Network have been eliminated as part of World Bank cost-cutting measures.

These constraints lie behind the efforts of financial reform at several MDBs. The World Bank is seeking more equity for IBRD and IFC (International Finance Corporation), and has embarked on a “Forward Look” exercise. It is also exploring how IDA can leverage its \$180 billion in total assets<sup>liii</sup> to better serve its customers. Other MDBs are also looking for expansion in both concessional and non-concessional windows. But the fact that these measures are moving slowly suggests there are considerable political obstacles to moving ahead.

### 3.2.1. Voice and shareholding

Although MDBs have a representative shareholding, the distribution of votes is skewed heavily in favor of large countries. Dissatisfaction on the part of developing countries, especially middle-income countries, with the IFIs is seen in the establishment of new institutions without a dominant G-7 presence, like the AIIB and the New Development Bank, as well as in the determination of developing countries to ensure that climate resources flow through the newly-established Green Climate Fund, rather than existing IFIs.

Voice matters. There are a wide range of shareholding and governance arrangements in multilateral institutions, and academic research suggests that dominance by donors tends to lead to more cautious financial and operational policies. Thus, compared to agencies with more voice for borrowers, agencies such as the World Bank Group tend to have more conservative financial policies (loan/equity ratios), less flexible operational policies (limits on budget support and use of country systems), and greater internal oversight and control processes (culture of compliance with rules-based safeguard and financial management procedures rather than “development-at-risk” approaches, large and costly internal audit and oversight mechanisms).

### 3.2.2. Scale and leverage

At present, official non-concessional financing through multilateral agencies has fallen to a very low share of investments in most developing countries. More and more developing countries now have direct access to private capital markets, and although the terms they get are not as favorable as those from MDBs, the greater flexibility and speed of approval is a distinct advantage. Low real interest rates in international capital markets add to the appeal of these markets.

The MDBs represent perhaps the best hope for leveraging official money with private capital to generate the scale of resource flows that will be needed for the SDGs. It is now commonly agreed that although it is difficult to precisely cost the investments required to achieve the SDGs, a substantial increase over current investment levels will be needed. “From billions to trillions” summarizes the consensus.<sup>liv</sup> The problem, however, is that trillions cannot be mobilized from the ODA budgets of advanced economies. Nor is it forthcoming from purely private sources.

At present, almost all ODA is channeled via bilateral programs or through the (financially) unleveraged UNDS or unleveraged grant funds, like IDA or the AsDF. This is a policy choice; donors have preferred to fund unleveraged institutions that provide services to the least-developed countries, rather than more leveraged institutions that support middle-income countries. For example, IDA today has assets of \$180 billion, based on shareholder contributions over time,<sup>lv</sup> while paid-in capital to IBRD is only \$15.3 billion.<sup>lvi</sup>

MDBs have the ability to provide significant leverage. The World Bank Group, for example, operates with an equity/loan ratio of 25 percent, meaning that it can borrow (and lend) four times its paid-in capital plus reserves. Further leverage could be achieved by using risk management instruments, like guarantees or first-loss structures.

At present, however, MDBs are not adding to their paid-in capital because they are being asked by shareholders to subsidize grant funding windows aimed at the poorest countries. They have also been unable to add to reserves because of a sharp fall in revenue associated with lower earnings on their accumulated holdings of paid-in capital, retained earnings, and reserves.

### 3.2.3. Ideology and pragmatism

Why don't advanced countries use the leveraging capabilities of MDBs more? Ideology may be one reason. For many years, major shareholders believed that private capital would be accessed directly by fiscally responsible middle-income countries, and argued that the main focus of MDBs should be to take care of the poorest countries that lack such options. This was most clearly articulated in the Meltzer Commission report on the World Bank Group (2000).<sup>lvii</sup> Today, this position seems outdated, amid the pragmatic need for low-cost, long-term debt financing for infrastructure in middle-income countries, in particular, and the growing evidence that blending of public and private finance could be an effective way of mitigating risk.

#### 3.2.4. Risk aversion

Leverage and scale of financing do indeed increase risk and it would be foolhardy to suggest otherwise. But MDBs operate with risk tolerances that are many times lower than other public financial institutions, let alone private financial institutions. Reputable rating analysts have concluded that leverage at MDBs could be more than doubled without losing the coveted AAA rating. Borrower-owned multilateral institutions, like the Development Bank of Latin America (CAF), have been able to retain credit ratings higher than their individual shareholders, while operating with a leverage ratio double that of traditional MDBs.

Shareholders of MDBs seem mostly concerned with risks of doing more and potentially suffering some failures, without contemplating the considerable risks of inaction, especially when slowing growth generates instability and neighborhood spillovers. One example of risk aversion is the insistence of governing boards that they consider each project individually, rather than assess a portfolio of projects in considering risk.

Major shareholders have, therefore, closed many avenues for larger financing from MDBs. Before, they could do this with impunity. Now it is becoming clearer that unwillingness to reform MDBs can lead to alternative structures being created by developing countries themselves, and these may over time reduce the global decision-making influence of major developed countries.

In part, risk aversion could stem from the domestic political constraints faced by some shareholders. These make it hard for them to support reforms of MDBs requiring approval from legislatures, including many financial and governance reforms. There appear to be, however, several practical alternatives that could reduce the requirement to have legislative approval. The recent merging of the capital in the AsDF with Ordinary Capital Resources of the ADB provides an example.

The MDBs' model of leveraging private capital relies on access to capital markets. An alternative, more direct, leverage model is provided by their private sector lending arms, like IFC. In this model, other private investors co-finance projects directly. IFC has recently introduced an Asset Management Company that is an off-balance sheet vehicle for mobilizing institutional capital for development projects. So far, about \$9 billion in assets are under management.<sup>lviii</sup>

These examples suggest that MDBs have the scope for introducing new financing vehicles that can attract different types of private capital. Another example is in infrastructure financing, where considerable hope is being placed on hybrid public-private financing

structures that reduce the risk to private investors and, by bringing down the cost of capital, induce borrowers to invest in more efficient ways.

### 3.2.5. Fragile states

While leverage, scale, and risk-taking are features of the MDS that need to be bolstered, they are less relevant for situations where countries are not themselves capable of identifying and implementing investments needed to achieve the SDGs. In such fragile situations, the role of the MDS is rather different. It still requires support for national policymaking, but in a different way. Interventions in fragile states need to build on a continuum between security, humanitarian, and development assistance. Donors and developing country governments could do much more to link development and humanitarian efforts in fragile states, for example, through cash programming, more flexible budgeting to respond to early warning indicators of vulnerability, and shifting resources to crisis prevention over relief. Building institutions and developing skills could be priority interventions. Multilaterals have a distinct comparative advantage in building partnerships in fragile states, not only because of their coordinating function, on policies and finances, but also because of their accumulated knowledge and ability to provide technical assistance and to build capacity.

### 3.3. The G-20 and other 'clubs'

Agenda 2030 has introduced the notion of universality into the development dialogue in a different way. It asserts that all countries need to find a new path toward sustainable development, and puts the onus for policy change on all countries. For developed countries, there are clear additional responsibilities for managing sustainable consumption and production and for investing in global public goods.

Developed countries have traditionally bypassed the MDS in determining their own policy frameworks, preferring to use various self-appointed "clubs." In the development space, the OECD/DAC has long held a special place as arbiter of the definitions of development assistance, the monitor of development support, and the forum for peer review of development assistance of each member country. The OECD is a prime example of the idea that peer pressure is most effective when exercised by actual peers, that is to say by countries that share similar views and principles and that may have had similar experiences.

The G-20 has also emerged as a club with important functions in managing the global development space, starting from the crisis management of the global economy but then more formally tackling development issues following the Seoul G-20 Summit in 2010. In the leaders' declaration, the G-20 clearly stated its desire to help low-income countries achieve

the MDGs. More recently, G-20 declarations have underscored the importance of the sustainable development goals. However, without a formal role and responsibility, the G-20 has not distinguished itself on the development front. Although accountability reports suggest that the G-20 has implemented most of the actions it agreed to, the impact has been small. One observer called the G-20 development agenda “invertebrate, flabby, and toothless” and “lacking a coherent narrative and disconnected from the central concerns of leaders and finance ministers.”<sup>lix</sup>

The G-20 has neither tried to replace the U.N. as a norm-setting body, nor to exercise governance over existing multilateral institutions (although its members account for an overwhelming majority of shares and seats on these boards and councils). It has not sought to provide an informal setting where leaders can negotiate on issues where global talks have stalled (such as the Doha round or IMF reforms); indeed, U.S. President George W. Bush is said to have rebuffed President Lula’s desire to discuss trade at the G-20 by noting that it is not a forum for negotiations but for dialogue.

Instead, the G-20 has sought to give political profile to ongoing global activities, and to encourage multilateral organizations to submit joint technical action plans. In the face of many complaints that the MDGs faced difficulty in implementation precisely because of lack of political commitment (witness the lack of progress on maternal mortality until the Canadian G-8 meeting), the annual G-20 leaders’ summit provided an alternative “forcing” point for agenda items that the chair included on the agenda. The G-20 has been moderately successful in mobilizing collective action in food security, infrastructure finance, and financial inclusion. China is giving prominence to SDG implementation in its current G-20 chairmanship role.

Although the G-20 has not tried to replace or forum shop among multilateral organizations, it has not enjoyed a constructive relationship with the U.N. The U.N.’s focus is on legitimacy; the G-20’s on effectiveness of implementation. The G-20 has moved rapidly to accommodate rising powers. The U.N. (and Bretton Woods institutions) have moved very slowly, with no change in Security Council reform at all. U.N. agencies and the BWIs are invited to G-20 meetings, but have little role or impact.

This lack of an effective working relationship between the two organizations (and indeed between the U.N./BWIs and other clubs formed to deal with specific issues on the basis of choosing only those most relevant to finding and implementing a solution to the problem at hand) is a central challenge to the future evolution of the MDS. The G-20 cannot be effective without being seen to implement goals that have been decided on in a legitimate international forum like the U.N. Conversely, the U.N. cannot be effective without the political support of

its major members and their willingness and determination to exercise national leadership on the global issues of the day.

One feature of clubs like the G-20 is their agility in developing broad networks—the T20 (think-tanks), B20 (business leaders), C20 (civil society) to make their deliberations more inclusive. The scope and scale of these networks, and their ability to connect governments with other organizations, is a new feature of the MDS. At the regional level, too, there are more groupings being formed to develop solutions to specific problems, often with no claim to legitimacy or representativeness, but with a focus purely on implementation effectiveness.

### 3.4. Regional institutions

Regional organizations are another important component of the global development architecture. There has been a proliferation of regional arrangements, including in Africa, Latin America, and Asia (the Middle East is one glaring exception where there are very few regional economic groupings). The European experience, despite all its flaws, has been seen as demonstrating the benefits of regional integration for political stability and economic growth.

The relationship of regional institutions with, and in some cases within, the global multilateral institutions is ambiguous. In some instances they are delegated responsibilities, for example, in the sphere of security, delegation from the U.N. Security Council to the African Union. In other cases, they may be seen as competitive with the MDS, for example, the growth of regional trade arrangements. Some regional arrangements may be interpreted as representing a political challenge to the existing MDS, for example, the Shanghai Cooperation Organization. From another perspective, regional cooperation can be seen as an essential component in promoting order and stability within a broader global system.

Even within the MDS, the benefits and costs of regional approaches have been contested. For example, the U.N.'s regional commissions have a long history and strong constituency support. They are seen as reflecting an important dimension in the global architecture. And yet, the regionalization of WHO is seen as having serious consequences for WHO's effectiveness in discharging its global mandates.

There is no question that regional organizations have a critical role to play within the global MDS. Regional organizations need to be understood as another instrument that can at times provide critical value added and at other times diminish global efforts. Specific context needs to determine strategy.

#### 4. Scenarios for a new multilateralism

In looking at possible pathways for multilateralism in the future, we will explore four possible scenarios. They are an MDS reflecting a division of labor among institutions, an MDS based on competitive principles, an MDS as a fulcrum to leverage results, and an MDS that is accommodating the reality of an emerging plurilateralism.

In the MDS reflecting a division of labor, institutions try and get consensus on a clear mandate, and then organize operationally to ensure disciplined cost effectiveness and to prevent mission creep. The IMF is a prime example of such an approach but it guides, in theory, many U.N. and other agencies as well. A problem can arise, however, if performance and effectiveness are seen as sub-standard or if governance is not strong enough to avoid mission creep and institutional competition. Problems can also arise if the organization is too narrow or siloed to develop or implement effective solutions on its own. This is the prevailing form of the MDS as it stands today, but it has resulted in substantial overlap of institutional priorities and duplication and waste are rife.

De facto, then, a second approach to institutional reform has taken over. This approach encourages a high degree of competition within the multilateral development system. Institutions compete to get funds, often even when these are constrained in terms of their purpose. Unfortunately, in the absence of useful results metrics to compare institutions, the net effect is not necessarily to have finance flow to the most efficient or effective institutions, but rather to those with the biggest political support. Efforts to improve comparative institutional metrics, such as various bilateral reviews as well as the Multilateral Organization Performance Assessment Network (MOPAN), provide useful information to policymakers, but decisions on which institutions to support are inherently political rather than technical, and depend on the strategies of individual governments. Moreover, it might be that working in the most difficult environments does not lend itself to efficiency at all but is considered by the international community as a contribution that it wants the MDS to take responsibility for.

A third scenario focuses on the opportunities multilateral institutions have to leverage their assets. The ability to form and lead partnerships can become an instrument of choice in program implementation. Other forms of leverage, for example, through financial engineering and use of innovative instruments, can also be important. The financial instruments at the disposal of the World Bank Group represent a package of instruments that can be used to generate and catalyze much broader flows. Leveraging is not limited to the financial sphere. The generation of norms and the establishment of standards both yield benefits that are not normally directly measurable or appropriable to a single intervention. In the case of the U.N. development system, this approach would require mergers of entities

that do not have the critical mass to leverage effectively and it would require much greater budgetary and programmatic discipline and rigor. In turn, it could be rewarded with a much more supportive financial framework.

The fourth scenario considers an altogether different situation. In this scenario, we are entering a new period of geopolitical competition, with the U.S., Europe, Russia, and China as the main players, but other emerging economies as well as India and Japan also playing a part, especially in their neighborhoods. The implication is that it will be hard to get general multilateral consensus on most things. Only a small sub-set of areas where all parties agree it is in their national interests will be feasible.

This fourth scenario—of competing geopolitics—is not completely new. It shows itself in the pressures for governance reform of the multilateral agencies as well as in the emergence of new institutions. It reveals the tensions in institutions between effectiveness and legitimacy. For example, the implicit arrangement that the IMF should be headed by a European national while the World Bank president is an U.S. national is a reflection of the geopolitics of the time when these organizations were founded. The trade-off has always been that with strong political support from a major power, the institutions are given enough independence to ensure effectiveness. By contrast, the examples of several U.N. agencies show how geopolitical influence over management selections and budgets can hamstring an agency.

It is clear that emerging economies take a strong interest in the MDS. China has made it a theme of its G-20 chairmanship.<sup>lx</sup> India and Brazil have led the opposition to the way in which the IMF has approached its Greek and Ukraine programs, as well as pushing for faster IMF governance reforms. But emerging economies have not taken up responsibility for the MDS, contributing proportionately little to the system and advocating instead for a different form of South-South cooperation. In this, they continue to pursue the theme of a responsibility to provide ODA by developed countries, alongside voluntary solidarity among developing countries.

The BRICS have made several moves to try and work within the framework of the MDS, like China's readiness to contribute loans to IDA and IFC, and several countries' provision of resources to the IMF under the New Arrangements to Borrow. But there are several instances where geopolitics has led to inertia. For example, the World Bank's global infrastructure facility was originally designed to have a significant financing window attached to it, with resources raised by borrowing from emerging economies like China. This design was rejected. Similarly, the ill-advised U.S. opposition to the AIIB suggests a degree of suspicion between the U.S. and China. This is reinforced by the fact that development issues,

which were once a safe topic for dialogue under the U.S.-China Strategic and Economic Dialogue, are no longer discussed in this forum.

While developing countries have tried to have more impact on the shape of the MDS, they have limited alternatives. Historically, efforts to set up institutions that they effectively control have not been very successful, the Banco del Sur being one recent example. Might the Green Climate Fund suffer from similar problems? And while it appears that the AIIB has gotten off to a quick start, it remains to be seen whether it can deliver operationally on its potential to raise infrastructure investments in a significant way.

Conversely, for large developed countries, the geopolitics takes on a different form. There has been a reluctance to accommodate emerging economies, partly because these countries do not share in the financial burden in the same way, offering loans rather than budgetary grants. Large developed countries, outside Europe, have largely by-passed the MDS, with the U.S. and Japan being the smallest contributors (relative to total ODA) among OECD countries.

In considering these four scenarios, it is apparent they are not in reality alternatives. Elements of all four are most likely to persist. Multilateralism as an instrument of choice will be dependent on the functions that are required as well as a number of other considerations. The generation of norms and standards is better suited to the division of labor scenario (someone has to set the norms) than a competitive market (although even this needs norms of behavior to function effectively). Delivery of services, on the other hand, will often benefit from competition, but can lead to fragmentation and overlap if effective exit mechanisms do not exist. There is also no guarantee that scale will be achieved in a competitive scenario. It may require a single, multilateral platform that can act as a fulcrum to leverage much greater resources.

Plurilateralism may be better suited to finding solutions than multilateralism if there is a small group of interested parties; but plurilateralism needs to be carefully managed so it does not take on the characteristics of an oligopoly. Plurilateralism can also lead to a tyranny of the majority—the valuable function of containment that a truly multilateral system imposes on major powers, gets lost when plurilateral solutions are more acceptable. And plurilateralism can reduce the pressure for true multilateral reform.

The value of analyzing these scenarios is to emphasize the complexity of the choices that need to be made and the trade-offs that any MDS will need to face in the future. They suggest that a more complex array of institutions will emerge as important parts of the MDS. This can be a benefit in bringing innovation, greater finance, and new actors into the system,

but can also have costs of duplication, overlap, and waste. With the innate difficulties for like-minded donors (with accountability to their own taxpayers) to cooperate among themselves, given national differences in priorities and experiences, it is even less credible to believe that countries with different development philosophies will be able to collaborate effectively. At a minimum, a strategy designed to avoid duplication, through far greater transparency and dialogue, could at least minimize duplication and waste.<sup>ki</sup>

## 5. Implications for finance

Different functions of the MDS do not correspond to existing financing modes. Financing reform, in turn, may be the most important incentive for determining the path along which the MDS will evolve. There is now a need for a variable geometry of financing.

The heart of the case for the spectrum of regular financing that includes assessed, negotiated pledges and voluntary core resources lies in the function that is to be performed. The financing of multilateralism in the future requires going beyond the core/non-core conundrum. There is no credible rationale for core funding to grow in order to finance a project-driven system, but equally no way of credibly delivering on a range of norm-setting and global public goods without core funding. Non-core funding is too volatile for such purposes. Redressing the balance between core and non-core financing can only be done in the context of a much broader bargain around function. This is an approach that could also be of interest to the growth economies.

A broader bargain could be constructed around four types of function, each supported by a different financing model. The first could be described as the “platform function,” and includes the core normative and standard-setting functions as well as securing presence and convening power. The cost of this function should be assessed as an integral cost of membership in the component parts of the multilateral development system. Normative and standard-setting work should not be financially dependent on groups of interested parties. Generally, it is important that there is an understanding that there is a political trade-off between the discipline of the budgetary framework around the activities to be financed and the security and predictability of the financing instrument chosen by member states. It is probable that the U.N. would have a comparative advantage in the norm-setting functions of the MDS in many areas.

Norm-setting in global development is often not associated with development finance. Indeed, the DAC explicitly excludes certain norm-setting functions from its definition of ODA on the grounds that the functions that are supported are not primarily oriented toward developing countries but are more global in nature. This is a false dichotomy in today’s world

with universal global goals. Norm-setting should be recognized as an integral part of the global development agenda and contributions should be counted as development assistance.

The second function relates to the MDS' role in providing global public goods. The current system clearly leads to an under-provision. A new system must provide a forum for determining needs, for allocating the burden among countries and for implementing the actions or providing for the monitoring and accountability that a referee must provide. The agenda for global public goods will give birth to a variable geometry in the character of collective responses. Different groups of countries will have varying interests with respect to a specific public good. Financing will have to be negotiated in line with the prevailing variable geometry for any specific good but financing cannot be purely voluntary because it should reflect and be true to the allocation of responsibility that made the collective response possible. Bringing these two points together suggests that negotiated pledges are the best way to proceed with respect to financing the agendas of major global public goods. While the U.N. and its agencies remain important providers of global public goods in many spheres, other parts of the MDS also provide global public goods, and should be funded accordingly. Knowledge activities and data collection are prime examples. In other cases, a multi-stakeholder partnership could prove the most effective mechanism.

It bears noting that the functions of norm-setting and provision of global public goods fit best with the “division of labor” scenario outlined above.

The third function relates to financing humanitarian operations and programs in crisis countries. In practice, one could envisage hybrid financing arrangements. On the one hand, some form of assessed budget or negotiated pledge would be important to give the U.N. a secure base enabling it to be responsive and effective as a first responder. On the other hand, major financing of large-scale programs will invariably be country-specific and often come from earmarked sources in national budgets for those target countries. It is also the case that delivery of humanitarian services can be done by other groups as well, especially as new technologies (such as cash transfers through smart cards) open opportunities. NGOs have proven to be quick to adopt these new technologies, but their actions need to be coordinated and the instruments harmonized and made interoperable. Development agencies, too, like the World Bank, are engaging in humanitarian operations where these have long-term impacts.

The fourth function relates to the “classical” anti-poverty, growth, and capacity-building development programs that have been such a large part of the MDS activities over several decades. There are a number of countries that are committed to supporting these types of activities independently from burden-sharing considerations. They remain well suited to the

types of core voluntary as well as earmarked contributions that have long characterized the funding of the U.N.'s development programs.

The third and fourth functions are increasingly overlapping as humanitarian assistance becomes more long term. As a result, development agencies, like the World Bank, are starting to think more about humanitarian issues (like education for refugee children), while humanitarian agencies like the World Food Program are starting to think more about development/prevention issues. The programming difficulty, however, is that humanitarian assistance has mostly taken the form of grants, while development assistance in middle-income countries has taken the form of loans. There is no adequate financing instrument for long-term humanitarian relief where refugees are based in middle-income countries.

While the first three functions noted above require grant financing, classical anti-poverty and development programs can also be supported by a range of financial instruments. Chief among these is non-concessional public lending, a form of financing that has advantages for both donors and borrowers. For donors, lending has minimal implications for their budgets. They can use the leverage of banking and of promises to pay (callable capital) to generate far higher levels of financial support to developing countries. One estimate is that a one-time contribution of \$18-25 billion from developed countries in the form of capital increases in the MDBs could trigger annual net lending by these institutions of \$70 billion.<sup>lxii</sup>

For borrowers, public non-concessional loans offer the opportunity to access the kind of long-term, low-interest financing that is critical for low-carbon infrastructure investments, in particular. Low carbon infrastructure has higher upfront capital requirements than alternatives, but lower operating costs. The choice of technology is therefore especially sensitive to the cost of capital. And because these costs are far higher in developing countries (for example, in India, an infrastructure entity may pay over 7 percent in real terms), the incentive for them to move toward low-carbon options will be reduced without better financial terms.

There are three key issues in long-term non-concessional public loans to developing countries. First, mechanisms to increase the supply of such loans to their needed volumes must be found. Second, the loans must be made attractive to the borrower. And third, they must be seen to enhance sustainability in all its forms: social, economic, and environmental.

Multilateral and bilateral organizations can move to advance this agenda. Several bilaterals (including, most recently, France and Italy) have linked their development agencies with public banks and have promised to provide more non-concessional loans. Some development partners are experimenting with “blended” finance, the provision of public development

finance in a way that leverages private finance, has social and environmental (sustainable) returns, while simultaneously having financial and economic returns.<sup>lxiii</sup> Blended finance can take the form of improving funding terms through subsidizing market loans with grant funds, through providing various risk mitigation (guarantees, first-loss) instruments, through reducing transaction costs for the private sector through streamlined origination and due diligence processes, and through challenges, prizes and other incentives. While each of these innovations has had some success, none have been taken to scale. The IFC's Asset Management Program is perhaps the most institutionalized blended finance program, but it relies on a rapid expansion of IFC origination and loan participation to grow further.

The DAC's proposed data collection reforms on development financing, called "Total Official Support for Sustainable Development," are an effort to make the monitoring of development finance more consistent with the functions, and to move beyond a narrow metric of ODA as contributions for sustainable development. Reforms in measurement are needed in two directions. First, much of the norm-setting in development has been excluded from ODA on the grounds that it benefits developed countries as well. This is anachronistic in a world with universal goals. Even if the funds are not counted as ODA, they should certainly be made transparent as part of countries' contributions to the SDGs. Second, at the other end of the scale, the mobilization of private finance needs to be counted. The DAC is making progress on these fronts and the results will be a major improvement in the transparency of what different countries are contributing. An outstanding issue, however, is the degree to which emerging economies will be willing to provide this information to the DAC. In principle, because of the greater flexibility of definitions compared to ODA, the core disagreement—developing countries do not provide ODA—that has prevented some countries from providing data on aid to the DAC might be removed.

Given these functions, current financial models need to be adapted to serve the new, evolving MDS. The following recommendations could be considered:

- Burden-sharing for norm-setting must include the newly emerging economies. The U.N. is the natural place to negotiate each country's contribution because norm-setting requires legitimacy and the U.N. remains the most representative institution in the world.
- Separately, burden-sharing is required for a range of global public goods, including responsibilities for operationalizing norms that may have been set by the U.N. Here, there may be room for alternative bodies to debate the level of global public goods investments (or standards) that might be desirable. For example, the U.N. is the obvious forum to discuss peacekeeping operations, but may not necessarily be the place for all global public goods. For example, the U.N.'s role on multinational tax

issues (that led to a contentious debate in Addis) is far less clear—the U.N. does not have a technical comparative advantage, and the issues will have a disproportionate impact on large economies, so a forum such as the OECD or even the G-20 or the IMF may be more appropriate. What is important is for the U.N. to think about where it has a distinct comparative advantage and value added, rather than assuming it is the automatic venue of choice for discussing all global issues.

- Scale and leverage have to be increased, and this implies use of grant resources in new ways and the deployment of new risk-sharing instruments that can leverage private capital. MDBs have a comparative advantage in leveraging finance. Grant finance, including non-core trust funds, should become more effective in leveraging resources. Equity capital of the MDBs needs to be raised, and new institutions that can mobilize capital from developing countries should be embraced by the system and allowed to compete in the delivery of services to clients.
- Public-private partnerships offer one way of scaling up and leveraging official resources, but these have a mixed track record. Many developing countries, like India, have now had extensive experience with PPPs, and despite the sophistication of Indian negotiators the results have not been good. Re-contracting, uncertainty over risk allocations, and lack of clarity and understanding on what constitutes a suitable risk-return profile for private investors add to the complexity of these structures. Going forward, considerable innovation and harmonization of contracts and standards will be needed to reduce transaction costs, set benchmarks for investors and develop project pipelines.
- Greater pressure on budgets has reopened the issues of prevention and long-term solutions versus short-term relief. Peacekeeping, humanitarian assistance, and environmental clean-up are all examples of short-term relief that is proving to be far more expensive as a consequence of limited long-term preventive action. Prevention is a highly unattractive cost item in a budget, from a political perspective. It requires an outlay today and benefits are unseen and in the future. Nevertheless, numerous studies have demonstrated that prevention is highly cost effective. The MDS should actively develop the case for prevention and collective risk-sharing in a way that provides political cover for national governments.

Such changes in MDS financing would need to be based on a few principles. All countries must contribute to certain functions, especially norm-setting. Large economies bear the principle responsibility for global public goods. And individual countries will continue to provide voluntary contributions as an expression of solidarity with other countries. Multilateralism can be an effective way of using these resources, especially if it evolves in new ways, but can also be less attractive for individual donors because of the loss of control of

resource allocation that this inevitably implies. Some balance is needed, but on the margin the opportunities for scaling up through multilateralism deserve further consideration compared to use of bilateral agencies.

Finance also has to be aligned better with critical functions and purposes. In the MDS, there is significant cross-subsidization from one set of activities to another. At the U.N., core functions cross-subsidize service delivery. At the MDBs, earnings on paid-in capital and reserves cross-subsidize further lending, knowledge, and convening activities.

In the past, the model appeared to work reasonably well. In the U.N. system, with respect to total contributions, the overhead ratio looked good, project costs were low, and donors complained about the hidden subsidy but lived with it. But using the relatively small core (25 percent of contributions) to cross-subsidize service delivery activities funded by non-core resources acted as a severe drain on the use and focus of those core resources and led to the thinning out of core resources from critical normative and policy work. Member states, donors and recipients alike, were comfortable consuming the assets available rather than investing in them. It follows that the value of those assets depreciated accordingly.

In different ways, the same has happened with MDBs. Service delivery has been subsidized, and earnings have been transferred from equity in leveraged institutions to unleveraged grants. As a result, equity capital can no longer sustain the volume of lending needed to meet the investments of the growing number of middle-income developing countries.

A critical challenge for the future of multilateralism is to move from a consumption-based to an investment-oriented model. In this regard, donor countries can choose to be either “consumers” or “investors” in the way that they relate to U.N. institutions. For investors, the U.N. is a way to exercise leadership. They will use the UNDS as the best way to achieve certain results after considering all options. Investors are looking for long-term value. For consumers, however, the U.N. is an alternative to leadership, a default option of immediate gratification. They view the world organization as a menu with options to be selected according to desires. Consumers are looking for short-term results.

## 6. The multilateral challenge

Agenda 2030 and the Paris climate agreement have refocused multilateralism on collective action and norm-setting, after a long period when the function of the MDS, and the bulk of its financing, was organized around service delivery to developing countries.

They symbolize a new theory of change in the global economy, one that relies heavily on specific problem-solving and that recognizes that different groupings are important for different problems.

But while solutions may need a variable geometry of actors, many global problems are interrelated, so information exchange, review, and monitoring in an open and real-time fashion becomes important. Data and information systems, as well as multi-stakeholder platforms and plurilateral clubs and groups form this web of knowledge exchange.

The U.N. Charter occupies a special place in the global multilateral architecture but there is no primacy among the institutions of the MDS when it comes to delivering solutions. New entrants are challenging the system. Moreover, exit mechanisms are problematic and so the move toward greater efficiency is slow.<sup>lxiv</sup>

At the same time, global solutions involve a multiplicity of actors—not just governments—and require, most of all, that countries put their own house in order in a coherent fashion.

Neither the financing nor the organizational structure of the MDS has yet responded to this new evolution. Financing has emphasized short-term relief over long-term investment in the system. Global public goods have been under-provided. There is excessive risk aversion in public finance, and limited leverage. Global public finance has shrunk in relative scale, especially in middle-income countries who now account for the vast majority of output, population, and investment needs.

Organizationally, effective platforms for bringing together government, business, and civil society in pragmatic ways that resolve global problems at a global scale still need to be developed. There are many gaps.

Competition between major powers, and an unwillingness among declining powers to accommodate emerging powers, will hinder the current MDS institutions from rapid reform. This encourages new entrants to the MDS and more competition within the MDS. This is to be welcomed in certain areas, like service delivery, but must be sharply differentiated from other areas like global norm-setting and global public goods provision.

Managing institutional competition presents a particular challenge. Currently, institutional rivalries for leadership and legitimacy, and a struggle for resources, result in a level of duplication, waste, and fragmented effort that reduce the effectiveness of the system. Effectiveness, and a demonstrated ability to deal with solutions, is the end-game. Opinion polls consistently find the public supporting the use of international organizations for collective action over unilateral action. Yet the same opinion polls find a very low level of

trust in the effectiveness of these institutions. The challenge is to regain that trust through a clear sense of comparative advantage, strategic focus, and execution of programs.

## 7. Toward a new multilateralism: Some practical recommendations

In the second half of 2015, the MDS witnessed an extraordinary array of significant developments, which in aggregate present a major challenge for the future direction of the MDS. These include the adoption of Agenda 2030, the adoption of the Paris agreement on climate, penetrating reviews of the international communities' response to the Ebola outbreak, major U.N. reports on the future of peacekeeping and peacebuilding, preparations for the World Humanitarian Summit, the emergence of major new international financial institutions, and the virtual disbandment of the Doha trade framework. Each of these events tells us something important about the current evolution of the MDS.

Agenda 2030 represents a significant achievement in rallying the international development community around a universal normative framework. Impact will rely heavily on the rigor with which targets are set and performance monitored. Implementation will require buy-in from many different stakeholders and will require the leveraging of resources that dwarf currently available public financing.

The theory of change embedded in the process that led to the Paris climate agreement is very similar, only more forceful, than the process underlying Agenda 2030. The impact of the Paris agreement depends on two pillars. The first is the power of data and regular reporting to force the parties not just to honor their promises but to commit to stronger promises down the road. The second is the power of the signal the Paris agreement sent to markets not to bet on fossil fuels.

Another aspect of these landmark frameworks is that they do not aspire to being international treaties that bind all states to inter-governmentally agreed commitments. Rather they are national commitments that governments commit to in their national policy and that they agree to report on using internationally agreed criteria. National governments, in turn, are relying on the use of market signals to achieve the results they want, not just public finance and public investments. The power of markets and data is replacing the legal power of agreed treaties at the core of the theory of change that characterizes these agreements.

In short, we are seeing the emergence of a new conception of multilateralism that is increasingly basing itself on the establishment of international normative and reporting frameworks that encourage states to act responsibly and to mobilize their whole society—including business, civil society, academia, and science. This is at least in part a recognition of

the reality that many of the collective responses required to meet today's challenges are no longer within the power of states to deliver singlehandedly.

Analysis of the response to the Ebola outbreak by the MDS, and in particular by the WHO, raises a number of issues. There are serious issues related to leadership and accountability at global and national levels. There are also certainly issues related to under-investment in the core capacities of multilateral organizations. Of particular interest is the gap between the establishment of normative frameworks (in this case, the International Health Regulations) and the operationalization of those norms at the country level. There is a lesson here for multilateral organizations whose credibility will depend on effective ways to operationalize the norms they are establishing. Norms have little value if they do not take concrete and practical form.

The MDS has by and large been analyzed as a self-contained sphere of action. With the publication of the recent reports commissioned by the secretary-general on peace operations and sustaining peace (peacebuilding), the case for moving beyond traditional silos has become compelling, indeed urgent. It is somewhat ironic that the strongest case for assessed budget support for developmental activities is made in reports originating from the perspective of peace operations and sustaining peace. Nowhere is the blurring of the demarcation lines between security, development, and humanitarian assistance more glaring than in the evolving relationship between the development and humanitarian spheres. The new normal for humanitarian interventions makes it virtually indistinguishable from development. There are many implications of this blurring of demarcation lines for the work of the MDS. To take just one example, the issue of coherence in fragile states can no longer be meaningful if it does not reach across the silos. All of this points to a compelling case for a more integrated approach and for the MDS to play a leading role in many of the fragile states.

By contrast, altogether different tendencies exist in a number of spheres that point to plurilateral or more regional approaches. This is certainly the case today with the demise of the Doha round. There is an explicit questioning of the value today of a broad multilateral approach. Clear preference has been expressed by key players for a plurilateral approach, best expressed through the negotiations of the Trans-Pacific Partnership, as well as the bilateral partnership between the U.S. and the EU.

In the sphere of the provision of finance there is a clear tendency to test the waters for openness to competing frameworks. This has been the case most recently with the creation of the AIIB, as well as the New Development Bank of the BRICS. Are these competitive multilateral initiatives within the framework of the MDS, or should they be seen as

alternatives to the current MDS? Whatever conclusion one reaches, they will be important actors in shaping the future of the MDS.

Beyond these considerations lies the stark possibility that the world has entered a period of fundamental geopolitical instability. The relations of the West with Russia, the tensions in the South China Sea, the situation in Syria and more broadly in the Middle East—all these and others are giving rise to major questions over the ability of the MDS to reach consensus and deliver results. The perception is of a blocked multilateral system, reflected in an increasing use of the veto in the Security Council.

It is against this background that this paper offers a number of practical suggestions on how to get the best out of the MDS in an increasingly complex environment.

- **Use multilateralism selectively.** The MDS is an optional instrument available to governments. Depending on the options available, the challenges being addressed, and the solutions being envisaged, the MDS might be the best strategic choice. The MDS can be effective in delivering services in fragile states where it has significant advantages. It can be an instrument of choice where collective action is required for a problem to be successfully addressed. The MDS is recognized as having an important role in the establishment of norms and addressing global public goods needs. In middle-income countries, the MDBs have a major role to play in leveraging their resources to go to scale. There are many circumstances where multilateral approaches may most probably lead to stalemate and should be avoided. Multilateralism will be much stronger if it is used selectively and strategically and not as a reflex action. For this to happen, governments must have the capacity to develop and manage a robust multilateral strategy.
- **Focus on fragile and conflict-affected states.** It should be highlighted that the MDS has a particular role to play in the fragile and conflict-affected states. In most of these countries, the MDS is of significant weight and can go to scale. The strong need for coherence in these situations plays to the platform the MDS has to offer. The MDS possesses a level of legitimacy that is particularly important in circumstances where national authority and legitimacy may be lacking.
- **Prioritize establishing and operationalizing norms.** There seems to be a broad consensus that the MDS has an important—at times central—normative and convening role. The focus on norms and standard-setting reflects the transformation that the MDS is undergoing. The MDS is moving from a focus on ODA targets to transmitting credible market signals that will impact investment flows; it is moving from the treaty obligations embodied in Kyoto to monitoring and reporting on national commitments voluntarily entered into; it is moving from the obligations of

North to South to universal norms applicable and relevant to all. All of these shifts highlight the critical importance of strengthening the norms that will guide these processes forward. Moving forward will require the operationalization of the norms; they will need to be embedded in national legislative processes. The success with which the MDS provides a platform for the strengthening of normative agendas and their operationalization will be the litmus test for its future relevance.

- **Build platforms to facilitate leverage.** A critical component in the value proposition offered by the MDS is that it can provide platforms that can exercise significant leverage. The MDBs represent perhaps the best hope for leveraging official money with private capital to generate the scale of resource flows that will be needed. It is now commonly agreed that although it is difficult to precisely cost the investments required to achieve the SDGs, a substantial increase over current investment levels will be needed. “From billions to trillions” summarizes the consensus. The challenge is to recognize that trillions cannot be mobilized from the ODA budgets of advanced economies, and to take steps to enable the MDBs to leverage their assets more effectively. Beyond specifically the leveraging of financial resources, the MDS provides a unique platform for convening multi-stakeholder partnerships that are issue-based and solution oriented. The secretary-general initiated a number of these, including Every Woman Every Child and SE4ALL among others, but other platforms exist outside the U.N. Member states need to strengthen the capacity of the MDS to play this role effectively in the many different arenas where such platforms emerge.
- **Provide global public goods, including data.** There is increasing recognition of the need for collective action to be able to respond effectively to a wide range of emerging issues. Collective action presupposes agreement on a set of norms that will provide the framework for an allocation of responsibility between member states. Monitoring and reporting on the implementation of the agreed responsibilities becomes essential for progress to be made. Monitoring and reporting become the only way to deal with the ever lurking danger of free riders. Hence the strategic importance of the negotiation over the nature of the five-year review process that lies at the heart of the Paris climate agreement. The MDS must have as part of its core vocation the ability to facilitate and contribute to global public goods agendas. Its capacity to support monitoring and reporting, and its strength as a voice for evidence-based policy and science, should be central preoccupations of member states.
- **Strengthen and reform MDS institutions.** Investing in the long-term health of the MDS is critical to its future relevance. Over the last two decades, members of the UNDS have focused on the delivery of aid. They secured business by charging relatively little, a practice made possible by a heavy subsidy from core budgets. This

reality served as a considerable disincentive to provide core resources. It is not just that 75 percent of the business was being subsidized by 25 percent of the contributions (i.e., the core). The fact that the core had to provide that subsidy acted as a severe drain on the use and focus of those core resources.

- **Empower MDS institutions to make independent decisions.** Investment by member states in multilateral institutions does not refer exclusively to finance, important as that might be. It refers even more to providing the political space for those institutions to take initiatives, convene partners and bring parties together, creating the momentum necessary to generate collective responses. This requires political space, quality financing, and strategic capacity.

If the U.N. is strategic and uses the convening power of the secretary-general highly selectively, it can be a truly formidable instrument in today's changing development landscape. Current system-wide organizational arrangements are designed to ensure greater coordination. But they preclude the idea of a strategic brain that would serve the system as a whole.

The changing development landscape and the implications of the 2030 Agenda suggest it is time to revisit this issue. Across a broad range of priority issues, the need for more strategic positioning has become all too apparent. Examples include the need to identify and organize system-wide integrated policy support; the need to strengthen system-wide normative and standard setting agendas; the setting up of system-wide SDG monitoring mechanisms; the capacity to leverage multi-stakeholder partnerships to find solutions to pressing problems; the need to explore system-wide innovative forms of financing; and the need to be able to convene and facilitate agreements requiring a collective response.

The UNDS draws strength from remaining pluralistic but it needs to have more strategic capacity to leverage its assets. What is striking today is the lack of any capacity for review of the strategic positioning of the U.N. system at a time that has seen the most radical changes in the external environment affecting its role and functioning.<sup>lxv</sup>

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## Endnotes

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- <sup>i</sup> FY 2015, see <https://finances.worldbank.org/dataset/IBRD-Equity-to-Loans-Ratio/hyty-hizv>
- <sup>ii</sup> The U.N. development system is a sub-set of the MDS, with 34 agencies or funds operating with different governance structures. The U.N. Task Team on the post-2015 discussions pulled together experts from over 50 different agencies. The OECD/ DAC recognizes 243 multilateral agencies and partnerships as eligible for official development assistance.
- <sup>iii</sup> "A new global partnership: eradicate poverty and transform economies through sustainable development", Report of the High-Level Panel of Eminent Persons on the post-2015 agenda, May 30, 2013. <http://www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf>
- <sup>iv</sup> Sebastian von Einsiedel, David M. Malone, and Bruno Stagno Ugarte. "The UN Security Council in an Age of Great Power Rivalry." Tokyo: United Nations University Working Paper No. 4, Feb 2015.
- <sup>v</sup> See Bruce Jenks and Bruce Jones. "UN Development at a Crossroads." Center on International Cooperation, New York University, August 2013
- <sup>vi</sup> Rambouillet Summit. *Declaration of Rambouillet*. November 17, 1975.
- <sup>vii</sup> World Development Indicators, Net official development assistance and official aid received (current US\$)
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- <sup>x</sup> Imbalance between Core, Non-Core Funding in United Nations Development System Reoccurring Theme, as Second Committee Discusses Operational Activities, United Nations <http://www.un.org/press/en/2015/gaef3424.doc.htm>
- <sup>xi</sup> This ambiguity of the MDS can be seen in definitions of how ODA is treated. Within the OECD/DAC community, earmarked resources are considered to be part of bilateral aid, even if they are administered through the multilateral system. OECD/DAC defines earmarked / non-core contributions to the multilateral system as "resources over which donors retain some degree of control on decisions regarding disposal of the funds. Such flows may be earmarked for a specific ...purpose...They are bilateral resources channeled through a multilateral agency and therefore technically qualify as part of bilateral ODA." (See OECD. "Multilateral Aid 2015: Better Partnerships for a Post-2015 World."pp. 44, Paris: OECD Publishing, 2015, doi: 10.1787/9789264235212.
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